

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. These securities have not been, and will not be, registered under the United States Securities Act of 1933. Subject to certain exceptions, these securities may not be offered, sold or delivered within the United States of America or to U.S. persons. This short form prospectus constitutes a public offering of securities only in those jurisdictions where such securities may be lawfully offered for sale and therein only by persons permitted to sell such securities.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of BCE Inc. at 1000, rue de La Gauchetière Ouest, bureau 3700, Montréal (Québec) H3B 4Y7, (514) 870-8777. For the purpose of the Province of Québec, this short form prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the Corporate Secretary of BCE Inc. at the above-mentioned address and telephone number.

## SHORT FORM PROSPECTUS

New Issue

February 20, 2003



# BCE Inc.

## \$510,000,000

### 20,000,000 Shares

## Cumulative Redeemable First Preferred Shares, Series AC

Until March 1, 2008, the Cumulative Redeemable First Preferred Shares, Series AC (the "Series AC Preferred Shares") will be entitled to fixed cumulative preferred cash dividends of \$1.385 per share per annum, as and when declared by the board of directors of BCE Inc., which will accrue from the date of issue and will be payable quarterly on the first day of March, June, September and December in each year with, assuming an issue date of February 28, 2003, the initial dividend, if declared, payable on June 1, 2003 in the amount of \$0.34625 per share. See "Details of the Offering".

Thereafter, for the initial Subsequent Fixed Rate Period, commencing on March 1, 2008 and ending on and including February 28, 2013 and for each succeeding Subsequent Fixed Rate Period, commencing on the day immediately following the end of the immediately preceding Subsequent Fixed Rate Period and ending on and including the last day of February in the fifth year thereafter, the Series AC Preferred Shares will be entitled to fixed cumulative preferred cash dividends, as and when declared by the board of directors of BCE Inc. BCE Inc. shall determine on the 25th day prior to the first day of each Subsequent Fixed Rate Period the annual dividend rate for each Subsequent Fixed Rate Period, which shall not be less than 80% of the five-year Government of Canada Yield, and give notice thereof. See "Details of the Offering".

### Conversion into a Further Series of Preferred Shares

Holdings of Series AC Preferred Shares will have the right to convert their shares into Cumulative Redeemable First Preferred Shares, Series AD of BCE Inc. (the "Series AD Preferred Shares"), subject to certain conditions, on March 1, 2008 and every five years thereafter. See "Details of the Offering".

On March 1, 2008 or on March 1 in every fifth year thereafter, BCE Inc. may redeem for cash the Series AC Preferred Shares, in whole but not in part, at BCE Inc.'s option, at \$25.00 per share plus accrued and unpaid dividends. See "Details of the Offering".

The Toronto Stock Exchange has conditionally approved the listing of the Series AC Preferred Shares, subject to BCE Inc. fulfilling the requirements of such exchange on or before May 16, 2003.

On February 12, 2003, the holders of the 14,000,000 Cumulative Redeemable First Preferred Shares, Series U (the "Series U Preferred Shares") outstanding granted to BCE Inc. an option to purchase all of such Series U Preferred Shares (the "Option") at a price of \$25.50 per share. The exercise of the Option by BCE Inc. is conditional upon the investment by such holders of the proceeds to be received from BCE Inc. as consideration for the sale of the Series U Preferred Shares, upon the exercise of the Option by BCE Inc., in an equal number of Series AC Preferred Shares to be issued by BCE Inc. at the price of \$25.50 per share. In addition to the 6,000,000 Series AC Preferred Shares to be issued to the public by BCE Inc., this short form prospectus also qualifies the 14,000,000 Series AC Preferred Shares that would be issued to the holders of the Series U Preferred Shares if BCE Inc. exercises the Option. However, there is no assurance that all or part of such 14,000,000 Series AC Preferred Shares will be so issued and the issuance of any of such shares is not a condition of closing of the issue to the public of the 6,000,000 Series AC Preferred Shares also qualified by this short form prospectus. No underwriting fee will be paid in respect of the issue of the Series AC Preferred Shares to such parties. See "Plan of Distribution".

### Price: \$25.50 per share

	Price to Public	Underwriting Fee <sup>(1)</sup>	Net Proceeds to BCE Inc. <sup>(2)</sup>
Per Share .....	\$25.50	\$0.765	\$24.735
Total .....	\$153,000,000	\$4,590,000	\$148,410,000

(1) The underwriting fee is \$0.255 for each share sold to certain institutions and \$0.765 per share for all other shares purchased by the Underwriters. The total represents the underwriting fee assuming no Series AC Preferred Shares are sold to such institutions.

(2) Before deducting expenses of issue estimated at \$300,000.

The Underwriters, as principals, conditionally offer the Series AC Preferred Shares, subject to prior sale, if, as and when issued by BCE Inc. and accepted by the Underwriters, in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of BCE Inc. by Ms. Martine Turcotte, Chief Legal Officer of BCE Inc., and on behalf of the Underwriters by Borden Ladner Gervais LLP, Montréal.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the date of closing and the date on which the Series AC Preferred Shares in definitive form will be ready for delivery will be on or about February 28, 2003 or on such later date as may be agreed with the Underwriters but not later than April 3, 2003.

RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc. and National Bank Financial Inc. are subsidiaries or affiliates of lenders that have made credit facilities available to BCE Inc. BCE Inc. may be considered a connected issuer of these underwriters for purposes of securities laws in certain Canadian provinces. See "Relationship Between Issuer and Underwriters".

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### DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed with the various securities regulatory authorities in Canada, are specifically incorporated by reference and form an integral part of this short form prospectus:

- (a) Annual Information Form of BCE Inc. dated April 15, 2002, for the year ended December 31, 2001;
- (b) restated Audited Consolidated Financial Statements of BCE Inc. for the three years ended December 31, 2001 and the Auditors' Report thereon, dated July 23, 2002;
- (c) restated Management's Discussion and Analysis of BCE Inc. for the three years ended December 31, 2001, dated July 23, 2002;
- (d) Unaudited Interim Consolidated Financial Statements of BCE Inc. for the periods ended September 30, 2001 and 2002;
- (e) Management's Discussion and Analysis of BCE Inc. for the periods ended September 30, 2001 and 2002, dated October 23, 2002 (the "2002 Q3 MD&A");
- (f) Management Proxy Circular of BCE Inc. dated March 30, 2002 in connection with the Annual and Special Meeting of the shareholders of BCE Inc. held on May 29, 2002, excluding the sections entitled "Report on Executive Compensation", "Shareholder Return Performance Graphs" and "Statement of Corporate Governance Practices";
- (g) Material Change Report of BCE Inc. dated April 30, 2002 with respect to the termination of long-term funding by BCE Inc. to Teleglobe Inc. and the resignation of Mr. Jean C. Monty as Chairman and Chief Executive Officer of BCE Inc.;
- (h) Material Change Report of BCE Inc. dated June 14, 2002 with respect to Telecom Decision CRTC 2002-34 "Regulatory Framework for Second Price Cap Period" of the Canadian Radio-television and Telecommunications Commission;
- (i) Material Change Report of BCE Inc. dated July 4, 2002 with respect to the negotiated agreement with SBC Communications Inc. concerning the repurchase of SBC Communications Inc.'s indirect minority interest in Bell Canada;
- (j) Material Change Report of BCE Inc. dated September 23, 2002 with respect to the announcement of the sale of the directories business;
- (k) Material Change Report of BCE Inc. dated October 10, 2002 with respect to revised 2002 financial guidance;
- (l) Material Change Report of BCE Inc. dated December 9, 2002 with respect to the closing of the sale of the directories business;
- (m) Material Change Report of BCE Inc. dated December 12, 2002 with respect to the completion of the repurchase of SBC Communications Inc.'s indirect minority interest in Bell Canada;

- (n) Risk Factors provided on pages 1 to 11 of the Safe Harbor Notice concerning Forward-Looking Statements of BCE Inc. dated December 18, 2002 (the “Safe Harbor Notice”); and
- (o) to the extent permitted by applicable securities law, any other documents which BCE Inc. elects to incorporate by reference into this short form prospectus.

