>BELL CANADA >**2000** >**FINANCIAL INFORMATION**

In our ongoing efforts to contain costs, Bell Canada no longer publishes a formal annual report. This document contains Bell Canada's Management's Discussion and Analysis of Financial Condition and Results of Operations as well as its Financial Statements for 2000. Annual Reports for BCE Inc. (the parent company of Bell Canada) are available from the Corporation.

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This management's discussion and analysis of financial condition and results of operations (MD&A) for the year 2000 focuses on the results of operations and financial situation of Bell Canada (the Corporation) and its subsidiaries (including Bell Mobility Inc. (Bell Mobility), BCE Nexxia Inc. (carrying on business in Canada under the name Bell Nexxia), Bell ActiMedia Inc. (Bell ActiMedia), Northern Telephone Limited, Northwestel Inc. and Télébec ltée) and significantly influenced companies (including Aliant Inc. (Aliant), Manitoba Telecom Services Inc. (MTS) and Bell Intrigna Inc. (Bell Intrigna)) (collectively Bell Canada), and should be read in conjunction with the audited consolidated financial statements contained on pages 13 to 28. Certain sections of this MD&A, and in particular the outlook sections, contain forward-looking statements with respect to Bell Canada. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Factors which could cause actual results or events to differ materially from current expectations are discussed on pages 8 to 11 under "FORWARD-LOOKING STATEMENTS".

HIGHLIGHTS

On February 7, 2001, Bell Canada, La Confédération des caisses populaires et d'économie Desjardins du Québec (Desjardins) and Connexim, Limited Partnership (Connexim) announced a strategic telecommunications alliance. As part of the alliance, the parties have concluded a seven year agreement of an approximate value of $400 million under which Bell Canada will ensure the migration of the Desjardins telecommunications network to a new technology and Connexim will assume the management of Desjardins' telecommunications operations. The alliance also formalizes Desjardins' participation as a Connexim partner. Connexim is a limited partnership which is also owned by Bell Canada and Hydro-Québec.

On February 5, 2001, BCE Inc. (Bell Canada's ultimate parent company) (BCE Inc. and its subsidiaries are collectively referred to herein as BCE) announced plans to develop new technology that will integrate high-speed Internet access with satellite television and enhanced digital storage. This new technology, designated "ComboBox", would combine **Sympatico High Speed Edition™** digital subscriber line (DSL) Internet access service and Bell ExpressVu Limited Partnership's satellite television service with content from Bell Globemedia Inc. (Bell Globemedia). Trials are expected later in 2001 with a commercial service launch anticipated in 2002.

On February 1, 2001, Bell Mobility announced that it had successfully bid on 20 new personal communications services (PCS) spectrum licences in Industry Canada's auction for a total investment of approximately $720 million. These new licences should enable Bell Mobility, together with its Bell Wireless Alliance (BWA) partners (Aliant, MTS and Saskatchewan Telecommunications Holding Corporation) to deliver third generation wireless services. Furthermore, the licenses acquired in Alberta and British Columbia and the additional licenses acquired in Southern Ontario should permit Bell Mobility to deliver a full range of services on a national basis. The spectrum licenses have been won on a provisional basis until processed by Industry Canada as per the auction closure guidelines and procedures. Payment of the license fees is due on March 15, 2001 and final ownership of the new licenses is expected to be confirmed by Industry Canada shortly thereafter.

On January 31, 2001, Bell Canada and Amdocs Limited (Amdocs), a company specializing in telecommunications customer care and billing solutions, announced the creation of a new company, Certen Inc. (Certen), in which Bell Canada holds a majority interest. Certen's initial focus will be on the deployment of an integrated billing platform for all of Bell Canada's services including local, long distance, wireless, broadband, and Internet services. Certen is expected to eventually broaden its scope to meet the billing needs of other companies inside and outside the Bell Canada and BCE group. Wireline and wireless integrated billing is expected to be available to all Bell Canada residential customers by the end of 2001. Bell Canada and Amdocs will invest approximately $200 million in Certen.

On January 9, 2001, BCE, The Thomson Corporation and The Woodbridge Company Limited closed the transaction originally announced on September 15, 2000, which resulted in the creation of the Canadian multi-media company, Bell Globemedia. As part of this transaction, Bell Canada, through its subsidiary Bell ActiMedia, transferred its 71% interest in Sympatico-Lycos Inc. to BCE. The transfer resulted in a $425 million reduction in the amount of outstanding intercompany liabilities owing by Bell Canada to its parent company, Bell Canada Holdings Inc. (BCH), and an equivalent reduction in the amount of outstanding intercompany liabilities owing by BCH to BCE.

On November 2, 2000, the Government of Alberta announced the award of a $300 million contract to a consortium of global and provincial technology companies, headed by Bell Intrigna and including Bell Nexxia, to build and implement a high-speed, broadband Internet network.

On September 27, 2000, Bell Canada, Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, Desjardins and BCE Emergis Inc. announced plans to launch a new e-procurement company, Procuron Inc. (Procuron). The new company, which began operating in November 2000, uses combined purchasing volumes, along with its strategic sourcing and e-commerce expertise, to provide Canadian businesses and emerging vertical exchanges with a national business-to-business exchange to buy business products and services.

On March 27, 2000, Bell Canada announced plans to invest $1.5 billion over three years to rapidly expand and enhance high-speed Internet availability for Bell Canada's residential and business customers. Bell Canada's high-speed Internet services are enabled by both DSL and optical fibre technologies. The $1.5 billion investment has started and will continue to be used to upgrade and expand DSL as well as other technologies, and to upgrade Bell Canada's access network using optical fibre and to extend optical fibre into Bell Canada's residential access network in order to accelerate its high-speed Internet connectivity to reach 70% of its residential and business customers by the end of 2000 and over 85% by the end of 2002. At the end of 2000, nearly 70% of all residential and business lines within Bell Canada's territory (Québec and Ontario) were eligible for DSL service.

Sympatico High Speed Edition is a trade-mark of Bell ActiMedia Inc.

Bell Canada's net earnings applicable to common shares increased $72 million for 2000 compared with 1999. The results for 2000 mainly reflected increased operating revenues, lower depreciation and amortization expense and lower interest expense. The increase in net earnings applicable to common shares was partially offset by higher cash operating expenses, lower equity in net earnings of significantly influenced companies, a reduced net benefit plans credit, higher interest on equity-settled notes, lower other income and losses from discontinued operations relating to Teleglobe Inc.'s investment in ORBCOMM Global, L.P. (ORBCOMM). Additionally, the results for 1999 were impacted by restructuring and other charges.

Bell Canada's comparative quarterly financial data for each of the eight most recently completed quarters is presented on page 31 of this Financial Information.

In the first quarter of 2000, Bell Canada's corporate management structure was reorganized in order to better facilitate the rollout of integrated telecommunications services to its customers. Bell Canada's management structure has been organized mainly around products and services, through several business units. However, since these significant business units exhibit similar economic characteristics, they have been aggregated into a single reportable operating segment. Bell Canada's revenues are derived from the provision of a full range of communications services to customers, including advanced voice, data and image communications through its public switched networks, wireless services, Internet Protocol (IP)/Broadband services, high-speed data services, Internet access and directories.

RESULTS OF OPERATIONS

Operating Revenues

LOCAL AND ACCESS

Local and access revenues are earned principally by connecting business and residential customers to Bell Canada's network and providing them with local area service. Local and access revenues also include revenues from the provision of **SmartTouch™** services (for example, call waiting and call display) to residential and business customers as well as payments from competitors accessing Bell Canada's local network, consumer terminal sales, and operator and directory assistance charges. Local and access revenues increased $270 million for 2000 compared with 1999 mainly due to higher **SmartTouch** services revenues of 22% for 2000, which were positively impacted by the increased penetration of these services combined with price increases. Penetration of capable network access services was approximately 57% in 2000, with each customer taking on average over three features and generating over $13 in monthly revenues. Bell Canada's local market share at December 31, 2000 decreased by approximately 1.6 percentage points, compared with the same period last year, to an estimated market share of 97.1%. Also contributing to the increase in local and access revenues were higher consumer terminal sales and growth in network access services (primarily business line growth) partially offset by the deconsolidation of NewTel Enterprises Limited (NewTel) as of May 31, 1999 (due to its combination into Aliant and Bell Canada's resulting 42% ownership in Aliant (at December 31, 2000, Bell Canada held an approximate 39% interest in Aliant)). Excluding the impact of the deconsolidation of NewTel, local and access service revenues increased $332 million or 6% for 2000 compared with last year.

LONG DISTANCE

Long distance revenues include long distance voice revenues, as well as long distance settlement payments. Long distance revenues decreased $106 million for 2000 compared with 1999, primarily as a result of lower average prices and the deconsolidation of NewTel, partially offset by increased service volumes and higher settlement payments. Average prices declined by approximately 10% for 2000 compared with 1999 due to the increased penetration of discount calling plans for the consumer market, such as **First Rate™**. The increased penetration of these discount calling plans has led to an increase in long distance services volumes, as measured in conversation minutes (excluding NewTel for 1999), of 1,051 million or 8% to 14,601 million for 2000 compared with last year. Bell Canada's share of the long distance market, as at December 31, 2000, decreased by 1.1 percentage point, compared with December 31, 1999, to an estimated market share of 61.0%. The decrease in long distance voice revenues is consistent with the trend which began in the early 1990's as a result of the deregulation of long distance services. Higher long distance settlement payments resulted primarily from an increased volume in inbound overseas traffic. Excluding the impact of the deconsolidation of NewTel in 1999, long distance revenues decreased $72 million or 3% for 2000 compared with last year.

1 Total Operating Revenues[1]

For the years ended December 31 ($ millions)	2000	1999	% change
Local and access	**5,450**	5,180	5
Long distance	**2,474**	2,580	(4)
Wireless	**1,299**	1,151	13
Data	**2,531**	1,975	28
Terminal sales, directory advertising and other	**1,476**	1,697	(13)
Total	**13,230**	12,583	5
Number of network access services[2]			
At December 31 (thousands)	2000	1999	% change
Residence	**7,693**	7,622	1
Business	**4,113**	3,957	4
Total	**11,806**	11,579	2

(1) Revenues have been restated to primarily reflect the new data revenue line item.
(2) Network access services represent, approximately, the number of lines in service.

SmartTouch is a trade-mark of Stentor Resource Centre Inc.
First Rate is a trade-mark of Manitoba Telecom Services Inc.

WIRELESS

Wireless revenues are primarily derived from the provision of cellular, PCS, paging and wireless data communications services, as well as airline passenger communications and wireless consulting services offered by Bell Canada's subsidiaries, but primarily by Bell Mobility. The increase in wireless revenues of $148 million for 2000 compared with last year was primarily driven by increased wireless revenues from Bell Mobility resulting mainly from a higher cellular and PCS subscriber base, partially offset by lower average revenue per cellular and PCS subscriber. Bell Mobility's average revenue per subscriber decreased from $51 per month for 1999 to $46 per month for 2000. However, average revenue per subscriber increased from $44 per month in the first and second quarter of 2000 to $48 per month in the last two quarters of 2000. The decrease in average revenue per subscriber for the year reflects the combined impact of increased competition in the wireless market and the growth in prepaid subscribers.

At December 31, 2000, Bell Mobility had 2,340,000 cellular and PCS subscribers, of which 1,442,000 were cellular subscribers and 898,000 were PCS subscribers, reflecting net additions of 495,000 or 28% (of which 63% were postpaid subscribers) from December 31, 1999. Included in the total subscriber base at December 31, 2000 were 692,000 prepaid subscribers and 1,648,000 postpaid subscribers (which includes a one-time transfer of 48,000 **SimplyOne™** subscribers from Bell Canada) compared with 509,000 and 1,288,000, respectively, at December 31, 1999. In addition, average postpaid churn decreased 0.3 percentage point to 1.5% per month for 2000 compared with 1999.

DATA

Data revenues include digital transmission services such as **Megalink™**, network access for Integrated Services Digital Network (ISDN) and Data, as well as Asymmetric Digital Subscriber Line (ADSL), competitive network services, national and regional IP data, sale of inter-networking equipment and cabling, and Internet related services. Data revenues increased $556 million or 28% to $2,531 million for 2000 compared with last year. The increase in data revenues was primarily due to growth in the provision of IP/Broadband, Internet related services and competitive network services, as well as increased sales of inter-networking equipment and cabling.

At December 31, 2000, Bell Canada's (excluding subsidiaries) residential high-speed Internet subscribers totaled approximately 264,000, representing a 34% market share, compared with approximately 51,000 subscribers at December 31, 1999. Total residential Internet subscribers (excluding subsidiaries) amounted to approximately 817,000 at December 31, 2000 compared with approximately 461,000 subscribers at December 31, 1999.

TERMINAL SALES, DIRECTORY ADVERTISING AND OTHER

Terminal sales, directory advertising and other revenues are primarily derived from the rental, sale and maintenance of business terminal equipment and from directory advertising, as well as network management. Terminal sales, directory advertising and other revenues decreased $221 million for 2000 compared with 1999 principally due to the deconsolidation of NewTel and lower terminal equipment sales, partially offset by increased revenues from directory advertising. Excluding the impact of the deconsolidation of NewTel in 1999, terminal sales, directory advertising and other revenues decreased $79 million or 5%, for 2000 compared with last year.

Operating Expenses

CASH OPERATING EXPENSES

Cash operating expenses increased $271 million for 2000 compared with 1999 principally due to higher costs associated with volume increases related mainly to the provision of IP/Broadband and Internet services and terminal equipment sales, partially offset by lower long distance settlement payments and by the deconsolidation of NewTel which decreased cash operating expenses by $168 million for 2000.

