A View of the Canadian Industry
Lawson Hunter
EVP – Bell and BCE
October 29, 2004

Q2 2004 Financial Performance Summary

- Key underpinnings - wireless, DSL, and firming up in Enterprise
- Volatile regulatory environment in U.S. may be stabilizing for RBOCs
- Strengthening fundamentals in wireless
- Canada still higher than U.S.
- Gradually returning to historical levels
- ILECs continue to be major contributor

*All figures year-over-year (Q2 2004/Q2 2003)
Source: RBC Capital Markets

Q2 2004 Subscriber Summary

- Now expect slower migration to UNE-P in US
- Retaining NAS important in terms of driving other services
- Impact of VoIP – TBD

Industry Restructuring

Transactions create more effective competitors
- MTS/Allstream
- Bell acquisition of 360networks
- Call-Net acquisition of 360networks' customer base/assets in Eastern Canada
- Rogers acquisition of Microcell

VoIP launches new kinds of competitors
- Over 30 VoIP providers currently offer services in Canada
  - Many are applications-based, including Primus, TalkBroadband, Yak Broadband, Vonage, babyTel, PhoneNet, TalkNet, SaskTel WebCall
- Cable companies will launch VoIP services in 2005
  - Rogers, Shaw, Vidotron...

Canadian Market Highlights

- ILEC Wireline revenue on the decline
  - Not as quickly as U.S., but may accelerate upon cable voice entry in 2005
- Wireless EBITDA growing fast (38% Yr over Yr)
  - Low CDN penetration leaves room to grow even more
- Cost Controls/Productivity improvements have been the main focus, rather than growth
  - As financials firm, finding new areas for growth will be the main focus
- Financial markets are looking for dividend increases
- Cable competition is the biggest VoIP threat

Results of Canadian 2004 Federal Election

- Liberal priorities: health care, child care and cities – what about industry?
- Potentially durable minority
- Major role for opposition parties
- No obvious coalitions, but lots of deal-making
- Impact on CRTC appointments
- Impact of new Ministers of Industry, Heritage
Recent Bell Canada Initiatives

Achieving customer-driven objectives

- **Business**
  - IP migration paths
  - National reach
  - Leading info storage, back-up capabilities
  - Enhanced security
  - IP tools
  - Faster, improved provisioning

- **Consumers**
  - LD Bundle (helping deliver the Broadband Home)
  - Sympatico.MSN.ca
  - Simpler wireless rate structures
  - Simpler access
  - Progress towards Single Bill

Preparing the business - cont’d

- **Galileo**
  - Guiding IP implementation and driving simplification

- **BCE Emergis**
  - Transfer of security unit to Bell
  - Sale of remaining non-core assets

- **Acquisitions**
  - Infstream Technologies, Elix, 360networks

- **Workforce Issues**
  - Voluntary departures
  - CEP negotiations

Priorities for 2004 – 2005

- **Continue drive to IP**
- **Stimulate growth**
  - New services/bundles
  - Additional acquisitions (focused on core business)
  - Dozens of initiatives, but no silver bullet

- **HR issues**
- **Improve regulatory environment**
  - Press for policy review
  - Pursue improvements within existing framework

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VoIP Regulatory Proceeding

- Comments filed on June 18
- First round of interrogatory responses due Aug 6 (Microcell seeking an extension)
- 3-day public hearing Sept 21-23
- Decision not expected until early 2005 (Gaffen speech - Telecom Summit)

CRTC Considering VoIP Issues

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<thead>
<tr>
<th>Description</th>
<th>Bell Canada Perspective</th>
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<tbody>
<tr>
<td>VoIP</td>
<td>Four types of VoIP (at least): Category 1: Peer-to-peer - Category 2: Voice as a broadband Internet application - Category 3: VoIP service includes connection to VoIP service providers’ network - Category 4: Managed IP Telephony (business)</td>
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<tr>
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<td>Categories 1 &amp; 2 already forborne. Categories 3 &amp; 4 should be forborne</td>
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<td>Bell is not requesting forbearance for local exchange service, but is opposed to economic regulation of VoIP</td>
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