Any documents of the type referred to above and any material change reports (excluding confidential material change reports), interim or annual financial statements, including comparative interim financial statements and comparative financial statements for BCE Inc.’s most recently completed financial year, together with the accompanying report of BCE Inc.’s auditors, any exhibits to interim and annual consolidated financial statements containing updated earnings coverage information and any information circulars of BCE Inc. filed by BCE Inc. with the various securities regulatory authorities in Canada after the date of this short form prospectus and prior to the completion or withdrawal of any offering hereunder, shall be deemed to be incorporated by reference into this short form prospectus.

**Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for the purposes of this short form prospectus, to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this short form prospectus, except as so modified or superseded.**

In this short form prospectus, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars.

## SUMMARY OF THE OFFERING

*This summary is qualified by the detailed information appearing elsewhere in this short form prospectus. For a definition of the terms used but not defined in this summary, refer to "Plan of Distribution" and "Details of the Offering".*

**Issuer:** BCE Inc.

**Issue:** Cumulative Redeemable First Preferred Shares, Series AC.

**Amount:** \$510,000,000 (20,000,000 shares).

**Price and Yield:** The Series AC Preferred Shares are offered at a price of \$25.50 per share. A purchaser will realize a pre-tax yield of 5.08 % per annum based on 20 quarterly dividend payments of \$0.34625 over the five year period from the expected closing date of February 28, 2003 to March 1, 2008 and assuming the Series AC Preferred Shares have a value of \$25.00 on March 1, 2008.

### Principal Characteristics of Series AC Preferred Shares

**Dividends:** Until March 1, 2008, fixed cumulative preferred cash dividends of an annual amount equal to \$1.385 per share will, as and when declared, be payable quarterly on the first day of March, June, September and December in each year. Assuming an issue date of February 28, 2003, an initial dividend, if declared, of \$0.34625 per share will be payable on June 1, 2003.

From March 1, 2008, for the initial Subsequent Fixed Rate Period, commencing on March 1, 2008 and ending on and including February 28, 2013, and for each succeeding Subsequent Fixed Rate Period, commencing on the day immediately following the end of the immediately preceding Subsequent Fixed Rate Period and ending on and including the last day of February in the fifth year thereafter, the Series AC Preferred Shares will be entitled to fixed cumulative preferred cash dividends, as and when declared by the board of directors of BCE Inc. BCE Inc. shall determine on the 25th day prior to the first day of each Subsequent Fixed Rate Period the annual dividend rate for each Subsequent Fixed Rate Period and give notice thereof. Such annual dividend rate shall not be less than 80% of the five-year Government of Canada Yield determined on the 25th day prior to the first day of each Subsequent Fixed Rate Period.

**Redemption:** The Series AC Preferred Shares are not redeemable prior to March 1, 2008. The Series AC Preferred Shares will be redeemable on March 1, 2008 or on March 1 in every fifth year thereafter for cash, in whole but not in part, at BCE Inc.'s option, at \$25.00 per share, together with accrued and unpaid dividends up to but excluding the date of redemption.

**Conversion into Series AD Preferred Shares:** Holders of Series AC Preferred Shares will, subject to the automatic conversion provisions, have the right to convert, on March 1, 2008 and on March 1 every five years thereafter (a "Series AC Conversion Date"), their shares into an equal number of Series AD Preferred Shares upon giving to BCE Inc. notice thereof not earlier than 45 days prior to, but not later than the close of business on the 10th day preceding, a Series AC Conversion Date.

**Automatic Conversion Provisions:** Following the close of business on the 10th day preceding a Series AC Conversion Date, if BCE Inc. determines after having taken into account all shares tendered for conversion by holders of Series AC Preferred Shares and Series AD Preferred Shares, as the case may be, that there would be outstanding on such Series AC Conversion Date less than 2,500,000 Series AC Preferred Shares, such remaining number of Series AC Preferred Shares shall automatically be converted on such Series AC Conversion Date into an equal number of Series AD Preferred Shares. Additionally, if BCE Inc. determines at

such time that there would be outstanding on such Series AC Conversion Date less than 2,500,000 Series AD Preferred Shares, then no Series AC Preferred Shares shall be converted into Series AD Preferred Shares.

#### **Principal Characteristics of Series AD Preferred Shares**

***Dividends:***

From March 1, 2008, floating adjustable cumulative preferred cash dividends, as and when declared, will be payable monthly on the twelfth day of each month following the month of March 2008, with the annual floating dividend rate for the first month equal to 80% of Prime. The dividend rate will float in relation to changes in Prime and will be adjusted upwards or downwards on a monthly basis whenever the Calculated Trading Price of the Series AD Preferred Shares is \$24.875 or less or \$25.125 or more respectively. The maximum monthly adjustment for changes related to the Calculated Trading Price will be +/-4.00% of Prime. However, the annual floating dividend rate applicable in a month will in no event be less than 50% of Prime or be greater than Prime.

***Redemption:***

The Series AD Preferred Shares will be redeemable at any time for cash, in whole but not in part, at BCE Inc.'s option, at \$25.50 per share, together with accrued and unpaid dividends up to but excluding the date of redemption.

***Conversion into Series AC Preferred Shares:***

Holder of Series AD Preferred Shares will, subject to the automatic conversion provisions, have the right to convert, on March 1, 2013 and on March 1 every five years thereafter (a "Series AD Conversion Date"), their shares into an equal number of Series AC Preferred Shares upon giving to BCE Inc. notice thereof not earlier than 45 days prior to, but not later than the close of business on the 10th day preceding, a Series AD Conversion Date.

***Automatic Conversion Provisions:***

Following the close of business on the 10th day preceding a Series AD Conversion Date, if BCE Inc. determines after having taken into account all shares tendered for conversion by holders of Series AD Preferred Shares and Series AC Preferred Shares, as the case may be, that there would be outstanding on such Series AD Conversion Date less than 2,500,000 Series AD Preferred Shares, such remaining number of Series AD Preferred Shares shall automatically be converted on such Series AD Conversion Date into an equal number of Series AC Preferred Shares. Additionally, if BCE Inc. determines at such time that there would be outstanding on such Series AD Conversion Date less than 2,500,000 Series AC Preferred Shares then no Series AD Preferred Shares shall be converted into Series AC Preferred Shares.

***Priority:***

The First Preferred Shares rank in priority to all other shares of BCE Inc. with respect to the payment of dividends and with respect to the distribution of assets in the event of the liquidation, dissolution or winding-up of BCE Inc. Each series of First Preferred Shares ranks in such respects on a parity with every other series of First Preferred Shares.

***Tax on Preferred Share Dividends:***

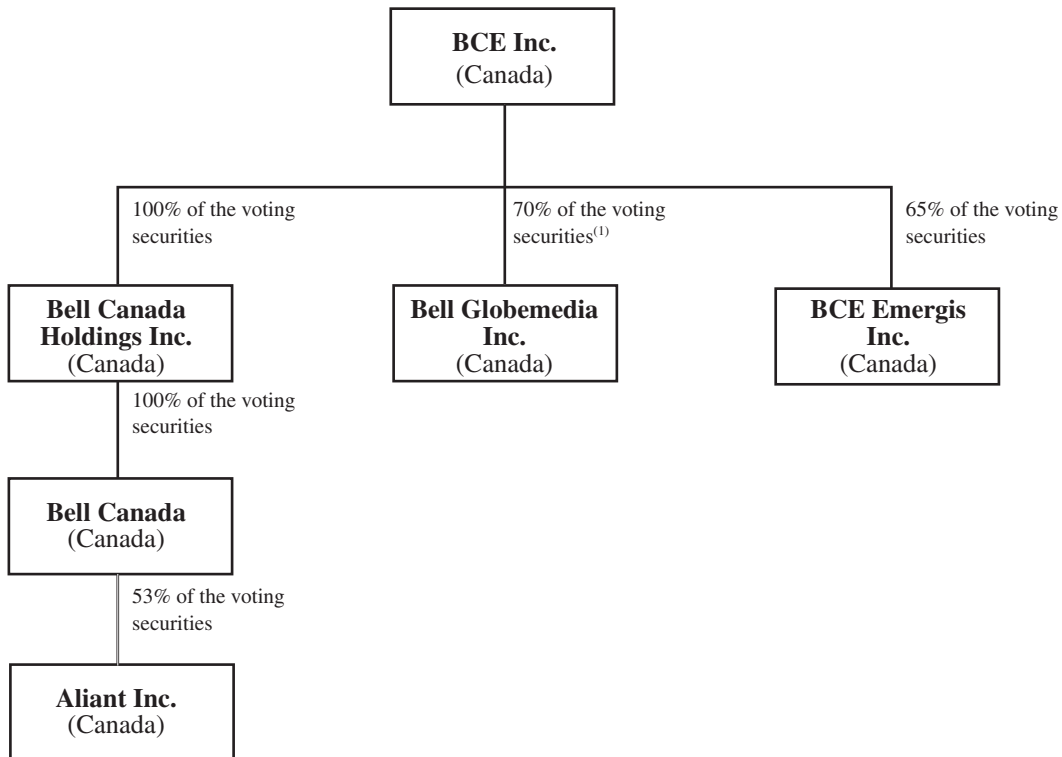
BCE Inc. will elect, in the manner and within the time provided under Part VI.1 of the *Income Tax Act* (Canada), to pay tax at a rate such that dividends received by corporate shareholders on Series AC Preferred Shares and Series AD Preferred Shares will not be subject to Part IV.1 of such Act.