At December 31, 2000, the total number of employees was 45,073 which reflected an increase of 1,078 employees from December 31, 1999 primarily due to an increased workload related to network installations. Total salaries and wages for 2000 were $2,390 million, essentially flat compared with last year as increases resulting from a higher number of employees were offset by the deconsolidation of NewTel.

EBITDA (OPERATING REVENUES LESS CASH OPERATING EXPENSES)

EBITDA (earnings before interest expense, income taxes, depreciation and amortization and excluding net benefit plans credit and restructuring and other charges) was $5,775 million for 2000 representing an increase of $376 million compared with 1999 as higher revenues from data, local and access, including **SmartTouch** services, and wireless more than offset higher cash operating expenses.

NET BENEFIT PLANS CREDIT

Bell Canada's net benefit plans credit of $117 million for 2000, decreased $87 million, compared with 1999, primarily as a result of the adoption of the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461, *Employee Future Benefits*, effective January 1, 2000. Previously, the costs of postemployment and postretirement benefits other than pensions were charged to earnings in the period in which they were paid. The new CICA Handbook section requires companies to accrue the costs over the working lives of employees in a manner similar to pension costs.

2 Total Operating Expenses

For the years ended December 31 ($ millions)	2000	1999	% change
Cash operating expenses	**7,455**	7,184	4
Net benefit plans credit	**(117)**	(204)	43
Depreciation and amortization	**2,346**	2,440	(4)
Restructuring and other charges	**–**	267	n.m.
Total	**9,684**	9,687	–

n.m.: not meaningful

SimplyOne is a trade-mark of Saskatchewan Telecommunications Holding Corporation.
Megalink is a trade-mark of Stentor Resource Centre Inc.

Bell Canada applied the new recommendations retroactively, without restating prior years, by reflecting recognized and unrecognized amounts for all its benefit plans, consistent with United States generally accepted accounting principles. The cumulative effect of adopting the new recommendations as at January 1, 2000, was to decrease deferred charges and other by $59 million, decrease investments in significantly influenced and other companies by $28 million, decrease future income taxes by $343 million, increase other long-term liabilities by $757 million and decrease retained earnings by $501 million.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense of $2,346 million for 2000, decreased $94 million compared with 1999, primarily due to lower net average plant in service during the year, the impact of updated depreciation rates (effective January 2000) for certain outside plant assets and the deconsolidation of NewTel. The decrease in depreciation was partially offset by the increased amortization of goodwill expense generated by the additional investment in Bell Mobility in October 1999.

RESTRUCTURING AND OTHER CHARGES

In 1999, Bell Canada recorded a pre-tax charge of $267 million ($141 million after tax and non-controlling interest) representing restructuring and other charges of $163 million and $104 million, respectively. The restructuring charges, mainly employee severance (for approximately 2,600 employees) and directly related incremental costs, resulted principally from the decision to outsource a portion of the Operator Services group, the windup of Stentor Canadian Network Management and cost rationalization within other operating groups. These restructuring programs were substantially completed by the end of 2000. Other charges related mainly to the write-down of the Iridium investment.

At December 31, 2000, the remaining balance of the restructuring provision was $47 million ($130 million in 1999). This provision was comprised primarily of unpaid severance payments to the members of the Operator Services group for $15 million ($60 million in 1999) and other unpaid incremental costs of $2 million ($12 million in 1999) associated with the outsourcing of the Operator Services group. In addition, the remaining balance of the restructuring provision included $18 million ($30 million in 1999) for costs associated with the 1998 restructuring program relating to the rationalization of real estate.

Interest Expense

Interest expense of $747 million for 2000, decreased $49 million, compared with 1999, mainly due to a lower average debt level in 2000 primarily attributable to a Bell Canada reorganization resulting from the strategic partnership formed by BCE and Ameritech Corporation (now a wholly-owned subsidiary of SBC Communications Inc. (SBC/Ameritech)) on June 1, 1999 which included the repayment of $3.1 billion of debt to BCE, partially offset by new debt issues.

Equity in Net (Losses) Earnings of Significantly Influenced Companies

Equity in net losses of significantly influenced companies were $48 million in 2000 compared with equity in net earnings of significantly influenced companies of $53 million in 1999. The decrease was primarily due to reduced equity earnings from Teleglobe Inc., partially offset by increased equity earnings from Aliant. Effective November 2000, due to BCE's acquisition of all the common shares Bell Canada did not already own in Teleglobe Inc., it was determined that Bell Canada no longer exercised significant influence over Teleglobe Inc. and therefore now accounts for its investment at cost.

Other Income

Other income of $3 million for 2000, decreased $75 million compared with 1999. The decrease was due mainly to higher net gains on the disposal of investments, in 1999, totaling $127 million including a net gain of $89 million on the sale of Bell Canada's interest in Phone.Com, Inc. The change was partially offset by a gain on the reduction of Bell Canada's percentage ownership in Aliant recorded in the second quarter of 2000 (due to Aliant's public issue of common shares).

Interest on Equity-Settled Notes

Interest on equity-settled notes increased to $99 million for 2000 compared with $35 million for 1999. Equity-settled notes of $923 million were issued to BCH, as part of the strategic partnership formed between BCE and SBC/Ameritech on June 1, 1999, and a $1,570 million equity-settled note was issued to BCH to fund Bell Canada's additional investment in Bell Mobility in October 1999.

Discontinued Operations

In the third quarter of 2000, Teleglobe Inc. classified its investment in ORBCOMM, a provider of a digital satellite telecommunications system, as a discontinued operation. On September 15, 2000, ORBCOMM voluntarily filed a petition for protection under Chapter 11 of the U.S. Bankruptcy Act. Consequently, Bell Canada's results reflected a $75 million after tax write-down relating to its proportionate interest in ORBCOMM as a discontinued operation. Bell Canada's proportionate interest in ORBCOMM's after tax losses of $24 million (nil in 1999) have been reclassified from equity in net (losses) earnings of significantly influenced companies to discontinued operations.

Hedge of Special Compensation Payments (SCPs)

During the second quarter of 2000, Bell Canada acquired from BCH approximately 5 million common shares of Nortel Networks Corporation (Nortel Networks), in exchange for common shares of Bell Canada. BCH acquired the Nortel Networks common shares from its parent company BCE Inc. This transaction was recorded based on BCE's historical carrying value of its investment in Nortel Networks. As a result, Bell Canada recorded a $60 million increase in its investments in significantly influenced and other companies, a $15 million increase in common shares and a $45 million related party adjustment increase to retained earnings.

Prior to 2000, simultaneously with the grant of an option, officers and key employees of the Corporation and its subsidiaries may have been granted, by their employer, from time to time, accompanying rights to SCPs. In May 2000, BCE distributed to its common shareholders an approximate 35% interest in Nortel Networks. As a result of this distribution of Nortel Networks common shares, the then outstanding options were divided into options to acquire BCE Inc. common shares and Nortel Networks common shares, and the related SCPs were appropriately adjusted. As a result, SCP right holders now have, for each SCP right held prior to the distribution, SCP rights related to the increase in price of both the BCE Inc. and Nortel Networks common shares over the exercise prices of the related options. The amount of any SCPs is equal to the increase in market value of the number of BCE Inc. and Nortel Networks shares covered by the SCPs (which may not exceed the number of shares covered by the option to which it is related) from the date of grant of the SCPs to the date of exercise of the option to which the SCPs is related.

To manage SCP expense, Bell Canada has entered into forward equity contracts to hedge its exposure to outstanding SCP rights related to options over BCE Inc. common shares and has designated its Nortel Networks common shares as a hedge of Bell Canada's exposure to outstanding SCP rights related to the options over the Nortel Networks common shares.

Outlook

During 2001, Bell Canada will continue to pursue its growth strategy of transitioning its revenue base from voice to wireless and data, as well as building a convergence platform through integrated billing and advanced interactive services. Bell Canada will seek to drive revenue growth through focused execution of various revenue generation initiatives including new product development and enhancements, increased marketing efforts and targeted price increases. It is expected that Bell Canada's revenue performance will capitalize on the growth in demand for IP/Broadband services, and increasing penetration of the wireless and high-speed Internet access markets. In addition, Bell Canada, as part of BCE's overall convergence strategy, will seek to power DSL with satellite television services and content in order to maximize customer value. Furthermore, Bell Canada will seek revenue growth from network access services and from increased penetration of **SmartTouch** features. It is anticipated that the potential increase in local service competition and continued price competition in the long distance and wireless markets will exert downward pressure on revenues.

Bell Canada anticipates moderate increases in cash operating expenses for 2001, primarily related to revenue growth initiatives, which are expected to be partially offset by productivity initiatives and lower settlement payments to other telecommunications companies. Depreciation and amortization expense is expected to increase in 2001 compared to 2000 due mostly to continued substantial capital expenditures to support growth strategies.

During 2001, Bell Canada will seek to achieve EBITDA growth through improvements in its core business (achieved mainly through increased revenues and productivity improvements), and will seek continued EBITDA growth in its wireless and IP/Broadband businesses. This EBITDA growth should be partially offset by the negative EBITDA impact associated with investments in areas of strategic importance, which, however, are expected to contribute significantly to EBITDA over the long term.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities for 2000 were $3,100 million, $322 million higher compared with 1999, mainly due to lower working capital requirements.

Cash flows used in investing activities were $2,951 million for 2000, representing a decrease of $1,736 million compared with 1999. The change was mainly attributable to a higher level of investments in 1999, partially offset by increased capital expenditures for 2000. Bell Canada's investments for 2000 totaled $128 million, which consisted mainly of an additional investment in Bell Intrigna. This compares to investments of $2,304 million for 1999, consisting mainly of a $1,570 million additional investment in Bell Mobility, a $339 million investment in MTS and a $312 million additional investment in Teleglobe. The increase of $353 million in capital expenditures for 2000 compared with last year related mainly to the accelerated deployment of high-speed Internet services and local infrastructure upgrading, partially offset by decreases in information systems and information technology spending on system implementations, and the impact of the deconsolidation of NewTel.

Cash flows used in financing activities were $546 million for 2000 compared with cash flows from financing activities of $1,997 million for 1999. The change was mainly attributable to the issuance of an equity-settled note in 1999, a higher level of notes payable issued in 1999 to finance investments, higher dividends paid on common shares in 2000 and increased interest on equity-settled notes in 2000, partially offset by a capital contribution made by BCH in 2000. The equity-settled note of $1,570 million was issued to BCH to finance Bell Canada's additional investment in Bell Mobility in October 1999. In addition, on June 1, 1999, as part of the strategic partnership formed by BCE and SBC/Ameritech and the resulting reorganization of Bell Canada, Bell Canada assumed $3.1 billion of debt due to BCE, which was repaid on June 1, 1999, using the proceeds of $3.1 billion received from the issuance of common shares to BCH.

During 2000, Bell Canada issued $1,750 million of MTN Debentures, pursuant to its medium-term debenture program as shown in Table 3 entitled MTN Debentures.

The proceeds from the issuance of the MTN Debentures were mainly applied towards the repayment of $1,466 million of long-term debt, consisting primarily of a repayment of $800 million of a senior unsecured note due to BCH, $398 million of maturing debentures, and $207 million of Series 1 senior unsecured notes of Bell Mobility. In addition, in January 2000, Bell Canada issued $400 million Cumulative Redeemable Class A Preferred Shares Series 15 at a price of $25 per share and an initial yield of 5.50%. Part of the proceeds from the issuance of the Series 15 Preferred Shares were used to redeem Bell Canada's Perpetual Cumulative Reset Redeemable Class A Preferred Shares Series 11 ($150 million) and Series 13 ($145 million). Bell Canada also redeemed $100 million of Cumulative Redeemable Retractable Reset Class A Preferred Shares Series 10 on August 15, 2000. Furthermore, Bell Canada received a $160 million capital contribution from BCH, the proceeds of which were used to pay down commercial paper outstanding.

On January 18, 2001 and on February 28, 2001, Bell Canada issued $400 million and $300 million, respectively,

3 MTN Debentures ($ millions)

MTN issue	Maturity	Interest rate %	Principal
Series M-5	March 1, 2006	6.65	200
Series M-6(1)	May 1, 2003	6.00	300
Series M-7	June 28, 2007	6.70	350
Series M-8	December 1, 2003	6.25	600
Series M-9(2)	October 30, 2002	Floating	300
Total MTN Debentures			1,750

(1) On May 1, 2003, 6.00% Debentures Series M-6 may, at the holder's option, be exchanged for an equal principal amount of newly issued 6.55% Debentures, Series M-3, maturing May 1, 2029.
(2) Floating Rate Debentures Series M-9 may be extended, at the holder's option, for additional one year terms on October 30 of each of 2002, 2003 and 2004, up to a final maturity date of October 30, 2005.

MTN Debentures, Series M-10, pursuant to its medium-term debenture program. The 6.25% Debentures, Series M-10 will mature on January 18, 2008.

On December 31, 2000, outstanding third party commercial paper totalled approximately $489 million. The commercial paper program is supported by committed lines of credit, extended by several banks, totalling $1.2 billion.

In February and August of 2000, Bell Canada met with the major rating agencies, **Standard & Poor's™** Ratings Group, **Canadian Bond Rating Service™**, Moody's Investors Service, and **Dominion Bond Rating Service™**, to complete their annual reviews of Bell Canada's credit ratings. In August 2000, Dominion Bond Rating Service, and in December 2000, Moody's Investors Service, confirmed all of Bell Canada's credit ratings.

Outlook

During 2001 and beyond, Bell Canada's cash requirements, including the financing of capital expenditures and investments, are expected to be met by internally generated funds and by the issuance of debt or equity. In 2001, approximately $900 million of Bell Canada's long-term debt will mature and Bell Canada is considering, subject to prevailing economic conditions, the redemption of $335 million of preferred shares which will be refinanced through the issue of new preferred shares. Furthermore, in 2001, Bell Canada intends to continue to issue MTN Debentures pursuant to its medium-term debenture program in order to repay its maturing debt and to finance investments and capital expenditures. In addition, Bell Canada intends to continue to obtain financing through its commercial paper program as well as explore various other financing options including the issuance of preferred shares and debt.

Capital expenditures of approximately $4 billion are expected in 2001, a significant portion of which is related to the execution of Bell Canada's growth strategy. Increased spending is expected in relation to IP/Broadband initiatives and expansion, the PCS spectrum acquisition (as discussed on page 2 of this MD&A), increased digitalisation of Bell Canada's wireless network, convergence initiatives, and continued deployment of Bell Canada's high-speed access infrastructure.

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REGULATORY DECISIONS

On February 2, 2001, in Order 2001-100, the Canadian Radio-television and Telecommunications Commission (CRTC) ruled that savings realized by Bell Canada from recent reductions in the Ontario Gross Receipts Tax qualify for exogenous treatment in the Price Caps regime. Accordingly, downward price cap adjustments will be made in 2001. No adjustments will be made to reflect savings associated with uncapped revenues nor will any adjustments be made to reflect any savings realized in 1999. For 2000, the CRTC has ordered that the savings associated with capped services should be amortized over two years beginning in 2001. The required price cap adjustment for 2001 will be in the order of 60% of the total in year savings to be realized.

On January 25, 2001, the CRTC issued Decision 2001-23 regarding the terms and conditions of access by Canadian carriers to municipal property, as well as the entitlement of municipalities to compensation for allowing Canadian carriers to occupy municipal rights-of-way. While this decision was limited to Vancouver, it is of importance to all carriers requiring access to municipal rights-of-way. By limiting municipalities to recovery of incremental costs, the CRTC has significantly reduced the potential charges applicable to Bell Canada and other carriers. It is difficult to assess the financial implications of the decision at this time as it is expected that other parties will be carefully considering their option to appeal.

On December 18, 2000, the CRTC in Orders 2000-1148 and 1149 denied Bell Canada's applications to increase the rates for various calling features. This denial has a revenue impact on Bell Canada of approximately $50 million annually. On December 22, 2000, Bell Canada filed an application with the CRTC seeking to vary these Orders as Bell Canada believes these decisions are inconsistent with the parameters established for the current regulatory regime. Bell Canada has requested approval of the rates originally proposed.

On November 30, 2000, the CRTC issued Telecom Decision 2000-745 changing the contribution regime for local service subsidies in high cost areas from a company specific long-distance per minute charge to a nationally averaged surcharge of 4.5% on all Canadian telecommunications revenues. This change, effective January 1, 2001, will have an overall net negative impact on the EBITDA of the Corporation and its subsidiaries in 2001 of approximately $100 million. The Corporation and Bell Mobility have requested that the CRTC vary the terms of its decision as it affects 2001. The requested variance, if granted, would substantially reduce the negative financial impact for 2001. However, the CRTC has the discretion to reject the requested variance, or accept it in whole or in part.

On June 28, 2000, the Governor In Council (GIC) announced that it had dismissed appeals of Telecom Decisions 99-15: Unbundled Local Loop Service Order Charges (filed by Call-Net Enterprises Inc.), 99-16: Telephone Service to High Cost Serving Areas (filed by the Governments of Manitoba and Saskatchewan and other parties) and 99-20: Review of Frozen Contribution Rate Policy (filed by AT&T Canada Corp. and other parties). In addition to upholding the CRTC decisions, the GIC also required that the CRTC report annually over a five-year period on the status of telecommunications competition and deployment of advanced services at affordable rates across Canada.

On June 19, 2000, approval of Bell Canada's third annual price cap filing was essentially completed with the CRTC's approval of Tariff Notices (TN) 6465 and 6465a. TN 6465 and TN 6465a, which became effective June 19, 2000, allowed Bell Canada to increase prices for single-line residential telephone service for most customers, representing the first such increase for residential customers in over two years. Also included as part of the price cap filings were price decreases, filed and approved earlier in the year, for single-line and Private Branch Exchange services (used by businesses of all sizes), as well as digital data services (used primarily by larger businesses).

In a letter decision, dated March 9, 2000, the CRTC approved a proposal, filed December 13, 1999, by Bell Canada and other Incumbent Local Exchange Carriers (ILECs), to reduce Direct Connect (switching and aggregation) rates paid by competitors to interconnect with ILEC networks. However, the CRTC denied the ILECs' request to offset reduced Direct Connect revenues with an exogenous adjustment to the price cap index. On March 17, 2000, the ILECs appealed the CRTC's decision asking that the CRTC review and vary that part of its decision that disallowed the exogenous factor adjustment. On May 16, 2000 the CRTC issued a decision that reversed its previous position by allowing the ILECs to partially recover the Direct Connect rate reductions.

On March 12, 1999, in Order 99-239, the CRTC established, on an interim basis, the manner in which Bell Canada can recover, over a three-year period, costs associated with local competition start-up and local number portability. The portion to be recovered from services subject to price cap regulation is to be reflected as an exogenous factor in the price cap formula. On February 23, 2000, in Order 2000-145, the CRTC rendered its final decision allowing recovery of approximately $220 million of the estimated $250 million costs.

US WEST, UNICAL AND SONIGEM LITIGATION

Bell Canada instituted an action for trade-mark infringement seeking a permanent injunction and damages against US West, Inc. (which has merged with Qwest Communications International Inc.) (US West), Unical Enterprises, Inc. (Unical) and Sonigem Products Inc. (Sonigem) on February 11, 2000 in the Federal Court of Canada. The action alleges that the Defendants' sales in Canada of telephones and answering machines bearing among others the marks "Northwestern Bell" and the logo "Bell-in-a-circle design" infringe Bell Canada's exclusive rights to BELL trade-marks in Canada.

In their Statements of Defense and Counterclaims, the Defendants allege that Bell Canada's trade-marks are invalid and not distinctive of Bell Canada's products and services and are seeking damages of $135 million and punitive damages of $500,000 from Bell Canada for allegedly interfering with their businesses.

On June 16, 2000, the Federal Court of Canada permitted Sonigem to institute a third party claim against US West and Unical alleging that they had warranted Sonigem's use of the "Northwestern Bell" trade-mark in Canada by virtue of a Distribution Agreement and the statutory warranty of lawful use provided for in the *Trade-Mark Act*. US West and Unical have both filed a Defense to this third party claim.

The Defendants' counterclaims, if successful, should not have a material adverse impact on Bell Canada's consolidated financial position. Bell Canada is of the view that these counterclaims are without merit and intends to pursue its original action and vigorously defend itself against these counterclaims.

WAGE PRACTICES INVESTIGATION

On November 2, 2000, the Federal Court allowed Bell Canada's application for judicial review of the Canadian Human Rights Tribunal's (Tribunal) determination that it could proceed with an inquiry into the 1994 pay equity complaints filed by members of the Communications, Energy and Paperworkers Union of Canada and the Canadian Telephone Employees' Association. The Federal Court found that the Tribunal lacks institutional independence and prohibited further proceedings in the matter. The Canadian Human Rights Commission has appealed this decision to the Federal Court of Appeal. Hearings before the Tribunal into the merits of the case are now suspended. Unless the matter is otherwise resolved, hearings and any appeals could last several years.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A, including the statements in the outlook sections, constitute forward-looking statements. In addition, other written or oral statements which constitute forward-looking statements may be made from time to time by or on behalf of one or more of Bell Canada and its subsidiaries and significantly influenced companies (the Bell Canada Group companies). These forward-looking statements relate to the future financial condition, results of operations or business of the Bell Canada Group companies. These statements may be based on current expectations and estimates about the markets in which the Bell Canada Group companies operate and management's beliefs and assumptions regarding these markets. In some cases forward-looking statements may be identified by words such as "anticipate", "could", "expect", "seek", "may", "intend", "will", and similar expressions. These statements are subject to important risks and uncertainties which are difficult to predict and assumptions which may prove to be inaccurate. The results or events predicted in the forward-looking statements contained in this MD&A and in such other written or oral statements which may subsequently be made, may differ materially from actual results or events. Some of the factors which could cause results or events to differ materially from current expectations are discussed below under the heading "Risk Factors" and other cautionary factors are outlined elsewhere in this MD&A. Bell Canada disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. In particular, forward-looking statements do not reflect the potential impact of any mergers, acquisitions, other business combinations or divestitures that may be completed after such statements are made.

Risk Factors

GENERAL

The future operating results of the Bell Canada Group companies may be affected by various trends and factors which must be managed in order to achieve favourable operating results. In addition, there are trends and factors beyond the Bell Canada Group companies' control which affect their operations. Such trends and factors include adverse changes in the conditions in the specific markets for the Bell Canada Group companies' products and services, the conditions in the broader market for communications and the conditions in the domestic or global economy generally.

The Bell Canada Group companies participate in a highly volatile and rapidly growing telecommunications industry which is characterized by vigorous competition for market share and rapid technological development. These factors could result in aggressive pricing practices and growing competition both from start-up and well capitalized companies.

In addition, changes in laws or regulations, including those governing broadcasting and the Internet, as well as generally the uncertainties related to the Internet, including its impact on network capacity and the Internet economy growing at a slower pace than is currently anticipated, could also have a material adverse effect on the Bell Canada Group companies' business, operating results and financial condition.

Skilled and experienced telecommunications personnel are in high demand, not only in Canada, but also across North America, as a result of the strong growth and competitiveness of the telecommunications market. As the Bell Canada Group companies pursue increased wireless, data, and Internet communications services, they may find it increasingly difficult to attract and to retain the necessary resources to meet their needs. It is possible that additional incentives may be required and that some initiatives may be jeopardized if skill shortages occur.

Finally, all Bell Canada Group companies are subject to the risks related to pending or future litigation or regulatory initiatives or proceedings.

EXPENDITURES, CAPITAL AND DEMAND FOR SERVICES

The level of expenditures necessary to expand operations, increase the number of subscribers, provide new services, update networks and maintain or improve quality of service, the availability and cost of capital required to fund such expenditures, and the extent of demand for telephone access lines, optional services, basic long distance services, wireless services, Internet services and other new and emerging services, in the markets served by the Bell Canada Group companies, constitute factors which could materially affect their results of operations and financial condition in the future. The level of expenditures could materially increase as the Bell Canada Group companies seek to expand the scope and scale of their businesses beyond traditional territories and service offerings. Furthermore, as the Bell Canada Group companies incur additional expenditures to update their networks, products and services to remain competitive, they may be exposed to incremental financial risks associated with newer technologies that are subject to accelerated obsolescence. To the extent that the Bell Canada Group companies fail to make the necessary and appropriate expenditures on new and existing capital programs, they may cease to be competitive in the markets in which they compete and/or may have incurred substantial capital expenditures to acquire assets with little commercial or economic value.

An increasingly important driver for network and infrastructure investments is the growth of Internet traffic. This traffic is driven by residential and business Internet usage and has overtaken the volume of voice telephony traffic on many routes. It is uncertain to what extent this traffic will continue to exhibit high growth rates as high-speed access services are deployed and bandwidth intensive applications, such as video, are increasingly downloaded by users. Significant upgrades to network capacity will be required to sustain service levels if Internet data growth rates remain as high as they are today.

ECONOMIC FLUCTUATIONS

The Bell Canada Group companies' performance is affected by the general condition of the economy, with demand for services and the amount of use tending to decline when economic growth and retail activity decline. Recently, the slowdown in global economic activity, particularly in the United States, has made the overall economic environment more uncertain and could have an important impact on the performance of the Canadian economy. However, it is not possible for the Bell Canada Group companies to accurately predict economic fluctuations and the impact of such fluctuations on their performance.

It should be noted that voice telephony revenues are generally linked to fairly stable economic factors such as population changes, housing starts and general economic activity levels. Internet traffic is likely to be related to more variable factors such as consumer discretionary spending on entertainment, the adoption of e-business, and other on-line activities.

INCREASING COMPETITION

With the advent of competition in the local service market in 1998, all parts of the Bell Canada Group companies' businesses are facing substantial and intensifying competition. Factors such as product pricing and service are under continued pressure while the necessity to reduce costs is ongoing. The Bell Canada Group companies must not only try to anticipate, but must also respond promptly to, continuous and rapid developments in their businesses and their markets.

In addition, the significant growth and size, as well as the increasing global scope, of the telecommunications industry are attracting new entrants and encouraging parties other than existing participants to expand their services and their markets. Mergers and acquisitions, as well as alliances and joint ventures, are creating new or larger participants with broad skills and significant resources which will further impact the competitive landscape. Current and future competitors are coming not just from within Canada, but also globally, and include not only major telecommunications companies, such as TELUS Corporation (TELUS), AT&T Canada Inc. (AT&T) and Sprint Canada Inc., but also cable companies, such as Le Groupe Vidéotron ltée., Internet companies, wireless service providers, Competitive Local Exchange Companies (CLECs), and other companies that offer network services, such as providers of business information systems and systems integrators, as well as an increasing number of other companies that deal with or have access to customers through various communications networks. Many of these companies are significant in size and resources and have a significant market presence with brand recognition and existing customer relationships. A notable example is the entry into Internet telephony by Cisco Systems, Inc., which is primarily an equipment manufacturer rather than a communications service provider.

Internet access services are especially competitive, and Canada has among the lowest prices for Internet access services in the world. Bell Canada is the largest provider of Internet access services in Canada, and cable television company competitors are aggressively pricing their services. Competitive pressure leads to Internet access pricing that is largely independent of usage patterns. Costs to Bell Canada, however, depend on the amount of traffic a user generates and the location of the server that stores the web site the user visits. Such costs continue to increase and are beyond the ability of Bell Canada to control or to accurately predict.