## BCE INC.

BCE Inc. was formed in 1983 under the *Canada Business Corporations Act* (“CBCA”) to create a holding company for Bell Canada, which has been in existence since 1880. BCE Inc. has its principal and registered offices at 1000, rue de La Gauchetière Ouest, bureau 3700, Montréal (Québec) H3B 4Y7.

BCE Inc., through its subsidiaries and associated companies (collectively, “BCE”), is Canada’s largest communications company. BCE has 25 million customer connections through the wireline, wireless, data/Internet and satellite services it provides, largely under the Bell brand. BCE leverages those connections with extensive content creation capabilities through Bell Globemedia Inc. (“Bell Globemedia”) which features some of the strongest brands in the industry — CTV, Canada’s leading private broadcaster and The Globe and Mail, the leading Canadian daily national newspaper. As well, BCE has e-commerce capabilities provided under the BCE Emergis brand. BCE Inc. shares are listed in Canada, the United States and Europe.

The intercorporate relationships among BCE Inc. and its major subsidiaries as of December 31, 2002 were as follows:



(1) As a result of the transfer of the Sympatico.ca portal from Bell Globemedia to Bell Canada and the additional equity invested by Bell Globemedia’s shareholders, BCE Inc.’s ownership will be reduced to 68.5%. See “Recent Developments — Bell Globemedia Transactions”.

## RECENT DEVELOPMENTS

### Summary of Fourth Quarter and Annual 2002 Unaudited Results

BCE Inc.'s unaudited consolidated results for the three months and twelve months ended December 31, 2002, along with the comparative figures for the corresponding period of 2001, are summarized below:

	Three months ended December 31		Twelve months ended December 31	
	2002	2001	2002	2001
	(millions of dollars, except per share amounts)			
	(unaudited)		(unaudited)      (audited)	
<b>Operating revenues</b>				
Bell Canada .....	4,532	4,536	17,489	17,202
Bell Globemedia .....	379	354	1,290	1,203
BCE Emergis .....	131	181	540	656
BCE Ventures .....	282	287	1,064	1,044
Corporate and other, including intercompany eliminations.....	<u>(152)</u>	<u>(245)</u>	<u>(615)</u>	<u>(765)</u>
<b>Total operating revenues</b> .....	<u>5,172</u>	<u>5,113</u>	<u>19,768</u>	<u>19,340</u>
<b>Earnings (loss) from continuing operations</b>				
Bell Canada .....	1,407	(101)	2,423	663
Bell Globemedia .....	(493)	(25)	(492)	(150)
BCE Emergis .....	7	(45)	(51)	(281)
BCE Ventures .....	32	41	131	270
Corporate and other, including intercompany eliminations.....	<u>(118)</u>	<u>40</u>	<u>(113)</u>	<u>3,069</u>
<b>Total earnings (loss) from continuing operations</b> .....	835	(90)	1,898	3,571
<b>Discontinued operations</b> .....	917	(195)	577	(3,057)
<b>Dividends on preferred shares</b> .....	<u>(16)</u>	<u>(14)</u>	<u>(59)</u>	<u>(64)</u>
<b>Net earnings (loss) applicable to common shares</b> .....	<u>1,736</u>	<u>(299)</u>	<u>2,416</u>	<u>450</u>
<b>Net earnings (loss) per common share-basic</b>				
Continuing operations .....	0.92	(0.13)	2.15	4.34
Net earnings (loss) .....	<u>1.92</u>	<u>(0.37)</u>	<u>2.74</u>	<u>0.56</u>
<b>Average number of common shares outstanding (millions)</b> .....	<u>909.1</u>	<u>808.5</u>	<u>847.9</u>	<u>807.9</u>

### Financial Review

#### *Operating revenues*

When compared to the fourth quarter of 2001, operating revenues were up 1.2% in the fourth quarter of 2002. On a year-to-date basis, operating revenues were up 2.2% in 2002.

- Bell Canada continues to generate revenue growth from its wireless, data and direct-to-home satellite ("DTH") services, driven primarily by an increase in the subscriber base. In 2002, cellular and PCS subscribers grew 13% to reach 3.9 million, DTH subscribers grew 22% to reach 1.3 million and High-speed Internet subscribers rose 47% to reach 1.1 million. Enterprise data demand continues to be soft as enterprise customers in the key segments that Bell Canada serves have not returned to the marketplace, choosing instead to use existing capacity rather than expanding. Bell Canada's market share, however, remains stable and growth continues to move at or above market rates.
- The positive impact from Bell Canada's growth services was offset by a decline in revenues from its traditional wireline services (local and access and long distance services). The decline in local and access revenues can be attributed to the impact of the recent Canadian Radio-television and Telecommunications Commission ("CRTC") decisions as well as a 1.1% decrease in the network access service lines in service.
- At Bell Globemedia, the strong performance within the television division complemented the impact of the CFCF-TV, CKY-TV and ROB TV acquisitions made in the latter part of 2001.

- BCE Emergis Inc. continues to show a decline in revenues due to an uncertain business environment, merger activities within its eHealth client base and the difficulty of signing large projects.

#### *Net earnings*

When compared to the fourth quarter of 2001, net earnings were \$2 billion higher in the fourth quarter of 2002. On a year-to-date basis, net earnings were also \$2 billion higher in 2002.

- Net earnings were positively impacted by the improvement in EBITDA<sup>(1)</sup> of 4.7% in the fourth quarter of 2002 and 5.2% on a year-to-date basis.
- BCE's continued focus on productivity has led to total improvements of approximately \$140 million for the fourth quarter of 2002 (\$655 million on a year-to-date basis), which were the key source for the growth in EBITDA.
- EBITDA margins were, however, negatively impacted by BCE's continued focus on growth services and product offerings that generate lower margins than the traditional wireline services.
- Net earnings were negatively impacted by an increase in amortization expense resulting from the significant capital expenditures incurred in 2001, higher interest expense as a result of higher consolidated average debt levels and a lower pension credit, primarily due to a reduction in the estimated long-term rate of return on plan assets.
- Most of the \$2 billion improvement in net earnings in the fourth quarter of 2002 can be attributed to after-tax net gains or losses from non-recurring items which, in the fourth quarter of 2002, amounted to a net gain of \$1.3 billion, compared to a net loss of \$644 million for the same period last year. On a year-to-date basis, \$1.8 billion of the \$2 billion improvement in net earnings in 2002 can be attributed to after-tax net gains or losses from non-recurring items which, in 2002, amounted to a net gain of \$882 million, compared to a net loss of \$956 million for the same period last year.

Refer to the fourth quarter and annual 2002 unaudited consolidated financial statements of BCE Inc. starting on page F-1 in this short form prospectus for more information on the unaudited results and the significant events that impacted the unaudited results.