The Canadian wireless telecommunications industry is highly competitive. Bell Mobility competes directly with other wireless service providers with aggressive product and service introductions, pricing and marketing. Bell Mobility expects competition to continue to increase through the development of new technologies, products and services, and through consolidations in the Canadian telecommunications industry. For example, in the third quarter of 2000, TELUS and Clearnet Communications Inc. announced that TELUS had acquired substantially all of the outstanding common shares of Clearnet Communications Inc. thereby creating a larger wireless service provider and, accordingly, a potentially more significant competitor to Bell Mobility.

Bell Mobility launched PCS service in October 1997. Bell Mobility is continuing to incur significant costs to develop a PCS customer base including capital expenditures, promotional offerings and handset subsidies. Competition is intense in the PCS market with at least four PCS service providers in each service area. In addition, increases in Bell Mobility's PCS customer base will result in the reduction, over time, of Bell Mobility's existing cellular customer base. In particular, Bell Mobility has focused on migrating its existing high-usage cellular customers to PCS.

As previously discussed in this MD&A, Bell Mobility announced on February 1, 2001 that it had successfully bid on 20 new PCS spectrum licenses for an aggregate bid price of approximately $720 million. Bell Mobility's application to bid in the spectrum auction was submitted on behalf of itself and its BWA partners. Under joint agreements between Bell Mobility and each of the BWA partners, the parties will assume ownership of the spectrum in their respective operating regions, following payment of all amounts due to Bell Mobility and Industry Canada processing the license transfers, and each will provide access to the other alliance partners. Among the licenses provisionally awarded to Bell Mobility are three 10 MHz licenses in both Alberta and British Columbia. Bell Mobility intends to work with MTS to roll out wireless services in Alberta and British Columbia. This roll-out will result in substantial capital expenditures required for the construction of a network in these provinces. Furthermore, the expected level of expenditures associated with this network expansion could increase as Bell Mobility will seek to gain adequate network coverage and secure new customers. In addition to Bell Mobility, four other bidders, including Rogers Wireless Inc. (Rogers) and TELUS Communications Inc. (TCI) were provisional license winners. Rogers was the provisional winner of 23 licenses (at an aggregate bid price of approximately $394 million) and TCI of 5 licenses (at an aggregate bid price of approximately $356 million). Both Rogers and TCI were provisionally awarded licenses in Bell Mobility's current operating regions thereby increasing the potential for competition and market share losses in such areas. Although the new licenses provisionally awarded to Bell Mobility provide it with the possibility to launch new technologies, services and applications (such as 3G technology) and to geographically expand its operations (including, in particular, in British Columbia and Alberta), there is no certainty that such additional licenses will result in the successful deployment of such new technologies, services and applications, a successful geographical expansion and, in general, in an improvement in Bell Mobility's financial condition and results of operations.

The market for paging services in Canada is also highly competitive. Bell Mobility currently competes with numerous local and national paging companies.

Bell Mobility is a participant in Mobility Canada, which was owned and operated by the wireless affiliates or divisions of Canada's major telephone companies. In May 1999, Mobility Canada announced a significant restructuring of its organization, creating two groups of carriers which can compete anywhere in the country to bring the fast-evolving benefits of wireless communications to national customers. The new agreement, which was implemented in the first quarter of 2000, changes the wireless landscape in Canada by removing restrictions that kept Mobility Canada members from competing in each other's territories. The new groups will each be able to offer Canada-wide wireless service, either by selling network services to each other or competing head-to-head. Although the new arrangement will permit Bell Mobility to expand its business from a territorial perspective, it will also have the effect of increasing competition in the territory in which Bell Mobility currently operates. There can be no assurance that Bell Mobility will be able to successfully expand its operations geographically or that it will be able to successfully compete with new competitors in its traditional territory. These factors could, in the future, have a material adverse effect on Bell Mobility's financial condition and results of operations.

TECHNOLOGY

The telecommunications industry, as with many others, is characterized by rapidly changing technology with the related changes in customer demands and the need for new products and services at competitive prices. Technological developments are also shortening product life cycles and facilitating convergence of different segments of the increasingly global information industry. The Bell Canada Group companies' future success will be impacted by their ability to anticipate, invest in and implement new technologies with the levels of service and prices that consumers demand. Technological advances may also affect the Bell Canada Group companies' level of earnings by shortening the useful life of some of their assets. Furthermore, technological advances may well emerge that reduce or replace the costs of plant and equipment, and eliminate or reduce barriers that deter other companies from competing in particular market segments.

DSL technology is changing and associated service standards are evolving. It is possible that carriers and equipment manufacturers may in the future adopt a standard that is incompatible with Bell Canada's DSL services with the potential for loss of customers, increased capital expenditures, and stranded assets.

The Bell Canada Group companies' high-speed Internet connectivity objectives are subject to the uncertainties resulting from the magnitude of the deployment of the necessary technology, the uncertainties related to the novel nature of the relevant technology and to obtaining the necessary municipal or private rights-of-way.

The wireless telecommunications industry is experiencing significant technological change, as evidenced by the increasing pace of digital and other upgrades to existing analog wireless systems, evolving industry standards, ongoing improvements in the capacity and quality of digital technology, shorter development cycles for new products, and enhancements to and changes in end-user requirements and preferences. Such continuing technological advances make it difficult to predict the extent of future competition with cellular, PCS and paging services. As a result, there can be no assurance that existing, proposed or as yet undeveloped technologies will not become dominant in the future and render cellular, PCS or paging systems less profitable or even obsolete.

The operations of Bell Mobility depend in part upon the successful deployment of continually evolving wireless communications technologies, which will require significant capital expenditures to deploy. There can be no assurance that such technologies will be developed according to anticipated schedules, that they will perform according to expectations, or that they will achieve commercial acceptance. Bell Mobility may be required to make more capital expenditures than are currently expected if suppliers fail to meet anticipated schedules, if a technology's performance falls short of expectations, or if commercial success is not achieved.

In 2001, Bell Mobility plans to begin the trial and deployment of the initial phase of 3G digital wireless technology in its network. Bell Mobility may incur significant capital expenditures to deploy this technology, with no guarantees as to its performance or its acceptance in the marketplace.

REGULATORY ENVIRONMENT

In addition to continued intense competition across all lines of business, coupled with the rapid evolution of technological change, the Bell Canada Group companies are subject to evolving regulatory policies in the form of decisions by various regulatory agencies including the CRTC. Many of these decisions balance competitor requests for access to the incumbent telephone companies' essential facilities and other network infrastructure with the rights of the incumbent telephone companies to compete on a reasonably unencumbered basis. More recently, telecommunications service providers seeking physical access to customers on reasonable terms have increasingly found themselves in disputes with gatekeepers, either land/building owners/developers impeding access to private property or municipalities impeding access to public rights-of-way. Policy decisions in all of these areas will continue to evolve.

In addition to these types of risks, Bell Canada and Aliant are nearing the end of the four year price caps regime that commenced January 1,1998. The nature and extent of the changes to the current price caps regime are unknown at this time. However, the CRTC is expected to commence a proceeding in the first quarter of 2001 designed to establish the framework that will apply for 2002 and beyond.

On November 30, 2000, the CRTC announced fundamental changes to the current contribution regime designed to maintain affordable local residential service rates in high cost serving areas in Canada. In essence, the CRTC prescribed a new national contribution fund and a new contribution collection mechanism broadly applicable to telecommunications service providers. Effective January 1, 2001, a percentage-of-revenue collection mechanism has replaced the per-minute mechanism previously imposed on long distance carriers. Bell Canada and certain wireless carriers have requested the CRTC to vary certain aspects of the decision. The unknown outcome of this review, the potential for problems in implementation of the new mechanism, as well as the change, upcoming in 2002, to a new definition of the subsidy requirement, all contain certain important elements of risk.

WIRELESS REGULATION

The operation of cellular, PCS and other radio-telecommunications systems in Canada is subject to initial licensing requirements and the oversight of Industry Canada. Operating licenses are issued at the discretion of the Minister of Industry pursuant to the Radiocommunication Act. Industry Canada grants cellular and PCS licenses for a maximum term of five years. Bell Mobility's current cellular and PCS licenses will expire on March 31, 2001 and April 30, 2001, respectively. Industry Canada has the authority at any time to require modifications to the license conditions applicable to the provision of such services in Canada to the extent necessary to ensure the efficient and orderly development of radiocommunication facilities and services in Canada. Industry Canada can revoke a license at any time for failure to comply with its terms. Based on discussions with Industry Canada, Bell Mobility believes that its current cellular and PCS licenses will be extended for an additional one-year period on the same terms and conditions, including the same annual license fee. Bell Mobility understands that Industry Canada intends to circulate for comment its position on license conditions for all wireless service providers for the next renewal period, including a proposed fee structure.

USE OF HANDSETS IN VEHICLES

Media reports have suggested that the use of handheld cellular units by drivers in vehicles may, in certain circumstances, result in an increased rate of accidents on the road. It is possible that new legislation or regulations may, in the future, be adopted in order to address these perceived or actual concerns. Any such legislation or regulations could adversely affect wireless communications service providers through reduced network usage by subscribers in motor vehicles.

RADIO FREQUENCY EMISSION CONCERNS

Media reports have suggested that certain radio frequency emissions from cellular telephones may be linked to certain medical conditions such as cancer. In addition, certain interest groups have requested investigations into claims that digital transmissions from handsets used in connection with digital wireless technologies pose health concerns and cause interference with hearing aids and other medical devices. There can be no assurance that the findings of such studies will not have a material adverse effect on Bell Mobility's business or will not lead to governmental regulation. The actual or perceived health risks of wireless communications devices could adversely affect wireless communications service providers through reduced subscriber growth, reduced network usage per subscriber, threat of product liability lawsuits or reduced availability of external financing to the wireless communications industry.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Bell Canada (the Corporation) and its subsidiaries (collectively Bell Canada), and all information in this document are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgements of management and in their opinion present fairly Bell Canada's financial position, results of operations and cash flows. Financial information presented elsewhere in this document is consistent with that in the financial statements.

Management of Bell Canada, in furtherance of the integrity and objectivity of the financial statements, has developed and maintains a system of internal controls and supports an extensive program of internal audits. Management believes the internal controls provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of financial statements and that Bell Canada's assets are properly accounted for and safeguarded. The internal control process includes management's communication to employees of policies which govern ethical business conduct.

The Board of Directors carries out its responsibility for the financial statements in this document principally through its Audit Committee. The Audit Committee reviews the Corporation's annual consolidated financial statements and other information in this document, and recommends their approval by the Board of Directors. The internal and the shareholders' auditors have free and independent access to the Audit Committee.

These financial statements have been audited by the shareholders' auditors, Deloitte & Touche LLP, Chartered Accountants.

Jean C. Monty
Chairman and
Chief Executive Officer

Jonathan P. Klug
Chief Financial Officer

Gary M. Davis
Vice-President and
Corporate Controller

February 28, 2001

AUDITORS' REPORT

To the Shareholders of Bell Canada

We have audited the consolidated balance sheets of Bell Canada as at December 31, 2000 and 1999 and the consolidated statements of operations, retained earnings and cash flows for the years then ended as they appear on pages 13 to 28. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

DELOITTE & TOUCHE LLP
Chartered Accountants

Montréal (Québec)
February 28, 2001

CONSOLIDATED STATEMENT OF OPERATIONS

For the years ended December 31 ($ millions)	Notes	2000	1999
Operating revenues			
Local and access		**5,450**	5,180
Long distance		**2,474**	2,580
Wireless		**1,299**	1,151
Data		**2,531**	1,975
Terminal sales, directory advertising and other		**1,476**	1,697
Total operating revenues		**13,230**	12,583
Operating expenses			
Operating expenses		**7,455**	7,184
Net benefit plans credit	(16)	**(117)**	(204)
Depreciation and amortization		**2,346**	2,440
Restructuring and other charges	(4)	**–**	267
Total operating expenses		**9,684**	9,687
Net operating revenues		**3,546**	2,896
Interest expense – long-term debt		**(633)**	(689)
– other debt		**(114)**	(107)
Equity in net (losses) earnings of significantly influenced companies		**(48)**	53
Other income		**3**	78
Earnings from continuing operations before income taxes and non-controlling interest		**2,754**	2,231
Income taxes	(5)	**(1,199)**	(926)
Non-controlling interest		**(3)**	4
Earnings from continuing operations		**1,552**	1,309
Discontinued operations	(6)	**(99)**	–
Net earnings		**1,453**	1,309
Dividends on preferred shares		**(40)**	(32)
Interest on equity-settled notes		**(99)**	(35)
Net earnings applicable to common shares		**1,314**	1,242

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the years ended December 31 ($ millions)	Notes	2000	1999
Balance at beginning of year, as previously reported		**683**	334
Adjustment for changes in accounting policies	(1)	**(485)**	–
Balance at beginning of year, as restated		**198**	334
Net earnings		**1,453**	1,309
		1,651	1,643
Dividends			
Preferred shares		**(40)**	(32)
Common shares		**(1,085)**	(868)
		(1,125)	(900)
Interest on equity-settled notes		**(99)**	(35)
Other		**27**	(25)
		(1,197)	(960)
Balance at end of year		**454**	683

CONSOLIDATED BALANCE SHEET

At December 31 ($ millions)	Notes	2000	1999
ASSETS			
Current assets			
Cash and cash equivalents		–	191
Accounts receivable		2,108	2,028
Other current assets		645	361
Total current assets		2,753	2,580
Investments in significantly influenced and other companies	(7)	2,478	2,497
Capital assets	(8)	14,035	13,511
Deferred charges and other assets	(9)	2,251	1,909
Goodwill		1,309	1,332
Total assets		22,826	21,829
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness		206	–
Accounts payable and accrued liabilities		2,581	2,790
Income and other taxes payable		41	167
Debt due within one year	(9)	1,420	1,100
Total current liabilities		4,248	4,057
Long-term debt	(10)	8,039	7,749
Future income taxes		151	414
Other long-term liabilities		1,574	748
Retractable preferred shares	(12)	6	116
Non-controlling interest		85	69
Shareholders' equity			
Preferred shares	(12)	735	630
Equity-settled notes	(13)	2,493	2,493
Common shares	(14)	4,673	4,498
Contributed surplus		367	367
Retained earnings		454	683
Currency translation adjustment		1	5
Total shareholders' equity		8,723	8,676
Commitments and contingent liabilities	(18)		
Total liabilities and shareholders' equity		22,826	21,829

On behalf of the Board of Directors:

J. Edward Newall
Director

James W. Callaway
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31 ($ millions)	2000	1999
Cash flows from operating activities		
Earnings from continuing operations	1,552	1,309
Adjustments to reconcile net earnings to cash flows from operating activities:		
Depreciation and amortization	2,346	2,440
Restructuring and other charges	–	218
Net gains on disposal of investments	–	(127)
Future income taxes	49	85
Net benefit plans and other items	(172)	(244)
Change in non-cash working capital components	(675)	(903)
	3,100	2,778
Cash flows from investing activities		
Capital expenditures	(2,852)	(2,499)
Investments	(128)	(2,304)
Proceeds from sale of investments	30	201
Other items	(1)	(85)
	(2,951)	(4,687)
Cash flows from financing activities		
Dividends paid on common and preferred shares	(1,125)	(900)
Interest on equity-settled notes	(99)	(35)
Issue of notes payable and bank advances	185	458
Issue of long-term debt	1,793	1,473
Repayment of long-term debt	(1,466)	(3,759)
Redemption of retractable preferred shares	(110)	–
Issue of preferred shares	399	–
Redemption of preferred shares	(295)	–
Issue of equity-settled note	–	1,570
Capital contribution	160	–
Issue of common shares	–	3,076
Issue of common shares by subsidiaries to non-controlling interest	–	7
Other items	12	107
	(546)	1,997
Net increase (decrease) in cash and cash equivalents	(397)	88
Cash and cash equivalents at beginning of year	191	103
Cash and cash equivalents (bank indebtedness) at end of year	(206)	191

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and all amounts are in Canadian dollars unless otherwise indicated. Certain comparative figures in the consolidated financial statements have been reclassified to conform with the current year presentation.

With respect to the consolidated financial statements of Bell Canada (the Corporation) and its subsidiaries (collectively Bell Canada), the significant differences between Canadian and United States GAAP are described and reconciled in Note 19.

New accounting standards

On January 1, 2000, Bell Canada adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, *Income Taxes*, which replaces the deferral method with the liability method of tax allocation. Bell Canada applied the new recommendations retroactively without restating prior years. The cumulative effect of adopting the new recommendations as at January 1, 2000, was to increase Investments in significantly influenced and other companies by $26 million, increase Deferred charges and other assets by $5 million, increase Future income taxes by $15 million and increase Retained earnings by $16 million.

On January 1, 2000, Bell Canada adopted the recommendations of the CICA Handbook Section 3461, *Employee Future Benefits*, which changes the accounting for pension and other types of employee future benefits. Previously, the costs of postemployment and postretirement benefits other than pensions were charged to earnings in the period in which they were paid. The new Handbook section requires companies to accrue the costs over the working lives of employees in a manner similar to pension costs. Bell Canada applied the new recommendations retroactively, without restating prior years, by reflecting recognized and unrecognized amounts for all its benefit plans, consistent with United States generally accepted accounting principles. The cumulative effect of adopting the new recommendations as at January 1, 2000, was to decrease Deferred charges and other assets by $59 million, decrease Investments in significantly influenced and other companies by $28 million, decrease Future income taxes by $343 million, increase Other long-term liabilities by $757 million and decrease Retained earnings by $501 million.

Consolidation

The financial statements of entities which are controlled by the Corporation are consolidated; entities that the Corporation has the ability to significantly influence are accounted for using the equity method; and investments in other entities are accounted for using the cost method.

Reorganization of Bell Canada

On June 1, 1999, BCE Inc. (the ultimate parent company of Bell Canada) (BCE Inc. and its subsidiaries are collectively referred to herein as BCE) and Ameritech Corporation (SBC/Ameritech) (now a wholly-owned subsidiary of SBC Communications Inc.) finalized their strategic partnership. Under the terms of the partnership, SBC/Ameritech acquired an indirect 20% minority interest in Bell Canada, which was reorganized to hold certain telecommunications assets previously held by BCE. On May 31, 1999, Bell Canada acquired from BCE, at net book value, BCE's interests of 65% in Bell Mobility Inc. (Bell Mobility), 22% in Teleglobe Inc., 42% in Aliant Inc. (Aliant) (the company under which, on May 31, 1999, Bruncor Inc. (Bruncor), Maritime Telegraph and Telephone Company, Limited (MT&T) and NewTel Enterprises Limited (NewTel) were combined), BCE's wholly-owned interests in three other regional Canadian telecommunications companies, namely Northern Telephone Limited (Northern Telephone), Northwestel Inc. (Northwestel) and Télébec ltée (Télébec), and other investments. These investments were exchanged for common shares, $1.2 billion of debt, $0.9 billion of equity-settled notes and the assumption of $3.1 billion of debt due to BCE, which was repaid on June 1, 1999, using the proceeds from the issuance of common shares to Bell Canada Holdings Inc. (BCH), the company which owns 100% of Bell Canada. Furthermore, Bell Canada transferred to BCE, at net book value, its investments in BCE Emergis Inc. (BCE Emergis) and CGI Group Inc. (CGI). As a result of the reorganization, a $0.4 billion related party adjustment was charged to retained earnings. The reorganization represented a transfer (combination) of entities under common control. The $1.2 billion of debt and $0.9 billion of equity-settled notes that were issued by Bell Canada were assumed to be non-interest bearing prior to May 31, 1999.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Bell Canada recognizes operating revenues as services are rendered or as products are delivered to customers.

Cash and cash equivalents

For purposes of the statement of cash flows, all highly liquid investments with short-term maturities are classified as cash and cash equivalents.

Capital assets

Capital assets are carried at cost less accumulated depreciation, where applicable. Depreciation and amortization of capital assets are generally computed using the straight-line method, with rates based on the estimated useful lives of the assets. In 2000, the composite depreciation rate for plant was approximately 6.0% (6.2% in 1999). The expected useful lives of machinery and equipment are 2 to 20 years and buildings are 10 to 40 years. When depreciable capital assets are retired the carrying value of such assets is charged to accumulated depreciation.

Translation of foreign currencies

Monetary assets and liabilities are translated at the rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates prevailing during the year. Translation exchange gains and losses

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

are reflected in net earnings for the year except for unrealized translation exchange gains and losses on long-term monetary assets and liabilities, such as long-term debt, which are reported as deferred charges or other long-term liabilities and amortized to earnings on a straight-line basis over the remaining lives of the related items.

Derivative financial instruments and hedging activities

Bell Canada uses a combination of derivative financial instruments to manage its interest and foreign exchange risk exposures. In addition, Bell Canada uses a combination of derivative and non-derivative instruments to manage its Special Compensation Payments (SCPs) exposure (Notes 11 and 15). Bell Canada does not trade derivative financial instruments for speculative purposes.

Gains and losses on forward contracts and cross currency swaps used to manage exposure to foreign exchange rates and forward contracts used to manage SCP exposure are recognized on the same basis as the gains and losses on the hedged item. Amounts receivable or payable under interest rate swaps are accrued and recorded as adjustments to interest expense. Gains and losses related to hedges of anticipated transactions are recognized in earnings or recorded as adjustments of carrying values when the hedged transaction occurs. Any premiums paid with respect to financial instrument contracts are deferred and expensed to earnings over the contract period.

Goodwill

Goodwill represents the excess, at the dates of acquisition, of the cost of investments over the fair value of the net identifiable assets acquired and is amortized on a straight-line basis, over its estimated useful life, up to a period of 40 years. The carrying value of goodwill is re-evaluated for potential permanent impairment on an ongoing basis. In order to determine whether permanent impairment exists, Bell Canada's management considers the Corporation and its subsidiaries' financial condition, as well as expected pre-tax earnings, undiscounted cash flows or market-related values. Any permanent impairment in the value of goodwill is written off against earnings in the year the impairment is recognized. Total goodwill amortization charged to operations, including that in equity in net (losses) earnings of significantly influenced companies, amounted to $95 million in 2000 ($41 million in 1999).

Employee benefit plans

The Corporation and most of its significant subsidiary companies maintain non-contributory defined benefit plans that provide for pensions for substantially all their employees based on length of service and rate of pay, as well as other retirement benefits such as certain health care and life insurance benefits on retirement and various disability plans, workers' compensation and medical benefits to former or inactive employees, their beneficiaries and covered dependants, after employment but before retirement, under specified circumstances.

Bell Canada accrues its obligations under employee benefit plans and the related costs, net of plan assets. Pension costs and other retirement benefits earned by employees are actuarially determined using the projected benefit method pro-rated on service and based on management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. Pension plan assets are valued at fair value. The plan assets are also valued at fair value for the purpose of calculating the expected return on plan assets. Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of the employees active at the date of amendment. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement. A valuation is performed at least every three years to determine the actuarial present value of the accrued pension and other retirement benefits, including the impact of workforce reduction programs.

Leases

Where Bell Canada is the lessor, rental revenue from operating leases is recognized as service is rendered to customers. For leases, which qualify as sales-type leases, the sales revenue is recognized at the inception of the lease. Where Bell Canada is the lessee, assets recorded under capital leases are amortized on a straight-line basis using rates based on the estimated useful life of the asset or based on the lease term, as appropriate. Obligations recorded under capital leases are reduced by rental payments net of imputed interest. In addition, one lease obligation is presented net of a loan receivable (Note 10).

Income taxes

Bell Canada uses the liability method of accounting for income taxes. Future income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes, computed based on rates and provisions of enacted or substantially enacted tax law.

Subscriber acquisition costs

Wireless subscriber acquisition costs are deferred and amortized over the terms of the contracts, which normally do not exceed twelve months.

Stock-based compensation plans

Bell Canada's stock-based compensation plans consist primarily of the Employees' Savings Plan (ESP) and the BCE Inc. Long-Term Incentive (Stock Option) Programs, which, prior to 2000, may also have included SCPs which are described in Note 15. A compensation expense is recognized for Bell Canada's portion of the contributions made under the ESP. The amount of the SCPs is accrued over the vesting period. No compensation expense is recognized for these plans when shares or stock options of BCE Inc. are issued to employees.

2. SEGMENTED INFORMATION

In the first quarter of 2000, Bell Canada's corporate management structure was reorganized in order to better facilitate the rollout of integrated telecommunications services to its customers. Bell Canada's management structure has been organized mainly around products and services, through several business units. However, since these significant business units exhibit similar economic characteristics, they have been aggregated into a single reportable operating segment. Bell Canada's revenues are derived from the provision of a full range of communications services to customers, including local and access, long distance, wireless, data and terminal sales, directory advertising and other. Bell Canada's operations, including substantially all revenues from customers, capital assets and goodwill are concentrated in Canada.

3. BUSINESS ACQUISITION

Bell Mobility

On October 22, 1999, Bell Canada increased its ownership interest in Bell Mobility, Canada's largest full-service wireless communications company, from 65% to 100%. The aggregate purchase price was $1,570 million in cash. The acquisition was funded by the issuance of an equity-settled note to BCH. The acquisition was accounted for using the purchase method. The allocation of the purchase price was to tangible assets for $597 million, tangible liabilities for $296 million and goodwill for $1,269 million. Goodwill is being amortized on a straight-line basis over 40 years.

4. RESTRUCTURING AND OTHER CHARGES

In 1999, Bell Canada recorded a pre-tax charge of $267 million ($141 million after tax and non-controlling interest) representing restructuring and other charges of $163 million and $104 million, respectively. The restructuring charges, mainly employee severance (for approximately 2,600 employees) and directly related incremental costs, resulted principally from the decision to outsource a portion of the Operator Services group, the windup of Stentor Canadian Network Management and cost rationalization within other operating groups. These restructuring programs were substantially completed by the end of 2000. Other charges related mainly to the write-down of the Iridium investment.

As at December 31, 2000, the remaining balance of the restructuring provision was $47 million ($130 million in 1999). This provision was comprised primarily of unpaid severance payments to the members of the Operator Services group for $15 million ($60 million in 1999) and other unpaid incremental costs of $2 million ($12 million in 1999) associated with the outsourcing of the Operator Services group. In addition, the remaining balance of the restructuring provision also included $18 million ($30 million in 1999) for costs associated with the 1998 restructuring program relating to the rationalization of real estate.

5. INCOME TAXES

The following disclosures for 2000 reflect the new recommendations of the CICA for income taxes (Note 1). As permitted under the new recommendations, prior year amounts have not been restated. The terminology used to describe comparative figures is consistent with the terminology used to describe current year amounts calculated using the liability method of tax allocation.