#### **Sale of Directories Business**

On November 29, 2002, BCE Inc. announced the closing of the previously announced sale of the directories business carried on by certain affiliates of Bell Canada for \$3 billion paid in cash (subject to post-closing adjustment for working capital) to an entity ultimately controlled by Kohlberg Kravis Roberts & Co. L.P. and the Ontario Teachers' Merchant Bank, the private equity arm of the Ontario Teachers' Pension Plan Board. The sale included the print directories business (the "Print Directories Business") previously carried on by Bell Canada's wholly-owned subsidiary, Bell ActiMedia Inc. ("Bell ActiMedia"), including 209 print White Pages and Yellow Pages directories in Ontario and Québec and Bell ActiMedia's 12.86% interest in the Aliant ActiMedia general partnership. The sale also included the electronic yellowpages.ca, canadatollfree.ca and Canada411.ca directories managed and operated by Sympatico Inc. ("Sympatico").

In connection with the sale, Bell Canada entered into certain transitional and long-term operating agreements relating to the Print Directories Business. Sympatico and Bell Canada also entered into certain Internet website linking and operational agreements relating to the electronic directories.

A wholly-owned subsidiary of Bell Canada invested approximately \$91 million to acquire an approximate 10% equity interest in the post-sale directories business.

<sup>(1)</sup> "EBITDA" is defined as operating revenues less operating expenses and therefore reflects earnings before interest, taxes, depreciation and amortization, as well as any non-recurring items. BCE uses "EBITDA", amongst other measures, to assess the operating performance of its on-going business. The term "EBITDA" does not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. EBITDA should not be construed as the equivalent of net cash flows from operating activities.



### **Purchase of SBC's Minority Interest in Bell Canada and Funding**

On December 2, 2002, BCE Inc. completed the purchase from Ameritech Canada Business Trust ("Ameritech Trust"), an affiliate of SBC Communications Inc. ("SBC"), of an approximate 16% interest in Bell Canada (the "Remaining SBC Interest") for \$4.99 billion. The purchase resulted from the exercise by BCE Inc., on November 11, 2002, of an option granted by Ameritech Trust to BCE Inc. in respect of the Remaining SBC Interest. With the closing of this transaction, BCE Inc. now indirectly owns 100% of Bell Canada's outstanding common shares. BCE Inc. paid the \$4.99 billion purchase price with proceeds resulting from the public issuance on August 12, 2002 of common shares, the public issuance on October 30, 2002 of notes, the sale of Bell Canada's directories business on November 29, 2002 and the issuance to Ameritech Trust on December 2, 2002 of common shares.

### **VarTec Litigation**

On December 2, 2002, VarTec Telecom, Inc. and VarTec Holding Company (collectively, "VarTec") filed a lawsuit against BCE Inc., BCE Ventures Inc., a wholly-owned subsidiary of BCE Inc., and the President of BCE Ventures Inc. in the United States District Court for the Northern District of Texas (Dallas division). The complaint alleges various claims, principally fraud and violations of the anti-fraud provisions of the United States *Securities Exchange Act of 1934* in relation to VarTec's purchase from Teleglobe Inc. and its subsidiaries ("Teleglobe") of Excelcom, Inc., Excel Telecommunications (Canada) Inc. and Telco Communications Group, Inc. The complaint alleges, among other things, that the defendants misrepresented Teleglobe's financial status, Teleglobe's ability to assume certain liabilities associated with the transaction and that BCE Inc. would provide ongoing financial support to Teleglobe. The complaint claims that Teleglobe's liabilities to VarTec arising out of the transaction could be in excess of US\$250 million and also seeks punitive damages, but asserts no specific amount of damages. In February 2003, VarTec amended its complaint to remove a series of causes of action included in the December 2, 2002 complaint, including breach of contract and that the Court should disregard Teleglobe as a corporate entity and hold BCE Inc. responsible for the aforementioned liabilities as Teleglobe's alter ego.

While the final outcome of any legal proceeding cannot be predicted with certainty, based upon information currently available, BCE Inc., BCE Ventures Inc. and the President of BCE Ventures Inc. are of the view that they have strong defences in respect of the foregoing lawsuit and they intend to vigorously defend their position.

### **CRTC Decision on Bundling**

On December 12, 2002, the CRTC released Decision 2002-76, "Regulatory safeguards with respect to incumbent affiliates, bundling by Bell Canada and related matters" (the "Decision"). The Decision makes several important changes to the regulatory regime for Bell Canada and its affiliates.

In the Decision, the CRTC ruled, among other things, that contracts, offered by Bell Canada, or affiliates such as BCE Nexxia Inc. ("BCE Nexxia"), which bundle tariffed and non-tariffed products and services, must receive prior CRTC approval. This means that all such contracts currently in existence must be filed with the CRTC for regulatory approval and that all new contracts must also receive CRTC approval prior to implementation. The CRTC is prepared to consider such tariff applications without public notice and process them as expeditiously as possible granting interim approval where appropriate. The Decision also extends to BCE Nexxia the same requirements for tariff approval for products and services offered in Bell Canada's operating territory as currently exist for Bell Canada.

While the Decision increases the regulatory burden for Bell Canada and its affiliates at both the wholesale and retail levels in highly competitive markets, it is not currently possible to quantify the financial impacts of the Decision and, in any event, such financial impacts cannot be isolated from the normal risk of loss attributable to competition generally.

### **Review of Foreign Ownership Rules**

In November 2002, Industry Canada issued a discussion paper designed to seek views as to whether the current foreign investment restrictions included in the *Telecommunications Act* should be modified. The industry participants have been requested to make representations to the House Standing Committee on Industry, Science and Technology (the "Committee") starting January 27, 2003. On February 18, 2003, in its submission to the Committee, BCE Inc. indicated that it was open to liberalized foreign ownership in the communications industry. The Committee is expected to complete its review and make recommendations to the Minister of Industry in March of 2003 or later. A similar process has been initiated by the House of Commons Standing Committee on Canadian Heritage as it relates to the *Broadcasting Act*.

Since the reviews by the Industry Canada and Canadian Heritage committees have not yet been completed and since it is impossible to predict their outcome, BCE Inc. is not currently in a position to assess the impact, if any, the recommendations of the committees might have on the BCE Inc. group of companies.

### **Bell Globemedia Transactions**

On February 7, 2003, BCE Inc. announced that it had entered into transactions pursuant to which the Sympatico.ca portal would be transferred from Bell Globemedia to Bell Canada. Bell Globemedia will continue to provide content services to the Sympatico site under commercial agreements.

BCE Inc. and The Woodbridge Company Limited will each invest a total of \$50 million in new common equity of Bell Globemedia in order to provide a stable financial base from which it can operate autonomously. Half of the equity, or \$25 million from each of the shareholders, will be funded from the conversion of shareholder advances made in 2002. The remaining \$25 million of equity per shareholder will be funded in cash.

As a result of the transfer of the portal into Bell Canada and the additional equity invested by the two shareholders, BCE Inc.'s ownership in Bell Globemedia will be reduced to 68.5%.

On February 11, 2003, Bell Globemedia announced that it will hold an approximate 15% equity interest in Maple Leafs Sports and Entertainment ("MLSE"), as a result of the conversion of certain shareholder loans and the reorganization of MLSE. The equity participation in MLSE by Bell Globemedia is subject to certain third party and regulatory approvals.

### **USE OF PROCEEDS**

The net proceeds from the sale of the 6,000,000 Series AC Preferred Shares to the public estimated at \$148,110,000 after deducting expenses of issue will be used to redeem a portion of the outstanding Cumulative Redeemable First Preferred Shares, Series P of BCE Inc. Any portion of the net proceeds not used by April 30, 2003 for such redemption shall be used to repay indebtedness under credit facilities made available to BCE Inc. in connection with the acquisition of SBC's indirect minority interest in Bell Canada. The purchase price of \$357,000,000 of the 14,000,000 Series AC Preferred Shares to be acquired by specified purchasers, if BCE Inc. exercises the Option, will be paid to BCE Inc. from the proceeds of the repurchase by BCE Inc. of its 14,000,000 Series U Preferred Shares held by such purchasers. Therefore, there will be no additional proceeds to BCE Inc. from the sale of such 14,000,000 Series AC Preferred Shares (see "Plan of Distribution").

### **EARNINGS COVERAGES**

BCE Inc.'s dividend requirements on all of its preferred shares, after giving effect to the issue of the Series AC Preferred Shares, the repurchase of all of the Series U Preferred Shares, subject to the exercise of the Option by BCE Inc., and adjusted to a before-tax equivalent using an effective income tax rate of 37%, amounted to approximately \$1,329 million, for the 12 months ended December 31, 2001, approximately \$1,252 million, for the 12 months ended September 30, 2002 and approximately \$1,231 million, for the 12 months ended December 31, 2002.

BCE Inc.'s interest requirements, after giving effect to the issuance of all long-term debt and repayment or redemption thereof since December 31, 2001, amounted to \$1,194 million for the 12 months ended December 31, 2001, \$1,141 million for the 12 months ended September 30, 2002 and \$1,121 million for the 12 months ended December 31, 2002.

BCE Inc.'s earnings before interest, income tax and non-controlling interest for the 12 months ended December 31, 2001, September 30, 2002 and December 31, 2002 were \$3,411 million, \$2,678 million and \$5,777 million, respectively, which is 2.57 times, 2.14 times and 4.69 times BCE Inc.'s aggregate preferred dividend and interest requirements for these periods.

BCE Inc.'s earnings before interest, income tax, non-controlling interest and discontinued operations for the 12 months ended December 31, 2001, September 30, 2002 and December 31, 2002 were \$6,468 million, \$3,213 million and \$5,200 million, respectively, which is 4.87 times, 2.57 times and 4.23 times BCE Inc.'s aggregate preferred dividend and interest requirements for these periods.

## PLAN OF DISTRIBUTION

Under an agreement dated February 12, 2003 (the “Underwriting Agreement”) between BCE Inc. and RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc. and Merrill Lynch Canada Inc. as underwriters (the “Underwriters”), BCE Inc. has agreed to sell and the Underwriters have agreed to purchase on February 28, 2003, or on such later date as may be agreed upon, but in any event not later than April 3, 2003, all but not less than all of the 6,000,000 Series AC Preferred Shares offered to the public hereby at a price of \$25.50 per share, payable in cash to BCE Inc. against delivery of the Series AC Preferred Shares, and BCE Inc. has agreed to pay the Underwriters a fee equal to \$0.255 per Series AC Preferred Share sold to certain institutions and \$0.765 per share for all other Series AC Preferred Shares purchased by the Underwriters. All fees payable to the Underwriters will be paid on account of services rendered in connection with the offering and will be paid out of the general funds of BCE Inc.

The obligations of the Underwriters under the Underwriting Agreement may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated by them or BCE Inc. upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all the Series AC Preferred Shares if any Series AC Preferred Shares are purchased under the Underwriting Agreement.

On February 12, 2003, the holders of the 14,000,000 Series U Preferred Shares outstanding granted to BCE Inc. an option to purchase all of such Series U Preferred Shares (the “Option”) at a price of \$25.50 per share. The exercise of the Option by BCE Inc. is conditional upon the investment by such holders of the proceeds to be received from BCE Inc. as consideration for the sale of the Series U Preferred Shares, upon the exercise of the Option by BCE Inc., in an equal number of Series AC Preferred Shares to be issued by BCE Inc. at the price of \$25.50 per share. Should BCE Inc. elect to exercise the Option, it is currently expected that such exercise would be effective as of the date of closing of the issue to the public of the 6,000,000 Series AC Preferred Shares. In addition to the 6,000,000 Series AC Preferred Shares to be issued to the public by BCE Inc., this short form prospectus also qualifies the 14,000,000 Series AC Preferred Shares that would be issued to the holders of the Series U Preferred Shares if BCE Inc. exercises the Option. However, there is no assurance that all or part of such 14,000,000 Series AC Preferred Shares will be so issued and the issuance of any of such shares is not a condition of closing of the issue to the public of the 6,000,000 Series AC Preferred Shares also qualified by this short form prospectus. No underwriting fee will be paid to the Underwriters by BCE Inc. in respect of the issue of the Series AC Preferred Shares to the holders of the Series U Preferred Shares.

The Series AC Preferred Shares have not been and will not be registered under the United States *Securities Act of 1933*, as amended (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Each Underwriter has agreed that, except as permitted by the Underwriting Agreement, it will not offer, sell or deliver the Series AC Preferred Shares, (i) as part of their distribution at anytime or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Series AC Preferred Shares during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Series AC Preferred Shares within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after the commencement of the offering, an offer or sale of Series AC Preferred Shares within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act. Each holder of Series U Preferred Shares having granted the Option to BCE Inc. is not a U.S. person, will not purchase the Series AC Preferred Shares in connection with the Option with a view to distribution or for the account or benefit of a U.S. person and has granted the Option and will purchase any Series AC Preferred Shares in connection with the Option outside the United States. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In connection with this offering and subject to the foregoing and to applicable law, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series AC Preferred Shares at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

BCE Inc. and the Underwriters have acknowledged in the Underwriting Agreement that the positions of BCE Inc. and the plaintiffs in the lawsuit described in the 2002 Q3 MD&A under the heading “Legal Proceedings — Teleglobe Lending Syndicate Lawsuit” are not affected by entering into the Underwriting Agreement and signing this short form prospectus.

## RELATIONSHIP BETWEEN ISSUER AND UNDERWRITERS

RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc. and National Bank Financial Inc. are subsidiaries or affiliates of lenders (the “Lenders”) that have made credit facilities (the “Credit Facilities”) available to BCE Inc., including a \$1.135 billion bridge facility in connection with the acquisition of SBC’s indirect minority interest in Bell Canada. As at February 12, 2003, a total amount of approximately \$400 million was outstanding under the Credit Facilities. BCE Inc. is not and has not been in default of its obligations to the Lenders under the Credit Facilities. BCE Inc. may be considered a connected issuer to each of RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc. and National Bank Financial Inc. for purposes of securities laws in certain Canadian provinces. The total proceeds to be received by BCE Inc. from this Offering may have to be used to reduce indebtedness under the Credit Facilities. See “Use of Proceeds”. The decision to distribute Series AC Preferred Shares and the determination of the terms and conditions of this offering were made through negotiations between BCE Inc. and the Underwriters without the involvement of the Lenders. All of the Underwriters participated in the due diligence review of BCE and in the process relating to the determination of the purchase price of the Series AC Preferred Shares. The Underwriters will derive no benefit from this Offering other than the remuneration described under “Plan of Distribution” payable by BCE Inc.

All of the Underwriters or their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking, financial advisory and investment banking services, for BCE Inc. and its affiliates in the ordinary course of business for which they have received or may receive customary compensation.

All of the Underwriters of the present offering are subsidiaries or affiliates of certain of the plaintiffs in the US\$1.19 billion lawsuit filed against BCE Inc. described in the 2002 Q3 MD&A under the heading “Legal Proceedings — Teleglobe Lending Syndicate Lawsuit”. The interests of such affiliates of the Underwriters in this litigation are adverse to the interests of BCE Inc. and the holders of its equity and debt securities including the eventual holders of the Series AC Preferred Shares offered hereby.

James E. Newall, O.C., Guy Saint-Pierre, O.C. and Victor L. Young, O.C. are members of the board of directors of BCE Inc. and are also members of the board of directors of the bank which is the parent of RBC Dominion Securities Inc., one of the Underwriters of this Offering. Guy Saint-Pierre, O.C., is the chairman of the board of such bank. In addition, Anthony S. Fell, a member of the board of BCE Inc., is also chairman of RBC Dominion Securities Inc. At meetings of the board of directors of BCE Inc., these four directors excused themselves and did not participate in the portion of the board meetings dealing with the Credit Facilities and the Teleglobe Lending Syndicate Lawsuit. On January 7, 2003, the board of directors of BCE Inc. announced the appointment as directors of BCE Inc. of André Bérard, chairman of the board of directors of the bank which is the parent of National Bank Financial Inc. and of the Honourable Edward C. Lumley, vice chairman of BMO Nesbitt Burns Inc. Such individuals have not participated in any meeting of the board of directors of BCE Inc. dealing with the Credit Facilities and the Teleglobe Lending Syndicate Lawsuit.