A reconciliation of income taxes at Canadian statutory rates with the reported income taxes follows:

	2000	1999
	Liability method	Deferral method
Earnings from continuing operations before income taxes and non-controlling interest	**2,754**	2,231
Statutory income tax rates in Canada	**41.9%**	42.3%
Income taxes at Canadian statutory rates	**1,154**	944
Gain on disposition of investments	**–**	(27)
Gain on reduction of ownership in a significantly influenced company	**(27)**	–
Equity in net earnings of significantly influenced companies	**(37)**	(22)
Large corporations tax	**10**	11
Reduction in Canadian statutory rate	**32**	–
Goodwill amortization	**14**	4
Other	**53**	16
Total income tax expense	**1,199**	926

Significant components of the provision for income tax expense attributable to continuing operations were as follows:

	2000	1999
	Liability method	Deferral method
Current tax expense	**1,104**	962
Future income taxes (benefits) expenses		(36)
Change in temporary differences	**169**	
Recognition of loss carryforwards	**(118)**	
Tax rate changes	**44**	
Total income tax expense	**1,199**	926

5. INCOME TAXES (continued)

The tax effects of temporary differences which gave rise to future tax liabilities and assets were as follows:

At December 31	2000
Employee benefit plans	**(355)**
Capital assets	**(13)**
Investment tax credits	**(34)**
Currency translation adjustments	**13**
Net capital loss carryforwards	**32**
Non-capital loss carryforwards	**176**
Other	**158**
Total future income taxes	**(23)**
Future income taxes are comprised of:	
Future income tax asset (a)	**128**
Future income tax liability	**(151)**
Total future income taxes	**(23)**

(a) Future income tax assets are presented as part of Deferred charges and other assets.

As of December 31, 2000, Bell Canada has non-capital tax loss carryforwards amounting to approximately $415 million, expiring at various dates to the end of 2007. In addition, Bell Canada has net capital losses amounting to approximately $68 million that can be carried forward indefinitely. For financial reporting purposes, the tax benefit of these loss carryforwards has been recognized as a future tax asset of $208 million.

6. DISCONTINUED OPERATIONS

In the third quarter of 2000, Teleglobe Inc. classified its investment in ORBCOMM Global, L.P. (ORBCOMM), a provider of a digital satellite telecommunications system, as a discontinued operation. On September 15, 2000, ORBCOMM voluntarily filed a petition for protection under Chapter 11 of the U.S. Bankruptcy Act. Consequently, Bell Canada's results reflect a $75 million after tax write-down relating to its proportionate interest in ORBCOMM as a discontinued operation. Bell Canada's proportionate interest in ORBCOMM's after tax losses of $24 million (nil in 1999) have been reclassified from Equity in net (losses) earnings of significantly influenced companies to Discontinued operations.

7. INVESTMENTS IN SIGNIFICANTLY INFLUENCED AND OTHER COMPANIES

At December 31	Ownership (%) 2000	Ownership (%) 1999	2000	1999
Investments, at equity				
Teleglobe Inc. (a)	**–**	23.1	**–**	1,601
Aliant (b)	**39.1**	41.2	**526**	456
Manitoba Telecom Services Inc. (MTS) (c)	**21.7**	20.8	**351**	336
Other, at equity			**139**	48
Investments, at cost				
Teleglobe Inc. (a)			**1,354**	–
Other, at cost (d)			**108**	56
Total investments in significantly influenced and other companies (e)			**2,478**	2,497

(a) Effective November 2000, due to BCE's acquisition of all the common shares that Bell Canada did not already own of Teleglobe Inc., it was determined that Bell Canada no longer exercised significant influence over Teleglobe Inc. and therefore now accounts for its investment at cost.

In 1999, Bell Canada increased its ownership interest in Teleglobe Inc. from 20% to 23% for an aggregate purchase price of $312 million.

(b) At December 31, 2000, BCE holds a 14% ownership interest in Aliant. Certain put and call options are in place which, if exercised, will transfer BCE's ownership interest in Aliant to Bell Canada on agreed upon terms.

(c) In the first quarter of 1999, Bell Canada acquired 20% of MTS for an aggregate purchase price of $339 million. Goodwill recorded on the acquisition amounted to $189 million and is being amortized over 20 years on a straight-line basis.

(d) In the second quarter of 2000, Bell Canada acquired from BCH approximately 5 million common shares of Nortel Networks Corporation (Nortel Networks), in exchange for common shares of Bell Canada. BCH acquired the Nortel Networks common shares from its parent company BCE Inc. This transaction was recorded based on BCE's historical carrying value of its investment in Nortel Networks. As a result, Bell Canada recorded a $60 million increase in its investments in significantly influenced and other companies, a $15 million increase in common shares and a $45 million related party adjustment increase to retained earnings.

(e) The goodwill implicit in significantly influenced companies amounted to $203 million at December 31, 2000 ($333 million in 1999).

8. CAPITAL ASSETS

At December 31	2000 Cost	2000 Net book value	1999 Cost	1999 Net book value
Plant	**25,600**	**9,106**	25,407	10,095
Machinery and equipment	**5,397**	**2,632**	4,643	1,418
Buildings	**1,842**	**883**	1,871	995
Plant under construction	**1,227**	**1,227**	850	850
Land	**65**	**65**	67	67
Other	**153**	**122**	110	86
Total capital assets	**34,284**	**14,035**	32,948	13,511

Included in the total capital assets are assets under capital leases amounting to $204 million ($175 million in 1999) and a related accumulated depreciation of $39 million ($18 million in 1999).

Depreciation and amortization of capital assets for 2000 amounted to $2,296 million ($2,426 million in 1999). Retirements charged to accumulated depreciation amounted to $1,275 million in 2000 ($1,207 million in 1999).

9. SUPPLEMENTARY INFORMATION

	2000	1999
Balance Sheet		
Deferred charges and other assets		
Accrued benefit asset (Note 16)	**1,798**	1,604
Unrealized foreign currency losses, net of amortization	**98**	87
Long-term notes receivable	**37**	14
Other	**318**	204
Total Deferred charges and other assets	**2,251**	1,909
Debt due within one year		
Bank advances and notes payable – ($295 million was due to related parties in 1999)	**504**	318
Long-term debt due within one year (Note 10)	**916**	782
Total debt due within one year	**1,420**	1,100
Statement of Cash Flows		
Interest paid	**839**	769
Income taxes paid	**1,000**	670

10. LONG-TERM DEBT

At December 31		Weighted average rate of interest %	2000	1999
Debentures and notes (a)				
Repaid in 2000		9.00	**–**	727
Due	2001	7.32	**154**	150
	2002	7.58	**300**	300
	2003	6.40	**1,388**	472
	2004	10.88	**200**	200
	2005	6.76	**1,050**	750
	2006-2015	8.43	**3,075**	2,227
	2016-2054	9.08	**1,300**	1,425
			7,467	6,251
Subordinated debentures				
Due 2026-2031		8.21	**275**	275
Due to related parties (b)			**702**	1,500
Other (c)			**511**	505
Total long-term debt			**8,955**	8,531
Less: debt due within one year (Note 9)			**916**	782
Long-term debt			**8,039**	7,749

(a) Debentures and notes include US $400 million maturing in 2006 and 2010 and 300 million Swiss francs, due 2003, swapped into US dollar obligations. In addition, $750 million of long-term debt includes call options permitting early repayment of the principal amounts upon payment of certain premiums.

(b) Due to related parties represents, in 2000 and 1999, senior unsecured notes, due to BCH, at an interest rate of 5.85% maturing May 31, 2001. Bell Canada has the option to prepay, at any time, all or any portion of the notes in cash without notice or penalty. Interest expense, for 2000, from Bell Canada to BCE and BCH totalled $62 million ($114 million in 1999).

(c) Included in Other is an obligation under a capital lease of $49 million ($45 million in 1999), net of a loan receivable of $256 million ($246 million in 1999). This obligation resulted from an agreement entered into in 1999, whereby Bell Canada sold and leased back telecommunication equipment for proceeds of $316 million, a portion of which was invested in an interest bearing loan receivable.

10. LONG-TERM DEBT (continued)

Long-term debt maturities during each of the next five years are summarized below:

Years ending December 31	
2001	916
2002	351
2003	1,420
2004	283
2005	1,098
Thereafter	4,887
	8,955

At December 31, 2000, unused bank lines of credit, for general corporate purposes and to support commercial paper borrowings, generally at the banks' prime rate of interest, amounted to approximately $1.2 billion.

On January 18, 2001, and on February 28, 2001, Bell Canada issued $400 million and $300 million, respectively, 6.25% MTN Debentures, Series M-10 pursuant to its medium-term debenture program. These debentures will mature on January 18, 2008.

11. FINANCIAL INSTRUMENTS

Risk management

Bell Canada uses cross currency swaps, forward contracts and interest rate swaps to manage its foreign currency and interest rate positions associated with its debt instruments (Note 10) and to diversify Bell Canada's access to capital markets. Bell Canada also uses forward equity contracts to manage expenses related to SCPs (Note 15).

Credit risk

Bell Canada is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments, but does not anticipate non-performance by any of the counterparties. Bell Canada deals only with highly rated financial institutions and monitors the credit risk and credit standing of counterparties on a regular basis. Bell Canada manages its exposure so that there is no substantial concentration of credit risk resulting from forward equity contracts, cross currency swaps, forward contracts and interest rate swaps.

In addition, Bell Canada is exposed to credit risk from customers. However, Bell Canada has a large number of diverse customers which minimizes concentration of this risk. The introduction of competition in the local exchange market may increase credit risk.

Currency exposures

At December 31, 2000, principal amounts to be received under cross currency contracts include SF 300 million and US $30 million. At December 31, 2000, principal amounts owed under cross currency contracts include US $200 million and CDN $45 million.

Interest rate exposures

Long-term debt is mainly issued at fixed interest rates. During 2000, Bell Canada issued $300 million of floating rate debt, which is due in 2002, but may be extended, at the holder's option, up to a final maturity in 2005. Bell Canada has also entered into interest rate swaps to convert fixed interest rate debt totalling $150 million to floating interest rate debt, due 2001 to 2003.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments of the same risk, principal and remaining maturities. Fair values are based on estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments have not been reflected in the fair values. Therefore, due to the use of subjective judgement and uncertainties, the aggregate fair value amount should not be interpreted as being realizable in an immediate settlement of the instruments.

At December 31, 2000 and 1999, the carrying value of all financial instruments approximates fair value with the following exceptions:

At December 31	2000		1999	
	Carrying value	**Fair value**	Carrying value	Fair value
Assets				
Investment in Nortel Networks (a)	**60**	**238**	–	–
Forward contracts hedge of SCPs (Note 15)	**–**	**13**	–	–
Cross currency contracts (b)	**1**	**2**	10	6
Liabilities				
Long-term debt	**8,955**	**9,538**	8,531	9,165
Cross currency contracts (b)	**22**	**10**	54	34

(a) The 5 million Nortel Networks common shares (Note 7) have been designated as a hedge of Bell Canada's exposure to outstanding rights to SCPs (Note 15).

(b) Amounts receivable or payable under cross currency contracts are included in current assets, deferred charges or liabilities, as appropriate.

Sale of accounts receivable

Under an agreement effective October 14, 1997, Bell Canada sold accounts receivable for aggregate cash proceeds of $650 million. Pursuant to the agreement, the purchaser will use the funds from collections to purchase further receivables from Bell Canada until the expiration of the agreement on October 6, 2002.

12. PREFERRED SHARES

Authorized

The articles of the Corporation provide for an unlimited number of Class A Preferred Shares. The articles authorize the directors of the Corporation to issue such shares in one or more series and to fix the number of shares of each series, and the conditions attaching thereto, prior to their issue.

Authorized and outstanding

The following table provides a summary of the principal terms and conditions relating to the Corporation's authorized and outstanding series of Class A Preferred Shares. The detailed terms and conditions of such shares are set forth in the articles of the Corporation.

At December 31	2000		1999	
	Number of shares authorized	Stated capital	Number of shares authorized	Stated capital
Retractable preferred shares (a)				
Series 10 (b)	**16,000,000** (h)	**–**	20,000,000 (g)	100
Other retractable preferred shares		**6**		16
Retractable preferred shares		**6**		116
Perpetual preferred shares (a)				
Series 11 (c)	**–**	**–**	300 (g)	150
Series 12 (d)	**400** (g)	**200**	400 (g)	200
Series 13 (c)	**–**	**–**	290 (g)	145
Series 14 (d)	**270** (g)	**135**	270 (g)	135
		335		630
Convertible preferred shares (a)				
Series 15 (e)	**24,000,000** (g)	**400**	24,000,000 (h)	–
Series 16 (f)	**24,000,000** (h)	**–**	24,000,000 (h)	–
		400		–
Preferred shares		**735**		630

(a) All preferred shares are non-voting and redeemable at the Corporation's option.

(b) The holders of Cumulative Redeemable Retractable Reset Class A Preferred Shares Series 10 were entitled to fixed cumulative annual dividends at the rate of $1.86 per share.

On or after August 15, 2000, the Series 10 Preferred Shares were redeemable at $25 per share together with accrued and unpaid dividends. The Series 10 Preferred Shares were also retractable at the option of the holders on August 15, 2000, at a price of $25 per share together with accrued and unpaid dividends. All such outstanding shares were redeemed and cancelled on August 15, 2000.

(c) The holders of Perpetual Cumulative Reset Redeemable Class A Preferred Shares Series 11 and 13 were entitled to annual cumulative dividends at a rate of 5.04% of the stated capital of such shares until March 30, 2000 at which time the dividend rates would be reset.

The Series 11 and 13 Preferred Shares were redeemable at any time at $500,000 per share together with accrued and unpaid dividends. The Series 11 and 13 Preferred Shares were not retractable at the option of the holders. All outstanding Series 11 and 13 Preferred Shares were redeemed and cancelled by Bell Canada on January 11, 2000.

(d) The holders of Perpetual Cumulative Reset Redeemable Class A Preferred Shares Series 12 and 14 were entitled to annual cumulative dividends at rates of 4.64% and 4.62% of the stated capital of such shares until October 30, 2000 and September 29, 2000, respectively. Effective on October 31, 2000 and September 30, 2000, the dividend rates of the Series 12 and 14 Preferred Shares were reset to 5.86% and 5.84% of the stated capital of such shares until January 30, 2001 and December 30, 2000, respectively. Thereafter, the dividend rates of the Series 12 and 14 Preferred Shares may be reset from time to time pursuant to the terms and conditions of each series.

The Series 12 and 14 Preferred Shares are redeemable at any time at $500,000 per share together with accrued and unpaid dividends. The Series 12 and 14 Preferred Shares are not retractable at the option of the holders.

(e) The holders of Cumulative Redeemable Class A Preferred Shares Series 15 are entitled to annual cumulative dividends at a fixed rate of 5.50% until February 1, 2005. Thereafter, holders of Series 15 Preferred Shares will be entitled to floating adjustable cumulative dividends.

The Series 15 Preferred Shares are convertible, at the holder's option, into Cumulative Redeemable Class A Preferred Shares Series 16, on a one-for-one basis, on February 1, 2005 and on February 1 in every fifth year thereafter.

The Series 15 Preferred Shares are redeemable at $25.00 per share together with accrued and unpaid dividends on February 1, 2005 and at $25.50 per share together with accrued and unpaid dividends at any time thereafter. The Series 15 Preferred Shares are not retractable at the option of the holders.

(f) Holders of Series 16 Preferred Shares, if issued, will be entitled, starting February 1, 2005, to fixed cumulative dividends to be reset every five years pursuant to their terms and conditions.

Series 16 Preferred Shares will, if issued, be convertible at the holder's option into Cumulative Redeemable Class A Preferred Shares Series 15, on a one-for-one basis, on February 1, 2010 and on February 1 in every fifth year thereafter. Series 16 Preferred Shares, if issued, will be redeemable at $25.00 per share together with accrued and unpaid dividends on February 1, 2010 and on February 1 every fifth year thereafter.

(g) Authorized and outstanding, except that only 4,000,000 Series 10 Preferred Shares were outstanding at December 31, 1999 and 16,000,000 Series 15 Preferred Shares were outstanding at December 31, 2000.

(h) Authorized but not issued.

13. EQUITY-SETTLED NOTES

At December 31	2000	1999
8.22% Junior Note 1 unsecured obligation due 2034 (a)	**923**	923
6.15% Junior Note 2 unsecured obligation due on demand (b)	**1,570**	1,570
Total equity-settled notes	**2,493**	2,493

(a) Junior Note 1 is payable to BCH and ranks junior to all present and future indebtedness of Bell Canada. Subject to certain conditions, Bell Canada has the option to prepay, at any time, all or any portion of the note in cash without notice or penalty and may elect, at any time, to satisfy its obligation by issuing to BCH common shares having an aggregate value equal to the amount otherwise payable to BCH on such date.

(b) Junior Note 2 is payable to BCH and ranks junior to all present and future unsubordinated indebtedness of Bell Canada. The interest rate on the note was 6% up to November 30, 2000, at which time, the interest rate was reset to 6.15%. The interest rate shall be reset annually on November 30 and shall be equal to the Canadian one-year treasury benchmark rate plus 0.40%. Subject to certain conditions, Bell Canada has the option to prepay, at any time, all or any portion of the note in cash without notice or penalty and may elect, at any time, to satisfy its obligation by issuing to BCH common shares having an aggregate value equal to the amount otherwise payable to BCH on such date.

14. COMMON SHARES

Authorized: an unlimited number of common shares.

At December 31	2000		1999	
	Number of shares	Stated capital	Number of shares	Stated capital
Outstanding at beginning of year	**343,220,418**	**4,498**	307,662,568	1,422
Capital contribution (a)	**–**	**160**	–	–
Shares issued				
In exchange for Nortel Networks common shares (Note 7)	**5,096,411**	**15**	–	–
On the SBC/Ameritech transaction (b)	**–**	**–**	35,557,850	3,076
Outstanding at end of year	**348,316,829**	**4,673**	343,220,418	4,498

(a) In December 2000, BCH made a $160 million capital contribution to Bell Canada. No shares were issued as part of the transaction.

(b) The shares were issued to BCH in 1999 as part of the SBC/Ameritech transaction (Note 1).

15. STOCK-BASED COMPENSATION PLANS

ESP

The ESP enables employees of the Corporation and its participating subsidiaries to acquire BCE Inc. common shares through regular payroll deductions plus employer contributions, if applicable. Under the terms of the ESP, employees can choose each year to have up to 10% of their annual earnings withheld to purchase BCE Inc. common shares. The Corporation and the participating subsidiaries contribute up to 2% of the employee's annual earnings. Compensation expense related to the ESP amounted to $36 million in 2000 ($32 million in 1999).

Stock options

Under the BCE Inc. Long-Term Incentive Stock Option Programs (Programs), options may be granted to officers and other key employees of the Corporation and of its subsidiaries to purchase common shares of BCE Inc. at a subscription price generally equal to 100% of market value on the last trading day prior to the effective date of the grant. The right to exercise options generally accrues over a period of four years of continuous employment except when a special vesting period is granted. Options are not generally exercisable during the first 12 months after the date of the grant. However, if there is a change of control of BCE Inc., the options may, if an optionee's employment is terminated under certain circumstances, become immediately exercisable. Furthermore, the same result may also occur if, under certain circumstances, BCE Inc. ceases to hold a specific ownership interest in Bell Canada.

As a result of the distribution of Nortel Networks common shares in May 2000, each of the then outstanding BCE stock options was cancelled and replaced by a new stock option which, in addition to the right to acquire one BCE common share, gave the holder the right to acquire approximately 1.57 post-split common shares of Nortel Networks (BCE/Nortel options) with exercise prices established so as to maintain the economic position of the holder. In order to ensure that the exercise of the BCE/Nortel options would not result in a dilution to Nortel Networks shareholders, the aggregate number of BCE Inc. common shares issuable pursuant to options granted under the Programs immediately prior to the effective time of the distribution was factored into the computation of the number of Nortel Networks common shares per BCE Inc. common share held to be distributed. Accordingly, the exercise price paid to Nortel Networks on the exercise of the BCE/Nortel options is remitted to BCE shortly after the time of exercise. In addition, BCE also has the right to exercise all BCE/Nortel options that expire unexercised or are forfeited, with the exercise price being remitted to BCE by Nortel Networks.

SCPs

Prior to 2000, simultaneously with the grant of an option, officers and key employees of the Corporation and its subsidiaries may have been granted, by their employer, from time to time, accompanying rights to SCPs. In May 2000, BCE distributed to its common shareholders an approximate 35% interest in Nortel Networks. As a result of this distribution of Nortel Networks common shares, the then outstanding options were divided into options to acquire BCE Inc. common shares and Nortel Networks common shares, and the related SCPs were appropriately adjusted. As a result, SCP right holders now have, for each SCP right held prior to the distribution, SCP rights related to the increase in price of both the BCE Inc. and Nortel Networks common shares over the exercise prices of the related options. The amount of any SCPs is equal to the increase in market value of the number of BCE Inc. and Nortel Networks shares covered by the SCPs (which may not exceed the number of shares covered by the option to which it is related) from the date of grant of the SCPs to the date of exercise of the option to which the SCPs is related. Compensation expense related to SCPs amounted to $56 million in 2000 ($87 million in 1999).

To manage SCP expense, Bell Canada has entered into forward equity contracts to hedge its exposure to outstanding SCP rights related to options over BCE Inc. common shares and has designated its Nortel Networks common shares as a hedge of Bell Canada's exposure to outstanding SCP rights related to the options over the Nortel Networks common shares.

16. EMPLOYEE BENEFIT PLANS

The Corporation and most of its significant subsidiaries maintain non-contributory defined benefit plans that provide for pension, other retirement and postemployment benefits for substantially all their employees based on length of service and rate of pay. Bell Canada's funding policy is to make contributions to its pension funds based on various actuarial cost methods as permitted by pension regulatory bodies. The companies are responsible to adequately fund the plans. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits. Plan assets are represented primarily by Canadian and foreign equities, government and corporate bonds, debentures and secured mortgages.

The following disclosures for 2000 reflect the new recommendations of the CICA for employee benefit plans (Note 1). As permitted under the new recommendations, prior year amounts have not been restated. Accordingly, the 1999 amounts and disclosures reflect the former recommendations of the CICA.

2000

The changes in the benefit obligations and in the fair value of assets and the funded status of the defined benefit plans were as follows:

At December 31	2000	
	Pension Benefits	Other Benefits
Change in benefit obligations		
Benefit obligation, beginning of year, as restated	8,574	1,424
Current service cost	163	26
Interest cost	588	99
Estimated benefit payments	(625)	(60)
Employee contributions	2	–
Business combinations	–	5
Divestitures	(24)	(4)
Benefit obligation, end of year	8,678	1,490
Change in fair value of plan assets		
Fair value of plan assets, beginning of year	11,493	333
Return on plan assets	1,212	28
Estimated benefit payments	(625)	(60)
Employer contributions	3	59
Employee contributions	2	–
Business combinations	–	5
Divestitures	(24)	(4)
Fair value of plan assets, end of year (a)	12,061	361
Funded status-plan surplus (deficit)	3,383	(1,129)
Unamortized net actuarial gain	(1,418)	(198)
Unamortized past service costs	15	–
Unamortized transitional (asset) obligation	(260)	475
Accrued benefit asset (liability) (b)	1,720	(852)

(a) Approximately 1% of the plan assets are held in BCE Inc. common shares.
b) The Accrued benefit asset (liability) of $1,720 million is composed of an accrued benefit asset of $1,798 million (Note 9) and accrued benefit liability of $78 million.

The significant weighted-average assumptions adopted in measuring Bell Canada's pension and other benefit obligations as at December 31, 2000 were as follows:

	2000	
	Pension Benefits	Other Benefits
Discount rate	7.0%	7.0%
Expected long-term rate of return on plan assets	8.5%	8.5%
Rate of compensation increase	4.0%	4.0%

16. EMPLOYEE BENEFIT PLANS (continued)

For measurement purposes, a 5% annual rate of increase in the per capita cost of covered health care benefits (the health care cost trend rate) was assumed for 2000 except for the cost of medication which was assumed to increase at a 10% annual rate for 2000. This rate was assumed to gradually decline to 5% by 2005 and remain at that level thereafter.

The net benefit plans (credit) expense for the year ended December 31, 2000 included the following components:

	2000	
	Pension Benefits	Other Benefits
Current service cost	**163**	**26**
Interest cost on projected benefit obligations	**588**	**99**
Expected return on plan assets	**(947)**	**(28)**
Amortization of past service costs	**3**	**–**
Amortization of net actuarial gain	**(6)**	**(5)**
Amortization of transitional obligation	**–**	**39**
Amortization of transitional asset	**(49)**	**–**
Net benefit plans (credit) expense	**(248)**	**131**

1999

The following table summarizes the consolidated financial position of the pension plans and Bell Canada's net pension asset:

At December 31	1999
Plan assets at market value	11,493
Actuarially projected plan benefits	
Accumulated plan benefits	7,433
Effect of salary projections	849
Projected plan benefits	8,282
Plan assets in excess of projected plan benefits	3,211
Unrecognized net experience gains	(1,723)
Unrecognized net assets existing at January 1, 1987	(30)
Unrecognized prior period costs	83
Net pension asset reflected on the consolidated balance sheet	1,541
Deferred pension asset included in deferred charges (Note 9)	1,604
Pension obligations, included in other long-term liabilities	(63)
Net pension asset	1,541

The components of Bell Canada's pension credit are as follows:

	1999
Service cost – benefits earned	142
Interest cost on projected plan benefits	579
Expected return on plan assets	(799)
Net amortization and other	(126)
Pension credit	(204)

17. RELATED PARTY TRANSACTIONS

All transactions with related parties took place in the normal course of business.

At December 31	2000	1999
Purchase of equipment, supplies and services		
Nortel Networks (a)	**221**	1,054
CGI (b)	**426**	514
BCE Emergis (c)	**122**	93
Teleglobe Inc. (d)	**28**	–
Sale of equipment and services		
CGI (b)	**111**	35
BCE Emergis (c)	**110**	69
Teleglobe Inc. (d)	**5**	–

(a) Nortel Networks was a significantly influenced company of BCE up until May 2000. Subsequent to this date, Nortel Networks is no longer considered a related party of Bell Canada.
(b) CGI is a joint venture of BCE.
(c) BCE Emergis is a subsidiary of BCE.
(d) As of November 2000, Teleglobe Inc. is a subsidiary of BCE.

At December 31, 2000, accounts receivable included $101 million ($196 million in 1999) from parent, affiliated and significantly influenced companies. Accounts payable and accrued liabilities included $382 million ($493 million in 1999) due to parent, affiliated and significantly influenced companies.

18. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

At December 31, 2000, the future minimum lease payments under capital leases were $126 million. At December 31, 2000, the future minimum lease payments under operating leases with initial non-cancellable lease terms in excess of one year were $194 million in 2001, $191 million in 2002, $168 million in 2003, $153 million in 2004, $145 million in 2005 and $871 million thereafter. Rental expense applicable to operating leases for the year 2000 was $313 million ($367 million in 1999).

Effective July 1, 1998, under the terms of a ten-year outsourcing agreement, a wholly-owned subsidiary of CGI is the preferred provider of Bell Canada's required information systems and information technology services. Bell Canada's minimum commitment between January 1, 2001 and June 30, 2001 is approximately $160 million. Beyond this period the amount of these expenditures will depend upon Bell Canada's business strategies and directions and the associated information systems and information technology requirements.