## CONSOLIDATED CAPITALIZATION

The following table sets out the share and loan capital of BCE Inc. as at December 31, 2001 and 2002:

	<u>As at December 31, 2001</u>	<u>As at December 31, 2002</u>
	(\$ millions)	(\$ millions) (unaudited)
Long-term debt <sup>(1)</sup> .....	16,537	15,091
Non-controlling interest .....	5,625	3,596
Shareholders' Equity — Preferred shares .....	1,300	1,510
— Common shares .....	13,827	16,520
— Contributed surplus .....	980	980
— Currency translation adjustment .....	(20)	10
— Retained earnings .....	712	(6,149)

(1) Includes current portion of long-term debt due within one year of \$1,676 million and \$1,696 million at December 31, 2001 and 2002, respectively.

Since December 31, 2002, the following changes have occurred in the consolidated capitalization of BCE Inc.; the issuance by Bell Canada of \$600 million of 5.50% Series M-16 Debentures on February 12, 2003; the repayment by Bell Canada of 300 million Swiss Francs of 7.36% Series 6 Debentures on February 5, 2003.

## DESCRIPTION OF SHARE CAPITAL

The articles of BCE Inc. provide that its authorized share capital shall be divided into an unlimited number of common shares (the “Common Shares”), an unlimited number of Class B Shares, an unlimited number of First Preferred Shares issuable in series, and an unlimited number of Second Preferred Shares issuable in series, all without nominal or par value.

### Common Shares

Holders of Common Shares are entitled to one vote per share at all meetings of shareholders, except meetings at which only holders of other classes or series of shares of BCE Inc. are entitled to vote. Subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of BCE Inc., holders of Common Shares are entitled to receive such dividends payable in money, property, or by the issue of fully paid shares of BCE Inc. as may be declared by its board of directors, and they are also entitled to receive the remaining property of BCE Inc. upon liquidation, dissolution or winding-up. Holders of Common Shares have no pre-emptive, redemption or conversion rights. All outstanding Common Shares of BCE Inc. are fully paid and non-assessable.

### First Preferred Shares

The board of directors of BCE Inc. may from time to time issue First Preferred Shares in one or more series and determine for any such series its designation, number of shares and respective rights, privileges, restrictions and conditions. The First Preferred Shares rank in priority to all other shares of BCE Inc. with respect to the payment of dividends and with respect to the distribution of assets in the event of the liquidation, dissolution or winding-up of BCE Inc. Each series of First Preferred Shares ranks in such respects on a parity with every other series of First Preferred Shares.

The holders of First Preferred Shares do not have the right to receive notice of, attend, or vote at any meeting of shareholders except to the extent otherwise provided in the articles of incorporation of BCE Inc. with respect to any series of First Preferred Shares, or when the holders of First Preferred Shares are entitled to vote separately as a class or as a series as provided in the CBCA. In connection with any matter requiring the approval of the First Preferred Shares as a class, the holders of existing series of First Preferred Shares which are outstanding are entitled to one vote in respect of each First Preferred Share held. BCE Inc. may, without the approval of the holders of the First Preferred Shares, as a class, create any new class of shares ranking on a parity with the First Preferred Shares. Holders of First Preferred Shares have no pre-emptive rights. All outstanding First Preferred Shares of BCE Inc. are fully-paid and non-assessable.

The provisions attaching to the First Preferred Shares may be repealed, altered, modified or amended with such approval as may then be required by the CBCA, currently being at least two thirds of the votes cast at a meeting or adjourned meeting of the holders of such shares duly called for the purpose and at which a quorum is present.

## **Second Preferred Shares**

The Second Preferred Shares are identical to the First Preferred Shares but are junior to the First Preferred Shares. There are no Second Preferred Shares outstanding as of the date of this short form prospectus.

## **Class B Shares**

The holders of Class B Shares are not entitled to notice of, or to attend or vote at, any meeting of shareholders, except as may be required by the CBCA. Subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of BCE Inc., holders of Class B Shares are entitled to receive such dividends payable in money, property, or by the issue of fully paid shares of BCE Inc. as may be declared by its board of directors, and they are also entitled to receive on an equal basis share for share with the holders of the Common Shares the remaining property of BCE Inc. upon liquidation, dissolution or winding-up.

A holder of Class B Shares has the right, at his option, to convert at any time and from time to time, all or part of his Class B Shares into Common Shares, on the basis of one Common Share for each Class B Share. Holders of Class B Shares have no pre-emptive or redemption rights. There are no Class B Shares outstanding as of the date of this short form prospectus.

## **DETAILS OF THE OFFERING**

### **General**

On January 29, 2003, the board of directors of BCE Inc. authorized the creation of 20,000,000 Series AC Preferred Shares and 20,000,000 Series AD Preferred Shares of BCE Inc. The Series AC Preferred Shares offered hereby and the Series AD Preferred Shares will have attached thereto the series provisions summarized below. BCE Inc. will furnish upon request a copy of the text of the provisions attaching to the Series AC Preferred Shares and the Series AD Preferred Shares.

20,000,000 of the Series AC Preferred Shares are issuable immediately and 20,000,000 of the Series AD Preferred Shares are issuable upon conversion of such Series AC Preferred Shares.

### **Details of the Series AC Preferred Shares**

#### ***Definition of Terms***

The following definitions are relevant to the Series AC Preferred Shares:

“Dividend Payment Date” means the first day of each of March, June, September and December in each year and the first Dividend Payment Date shall be June 1, 2003.

“Government of Canada Yield” on any date means the average of the yields determined by two registered Canadian investment dealers, selected by BCE Inc., as being the yield to maturity on such date compounded semi-annually and calculated in accordance with generally accepted financial practice, which a non-callable Government of Canada Bond would carry, if issued in Canadian dollars in Canada at 100% of its principal amount on such date with a term to maturity of five years.

“Subsequent Fixed Rate Period” means for the initial Subsequent Fixed Rate Period, the period commencing on March 1, 2008 and ending on and including February 28, 2013 and for each succeeding Subsequent Fixed Rate Period, the period commencing on the day immediately following the end of the immediately preceding Fixed Rate Period and ending on and including the last day of February in the fifth year thereafter.

#### ***Dividends***

Until March 1, 2008, the holders of the Series AC Preferred Shares will be entitled to receive fixed cumulative preferred cash dividends, as and when declared by the board of directors of BCE Inc., in an annual amount equal to \$1.385 per share which will accrue from the date of issue and will be payable quarterly on each Dividend Payment Date. Assuming an issue date of February 28, 2003, the initial dividend, if declared, will be payable on June 1, 2003, and will amount to \$0.34625 per share.

From March 1, 2008, the holders of Series AC Preferred Shares will be entitled to receive fixed cumulative preferred cash dividends as and when declared by the board of directors of BCE Inc., in the amount per share per

annum determined by multiplying the annual dividend rate by \$25.00, payable quarterly on each Dividend Payment Date.

BCE Inc. shall determine on the 25th day prior to the first day of each Subsequent Fixed Rate Period, the annual dividend rate for each Subsequent Fixed Rate Period, which annual dividend rate shall not be less than 80% of the Government of Canada Yield in effect at 10:00 A.M. (Montréal time) on the said 25th day prior to the first day of each Subsequent Fixed Rate Period and give notice thereof: (i) within one (1) business day to all stock exchanges in Canada on which the Series AC Preferred Shares are listed for trading or if the Series AC Preferred Shares are not listed on a stock exchange in Canada, to the Investment Dealers Association of Canada; and (ii) within three (3) business days to the holders of the Series AC Preferred Shares by publication once in the national edition of *The Globe and Mail* in the English language and once in the City of Montréal in both the French and English languages in a daily newspaper of general circulation in Montréal; provided that if any such newspaper is not being generally circulated at that time, such notice shall be published in another equivalent publication.

### ***Redemption***

The Series AC Preferred Shares will not be redeemable prior to March 1, 2008. The Series AC Preferred Shares will be redeemable at the option of BCE Inc., in whole but not in part, subject to applicable law and to ‘Restrictions on Dividends and Retirement of Shares’, on March 1, 2008 or on March 1 in every fifth year thereafter at \$25.00 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date of redemption. Notice of the redemption will be given by BCE Inc. not less than 45 days nor more than 60 days prior to the date fixed for redemption.

### ***Conversion of Series AC Preferred Shares into Series AD Preferred Shares***

Holders of Series AC Preferred Shares shall have the right, at their option, on March 1, 2008 and on March 1 in every fifth year thereafter (a ‘Series AC Conversion Date’), to convert, subject to the terms and conditions attaching to such shares, all or any Series AC Preferred Shares registered in their name into Series AD Preferred Shares of BCE Inc. on the basis of one Series AD Preferred Share for each Series AC Preferred Share. The conversion of Series AC Preferred Shares may be effected by surrender of the certificate(s) representing the same not earlier than 45 days prior to the Series AC Conversion Date but not later than the close of business on the 10th day preceding the Series AC Conversion Date at any office of any transfer agent of BCE Inc. at which the Series AC Preferred Shares are transferable accompanied by payment or evidence of payment of the tax (if any) payable, as provided in the terms and conditions attaching to the Series AC Preferred Shares, and a written instrument of surrender in form satisfactory to BCE Inc. duly executed by the holder or his attorney authorized in writing.

BCE Inc. shall, not less than 45 days nor more than 60 days prior to the applicable Series AC Conversion Date, give notice in writing to the then holders of the Series AC Preferred Shares of the above-mentioned conversion right.

Holders of Series AC Preferred Shares shall not be entitled to convert their shares into Series AD Preferred Shares if, following the close of business on the 10th day preceding a Series AC Conversion Date, BCE Inc. determines that there would remain outstanding on a Series AC Conversion Date less than 2,500,000 Series AD Preferred Shares, after having taken into account all Series AC Preferred Shares tendered for conversion into Series AD Preferred Shares and all Series AD Preferred Shares tendered for conversion into Series AC Preferred Shares. BCE Inc. shall give notice in writing thereof to all the affected holders of the Series AC Preferred Shares prior to the applicable Series AC Conversion Date and will issue and deliver, prior to such Series AC Conversion Date, to the holders of Series AC Preferred Shares who have tendered Series AC Preferred Shares for conversion, new certificates evidencing the Series AC Preferred Shares tendered for conversion. Furthermore, if following the close of business on the 10th day preceding a Series AC Conversion Date BCE Inc. determines that there would remain outstanding on a Series AC Conversion Date less than 2,500,000 Series AC Preferred Shares after having taken into account all Series AC Preferred Shares tendered for conversion into Series AD Preferred Shares and all Series AD Preferred Shares tendered for conversion into Series AC Preferred Shares then, all, but not part, of the remaining outstanding Series AC Preferred Shares shall automatically be converted into Series AD Preferred Shares on the basis of one Series AD Preferred Share for each Series AC Preferred Share on the applicable Series AC Conversion Date and BCE Inc. shall give notice in writing thereof to the holders of such remaining Series AC Preferred Shares prior to the Series AC Conversion Date.

If BCE Inc. gives notice to the holders of the Series AC Preferred Shares of the redemption on a Series AC Conversion Date of all the Series AC Preferred Shares, BCE Inc. shall not be required to give notice as provided

hereunder to the holders of the Series AC Preferred Shares of the conversion right of holders of Series AC Preferred Shares and the right of any holder of Series AC Preferred Shares to convert such Series AC Preferred Shares shall cease and terminate in that event.

#### ***Purchase for Cancellation***

BCE Inc. may at any time purchase for cancellation all or any part of the Series AC Preferred Shares in the open market through or from an investment dealer or any firm holding membership on a recognized stock exchange, or by private agreement or otherwise, at the lowest price or prices at which in the opinion of the board of directors of BCE Inc. such shares are obtainable.

#### ***Restrictions on Dividends and Retirement of Shares***

BCE Inc. will not, without the approval of the holders of outstanding Series AC Preferred Shares:

- (a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of BCE Inc. ranking junior to Series AC Preferred Shares) on the Common Shares or any other shares of BCE Inc. ranking junior to the Series AC Preferred Shares;
- (b) redeem, purchase or otherwise retire or make any capital distribution on or in respect of the Common Shares or any other shares of BCE Inc. ranking junior to the Series AC Preferred Shares (except out of the net cash proceeds of a substantially concurrent issue of shares of BCE Inc. ranking junior to the Series AC Preferred Shares);
- (c) purchase or otherwise retire less than all the Series AC Preferred Shares then outstanding; or
- (d) redeem, purchase or otherwise retire (except in connection with the exercise of any retraction privilege or mandatory redemption obligation attaching thereto) any other shares of BCE Inc. ranking on a parity with the Series AC Preferred Shares;

unless, in each such case, all cumulative dividends on outstanding Series AC Preferred Shares accrued up to and including the dividend payable for the last completed period for which dividends were payable shall have been declared and paid. Any approval of the holders of the Series AC Preferred Shares required with respect to the foregoing may be given by the affirmative vote of the holders of the majority of the shares present or represented at a meeting, or adjourned meeting, of the holders of Series AC Preferred Shares duly called for the purpose and at which a quorum is present.

#### ***Rights on Liquidation***

In the event of any liquidation, dissolution or winding-up of BCE Inc., or any other distribution of assets of BCE Inc. for the purposes of winding up its affairs, the holders of the Series AC Preferred Shares will be entitled to receive \$25.00 per Series AC Preferred Share plus an amount equal to all accrued and unpaid dividends up to but excluding the date of payment or distribution before any payment or distribution is made to the holders of the Common Shares or any other shares of BCE Inc. ranking junior to the Series AC Preferred Shares. Upon payment of such amounts, the holders of the Series AC Preferred Shares will not be entitled to share in any further distribution of assets of BCE Inc.

#### ***Voting Rights***

The holders of Series AC Preferred Shares will not be entitled (except as otherwise provided by law) to receive notice of, attend, or vote at, any meeting of the shareholders of BCE Inc. unless BCE Inc. shall have failed to pay eight dividends on the Series AC Preferred Shares, whether or not consecutive. In that event, and for only so long as any such dividends remain in arrears, the holders of Series AC Preferred Shares will be entitled to receive notice of and to attend all shareholders' meetings which take place more than sixty (60) days after the date on which the failure first occurred, and to one vote for each share held, except meetings at which only holders of another specified class or series are entitled to vote.

In connection with any action to be taken by BCE Inc. which requires the approval of the holders of Series AC Preferred Shares voting as a series or as part of the class, each such share shall entitle the holder thereof to one vote.



### ***Tax Election***

BCE Inc. will elect, in the manner and within the time provided under Part VI.1 of the *Income Tax Act* (Canada), to pay tax at a rate such that corporate shareholders of Series AC Preferred Shares will not be required to pay tax on dividends received on the Series AC Preferred Shares under Part IV.1 of such Act.

### ***Modification***

The provisions attaching to the Series AC Preferred Shares as a series may be repealed, altered, modified or amended with such approvals as may then be required by the CBCA, currently being at least two-thirds of the votes cast at a meeting or adjourned meeting of the holders of Series AC Preferred Shares duly called for the purpose and at which a quorum is present. The provisions relating to the Series AC Preferred Shares shall not be amended or otherwise changed unless, contemporaneously therewith, the provisions relating to the Series AD Preferred Shares are, to the extent deemed required by BCE Inc., amended or otherwise changed in the same proportion and in the same manner.

## **Details of the Series AD Preferred Shares**

### ***Definition of Terms***

The following definitions are relevant to the Series AD Preferred Shares:

“Banks” means any two of Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada and Toronto-Dominion Bank and any successor of any of them as may be designated from time to time by BCE Inc. by notice given to the transfer agent for the Series AD Preferred Shares, such notice to take effect on, and to be given at least two (2) business days prior to, the commencement of a particular Dividend Period and, until such notice is first given, means Royal Bank of Canada and The Toronto-Dominion Bank.