Litigation

In the normal course of operations, Bell Canada becomes involved in various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending at December 31, 2000, cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on Bell Canada's consolidated financial position or results of operations.

19. RECONCILIATION OF EARNINGS REPORTED IN ACCORDANCE WITH CANADIAN GAAP WITH UNITED STATES GAAP

The significant differences between Canadian and United States GAAP affecting the consolidated financial statements of Bell Canada are reconciled in the table below:

	2000		1999	
	Net earnings applicable to common shares	Retained earnings	Net earnings applicable to common shares	Retained earnings
Canadian GAAP – Continuing operations	**1,413**	**553**	1,242	683
Adjustments				
Employee benefit plans (a)	**49**	**49**	(83)	(481)
Foreign exchange (b)	**(8)**	**(72)**	53	(64)
Gain on exchange of investments (c)	**–**	**99**	99	99
Gain on reduction of ownership in a significantly influenced company (d)	**(24)**	**(338)**	–	(314)
Pre-operating expenses and subscriber acquisition costs (e)	**(40)**	**(40)**	–	–
Income taxes (f)	**28**	**28**	(2)	(18)
Other	**(17)**	**80**	(18)	97
U.S. GAAP – Continuing operations	**1,401**	**359**	1,291	2
Discontinued operations – U.S. GAAP (g)	**(83)**	**(83)**	–	–
U.S. GAAP	**1,318**	**276**	1,291	2
Other comprehensive earnings (loss) items:				
Change in currency translation adjustment	**(4)**		(2)	
Comprehensive earnings – U.S. GAAP	**1,314**		1,289	

The cumulative effect of differences between Canadian and United States GAAP is to reduce retained earnings by $277 million as at December 31, 2000 and $681 million as at December 31, 1999. In addition, United States GAAP requires that the equity-settled notes (Note 13) of $2,493 million ($2,493 million in 1999) be presented as a liability. Under Canadian GAAP, the equity-settled notes are presented as part of shareholders' equity.

(a) Employee future benefits

Under Canadian GAAP, prior to January 1, 2000, Bell Canada recognized the costs of post-retirement benefits, other than pension costs and postemployment benefits, when paid.

Effective January 1, 2000, Bell Canada adopted the new accounting recommendations under Canadian GAAP (Note 1) which are now in all material respects consistent with United States GAAP, except for the recognition of certain unrealized gains.

19. RECONCILIATION OF EARNINGS REPORTED IN ACCORDANCE WITH CANADIAN GAAP WITH UNITED STATES GAAP (continued)

(b) Foreign exchange

Under Canadian GAAP, unrealized foreign exchange translation gains and losses on long-term monetary assets and liabilities are deferred and amortized over the remaining lives of the related items. Under United States GAAP, the translation gains and losses are reported in earnings immediately.

(c) Gain of exchange of investments

On May 31, 1999, Bruncor, MT&T and NewTel combined their businesses to form Aliant. As a result, Bell Canada exchanged the ownership interest it had in Bruncor (45%), MT&T (34%) and NewTel (55%) for a 42% interest in Aliant (Note 7). For United States GAAP purposes, the transaction represents, for Bell Canada, a series of non-monetary exchanges. Generally, exchanges of similar productive assets are accounted for at carrying value and no gain or loss is recognized. However, as a consolidated investment is not considered a productive asset, the exchange of Bell Canada's interest in NewTel was recorded at fair value.

(d) Gain on reduction of ownership in a significantly influenced company

Under Canadian and United States GAAP, a gain on reduction of ownership in a significantly influenced company is calculated in a similar manner. However, Canadian and United States GAAP differences will cause the underlying equity value of a significantly influenced company to be different; therefore, the resulting gain will be different.

(e) Pre-operating expenses and subscriber acquisition costs

Under Canadian GAAP, pre-operating expenses, if they meet certain criteria, and subscriber acquisition costs can be deferred and amortized. Under United States GAAP, these costs are expensed as incurred.

(f) Income taxes

Under Canadian GAAP, prior to January 1, 2000, Bell Canada accounted for income taxes under the deferral method, which focused on the income statement. Effective January 1, 2000, Bell Canada adopted the new accounting recommendations under Canadian GAAP (Note 1) which are now in all material respects consistent with United States GAAP, with the exception that under Canadian GAAP, income tax rates of enacted or substantially enacted tax law can be used to calculate deferred income tax assets and liabilities while under United States GAAP, only income tax rates of enacted tax law can be used.

(g) Discontinued operations

Under Canadian GAAP, discontinued operations amounted to $99 million for the year ended December 31, 2000 (Note 6). The difference between Canadian and United States GAAP for discontinued operations related mainly to differences in the underlying equity value of Bell Canada's investment in ORBCOMM.

Future accounting changes

Financial Accounting Standards Board Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133), as amended by Financial Accounting Standards Board Statement No. 138, is effective for fiscal years beginning after June 15, 2000. FAS 133 requires that all derivatives, including those embedded in other contracts to be recorded in the balance sheet at fair value. Changes in fair value will be recorded in net earnings or, if the derivative is designated as a cash flow hedge, in other comprehensive income. For fair value hedges, changes in the fair value of the derivative instrument will generally be offset in net earnings by changes in fair value of the hedged item. For cash flow hedge transactions, the effective portion of the changes in the fair value of the derivative instrument will be reported in other comprehensive income and will be reclassified to net earnings in the periods in which net earnings are affected by the variabilities in cash flows of the hedged item.

Bell Canada has adopted FAS 133 effective January 1, 2001 and accordingly revalued all derivatives to fair value. The adoption of FAS 133 did not have a material impact on the consolidated results of operations or financial position of the Corporation.

20. SUBSEQUENT EVENTS

Acquisition of spectrum licenses

On February 1, 2001, Bell Mobility announced that it had successfully bid on 20 new personal communications services spectrum licenses in Industry Canada's auction for a total investment of approximately $720 million. These new licenses should enable Bell Mobility, together with its Bell Wireless Alliance partners (Aliant, MTS and Saskatchewan Telecommunications Holding Corporation) to deliver third generation wireless services. The spectrum licenses have been won on a provisional basis until processed by Industry Canada as per the auction closure guidelines and procedures. Payment of the license fees is due on March 15, 2001 and final ownership of the new licenses is expected to be confirmed by Industry Canada shortly thereafter.

Creation of Bell Globemedia Inc.

On January 9, 2001, BCE, The Thomson Corporation and The Woodbridge Company Limited closed the transaction originally announced on September 15, 2000, which resulted in the creation of a Canadian multi-media company, Bell Globemedia Inc. As part of this transaction, Bell Canada, through its subsidiary Bell ActiMedia Inc., transferred its 71% interest in Sympatico-Lycos Inc., to BCE. The transfer resulted in a $425 million reduction in the amount of outstanding intercompany liabilities owing by Bell Canada to its parent company, BCH, and an equivalent reduction in the amount of outstanding intercompany liabilities owing by BCH to BCE.

James W. Callaway
San Antonio, Texas
Group President
SBC Communications Inc.
Director since October 2000 and member of the Audit Committee.

James S. Kahan
San Antonio, Texas
Senior Vice-President – Corporate Development
SBC Communications Inc.
Director since October 1999 and member of the
Management Resources and Nominating Committee.

Judith Maxwell
Ottawa, Ontario
President
Canadian Policy Research Networks Inc.
Director since December 2000 and a member of the Audit Committee.
Director of BCE Inc.

Jean C. Monty, C.M.
Montréal, Québec
Chairman of the Board and Chief Executive Officer of BCE Inc. and Bell Canada.
Director since October 1997.
Chairman of the Board of Bell Globemedia Inc. and Teleglobe Inc.

J. Edward Newall, O.C.
Calgary, Alberta
Chairman of the Board, Newall and Associates
Director since May 1998 and Chairman of the
Audit Committee. Director of BCE Inc.

Michael J. Sabia
Westmount, Québec
President, BCE Inc.
Vice-Chair – Corporate, Bell Canada
Director since July 2000 and member of the
Management Resources and Nominating Committee.

Guy Saint-Pierre, O.C.
Montréal, Québec
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Director since April 1999 and member of the
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Director of BCE Inc.

C. Wesley M. Scott
Toronto, Ontario
Chief Corporate Officer, BCE Inc.
Director since June 1999.

John W. Sheridan
Toronto, Ontario
President
Director since January 2000 and member
of the Audit Committee.

Paul M. Tellier, P.C., C.C., Q.C.
Westmount, Québec
President and Chief Executive Officer
Canadian National Railway Company
Director since March 1996 and Chairman of the
Management Resources and Nominating Committee.
Director of BCE Inc.

CORPORATE OFFICERS

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Vice-President and Treasurer

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Renato J. Discenza
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Barry R. Dixon*
Senior Vice-President – Carrier Services (Bell Nexxia)

Thomas J. Gillette
Senior Vice-President – Sales

Josée Goulet
President – Bell ActiMedia

Tomasz S. Hope
Chief Technology Officer

Jonathan P. Klug
Chief Financial Officer

Sylvie Lalande
Chief Communications Officer

Guy Marier
President – Bell Québec

Timothy E. McGee
Chief Legal Officer and Corporate Secretary

Jean C. Monty
Chairman and Chief Executive Officer

Robert T. Mosey
President – Bell Ontario

*Appointed February 6, 2001

Barry W. Pickford
Vice-President – Taxation

Randall J. Reynolds
President – Bell Nexxia

Eugene Roman
Chief Information Officer

Michael J. Sabia
Vice-Chair – Corporate

Anna M. Sado
Senior Vice-President – Business Processes & Operational Effectiveness

Sheridan E. Scott
Chief Regulatory Officer

Pierre Shedleur
Senior Vice-President – Business Markets Québec

John W. Sheridan
President

Karen H. Sheriff
Chief Marketing Officer

David A. Southwell
President – Network Operations

Pamela A. Went
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Garry M. Wood
President – Bell Distribution

Georgina Wyman
Chief Human Resources Officer

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MANAGEMENT RESOURCES AND NOMINATING COMMITTEE

P.M. Tellier – Chairman

J.S. Kahan
M.J. Sabia
G. Saint-Pierre

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

unaudited	2000	1999	1998	1997	1996	1995
Selected consolidated financial data ($ millions)						
Total operating revenues	**13,230**	12,583	12,405	12,309	10,314	9,667
Net operating revenues	**3,546**	2,896	2,498	2,677	2,310	2,098
Net earnings from continuing operations before extraordinary item	**1,552**	1,309	1,089	917	734	513
Discontinued operations (net of tax)	**(99)**	–	–	–	–	–
Net earnings applicable to common shares before extraordinary item	**1,314**	1,242	1,056	881	694	472
Extraordinary item (net of tax)	**–**	–	–	(2,870)	–	–
Net earnings (loss) applicable to common shares	**1,314**	1,242	1,056	(1,989)	694	472
Dividends on common shares	**1,085**	868	765	764	714	730
EBITDA	**5,775**	5,399	5,424	5,352	4,814	4,316
EBIT	**3,501**	3,027	2,722	2,714	2,421	2,105
Total assets	**22,826**	21,829	19,648	18,517	22,896	22,769
Long-term debt (including current portion)	**8,955**	8,531	10,840	10,439	10,617	11,027
Retractable preferred shares	**6**	116	128	129	117	282
Preferred shares	**735**	630	630	630	630	630
Equity-settled notes	**2,493**	2,493	923	832	824	815
Common shareholders' equity	**5,495**	5,553	2,130	1,816	4,581	4,616
Capital expenditures	**2,852**	2,499	2,629	2,252	2,105	1,912
Financial ratios(i)						
Percent return on average common equity	**17.2**	19.3	22.1	14.4	9.8	7.2
Percent return on average total capital	**7.7**	8.4	8.9	6.3	4.7	3.5
EBITDA/Interest	**7.7**	7.7	8.1	7.5	6.2	5.6
EBIT/Interest	**4.9**	4.5	4.6	3.8	3.1	2.7
Fixed charge coverage	**4.6**	4.4	4.4	3.6	3.0	2.6
Debt to EBITDA	**1.6**	1.7	1.5	1.6	1.8	2.0
Cash flow from operating activities as a per cent of net capital expenditures	**1.1**	1.1	1.3	N/A	N/A	N/A
Debt as a percent of total capital	**0.5**	0.5	0.5	0.6	0.5	0.5
Other data						
Network access services (thousands)	**11,806**	11,579	11,556	11,221	10,869	10,593
Conversation minutes (millions)	**14,601**	13,830	11,664	10,703	10,885	10,662
Number of employees	**45,073**	43,995	46,031	46,719	52,151	55,942
Salaries and wages (excl. workforce reduction costs)	**2,390**	2,391	2,459	2,555	2,648	2,710

(i) Ratios are calculated on a baseline basis (earnings excluding special items); and the $3.1 billion debt discussed on page 16 and the equity-settled notes are treated as common shareholders' equity.

N/A: not available.

QUARTERLY FINANCIAL DATA

unaudited	4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
($ millions)	2000	1999	2000	1999	2000	1999	2000	1999
Total operating revenues	**3,471**	3,276	**3,415**	3,184	**3,242**	3,101	**3,102**	3,022
Net operating revenues	**905**	841	**966**	840	**840**	469	**835**	746
Earnings from continuing operations	**357**	432	**410**	386	**427**	193	**358**	298
Discontinued operations	**–**	–	**(83)**	–	**(9)**	–	**(7)**	–
Net earnings	**357**	432	**327**	386	**418**	193	**351**	298
Net earnings applicable to common shares	**321**	404	**293**	367	**383**	181	**317**	290
EBITDA	**1,480**	1,393	**1,537**	1,394	**1,395**	1,297	**1,363**	1,315
EBIT	**923**	914	**900**	860	**864**	502	**814**	751

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