“Calculated Trading Price” for any month means:

(a) the aggregate of the Daily Adjusted Trading Value for all Trading Days in such Month;

divided by

(b) the aggregate of the Daily Trading Volume for all Trading Days in such Month.

“Daily Accrued Dividend Deduction” for any Trading Day means:

(a) the product obtained by multiplying the dividend on a Series AD Preferred Share applicable in respect of the Month in which the Trading Day falls by the number of days elapsed from but excluding the day prior to the Ex-Dividend Date immediately preceding such Trading Day to and including such Trading Day (or if such Trading Day is an Ex-Dividend Date, by one (1) day);

divided by

(b) the number of days from and including such Ex-Dividend Date to but excluding the following Ex-Dividend Date.

“Daily Adjusted Trading Value” for any Trading Day means:

(a) the aggregate dollar value of all transactions of Series AD Preferred Shares on the Exchange (made on the basis of the normal settlement period in effect on the Exchange) occurring during such Trading Day;

less

(b) the Daily Trading Volume for such Trading Day multiplied by the Daily Accrued Dividend Deduction for such Trading Day.

“Daily Trading Volume” for any Trading Day means the aggregate number of Series AD Preferred Shares traded in all transactions (made on the basis of the normal settlement period in effect on the Exchange) occurring during such Trading Day on the Exchange.

“Deemed Record Date” means the last Trading Day of a month with respect to which no dividend is declared by the board of directors of BCE Inc.

“Dividend Period” means a Month.

“Exchange” means the Toronto Stock Exchange or such other exchange or trading market in Canada as may be determined from time to time by BCE Inc. as being the principal trading market for the Series AD Preferred Shares.

“Ex-Dividend Date” means:

- (a) the Trading Day which, under the rules or normal practices of the Exchange, is designated or recognized as the Ex-Dividend Date relative to any dividend record date for the Series AD Preferred Shares; or
- (b) if the board of directors of BCE Inc. fails to declare a dividend in respect of a Month, the Trading Day which, under the rules or normal practices of the Exchange, would be recognized as the Ex-Dividend Date relative to any Deemed Record Date for the Series AD Preferred Shares.

“Month” means a calendar month.

“Prime” for a Month means the average (rounded to the nearest one-thousandth (1/1000) of one percent (0.001%)) of the Prime Rate in effect on each day of such Month.

“Prime Rate” for any day means the average (rounded to the nearest one-thousandth (1/1000) of one percent (0.001%)) of the annual rates of interest announced from time to time by the Banks as the reference rates then in effect for such day for determining interest rates on Canadian dollar commercial loans made to prime commercial borrowers in Canada. If one of the Banks does not have such an interest rate in effect on a day, the Prime Rate for such day shall be such interest rate in effect for that day of the other Bank; if both Banks do not have such an interest rate in effect on a day, the Prime Rate for that day shall be equal to one and a half percent (1.5%) per annum plus the average yield expressed as a percentage per annum on 91-day Government of Canada Treasury Bills, as reported by the Bank of Canada, for the weekly tender for the week immediately preceding that day; and if both of such Banks do not have such an interest rate in effect on a day and the Bank of Canada does not report such average yield per annum, the Prime rate for that day shall be equal to the Prime Rate for the next preceding day. The Prime Rate and Prime shall be determined from time to time by an officer of BCE Inc. from quotations supplied by the Banks or otherwise publicly available. Such determination shall, in the absence of manifest error, be final and binding upon BCE Inc. and upon all holders of Series AD Preferred Shares.

“Trading Day” means a day on which the Exchange is open for trading or, in any other case, a business day.

**Dividends**

The holders of the Series AD Preferred Shares will be entitled to receive floating adjustable cumulative preferred cash dividends, as and when declared by the board of directors of BCE Inc., which will be payable on the twelfth day of each Month commencing with the Month immediately following the date of issue of the Series AD Preferred Shares. The annual floating dividend rate for the first Month will be equal to 80% of Prime. The dividend rate will float in relation to changes in Prime and will be adjusted upwards or downwards on a monthly basis by an adjustment factor (the “Adjustment Factor”) whenever the Calculated Trading Price of the Series AD Preferred Shares is \$24.875 or less or \$25.125 or more respectively. The maximum monthly adjustment for changes in the Calculated Trading Price will be +/-4.00% of Prime. The annual floating dividend rate applicable for a Month will in no event be less than 50% of Prime or be greater than Prime.

The Adjustment Factor for a Month will be based on the Calculated Trading Price of the Series AD Preferred Shares for the preceding Month determined in accordance with the following table:

<u>If the Calculated Trading Price for the Preceding Month is</u>	<u>The Adjustment Factor as a Percentage of Prime shall be</u>
\$25.50 or more . . . . .	-4.00%
\$25.375 and less than \$25.50 . . . . .	-3.00%
\$25.25 and less than \$25.375 . . . . .	-2.00%
\$25.125 and less than \$25.25 . . . . .	-1.00%
Greater than \$24.875 and less than \$25.125 . . . . .	nil
Greater than \$24.75 to \$24.875 . . . . .	1.00%
Greater than \$24.625 to \$24.75 . . . . .	2.00%
Greater than \$24.50 to \$24.625 . . . . .	3.00%
\$24.50 or less . . . . .	4.00%

The maximum Adjustment Factor for any Month will be +/-4.00% of Prime.

If in any Month there is no trade of at least a board lot of the Series AD Preferred Shares on the Exchange, the Adjustment Factor for the following Month will be nil.

The annual floating dividend rate for a Month will be calculated by BCE Inc. as promptly as practicable, and notice thereof will be given to each stock exchange on which the Series AD Preferred Shares are listed for trading.

### ***Redemption***

The Series AD Preferred Shares will be redeemable at the option of BCE Inc., subject to applicable law and to “Restrictions on Dividends and Retirement of Shares” at any time for cash, in whole but not in part, at BCE Inc.’s option, at \$25.50 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date of redemption. Notice of the redemption will be given by BCE Inc. not less than 45 days nor more than 60 days prior to the date fixed for redemption.

### ***Conversion of Series AD Preferred Shares into Series AC Preferred Shares***

Holders of Series AD Preferred Shares shall have the right, at their option, on March 1, 2013 and on March 1 in every fifth year thereafter (a “Series AD Conversion Date”), to convert, subject to the terms and conditions attaching to such shares, all or any Series AD Preferred Shares registered in their name into Series AC Preferred Shares of BCE Inc. on the basis of one Series AC Preferred Share for each Series AD Preferred Share. The conversion of Series AD Preferred Shares may be effected by surrender of the certificate(s) representing the same not earlier than 45 days prior to the Series AD Conversion Date but not later than the close of business on the 10th day preceding the Series AD Conversion Date at any office of any transfer agent of BCE Inc. at which the Series AD Preferred Shares are transferable accompanied by payment or evidence of payment of the tax (if any) payable, as provided in the terms and conditions attaching to the Series AD Preferred Shares, and a written instrument of surrender in form satisfactory to BCE Inc. duly executed by the holder or his attorney authorized in writing.

BCE Inc. shall, not less than 45 days nor more than 60 days prior to the applicable Series AD Conversion Date, give notice in writing to the then holders of the Series AD Preferred Shares of the above-mentioned conversion right. BCE Inc. shall also give notice as provided under “Details of the Series AC Preferred Shares” of the annual dividend rate applicable to the Series AC Preferred Shares for each Subsequent Fixed Rate Period (as previously defined under “Details of the Series AC Preferred Shares”).

Holders of Series AD Preferred Shares shall not be entitled to convert their shares into Series AC Preferred Shares if, following the close of business on the 10th day preceding a Series AD Conversion Date, BCE Inc. determines that there would remain outstanding on a Series AD Conversion Date less than 2,500,000 Series AC Preferred Shares, after having taken into account all Series AD Preferred Shares tendered for conversion into Series AC Preferred Shares and all Series AC Preferred Shares tendered for conversion into Series AD Preferred Shares. BCE Inc. shall give notice in writing thereof to all the affected holders of the Series AD Preferred Shares prior to the applicable Series AD Conversion Date and will issue and deliver, prior to such Series AD Conversion Date, to the holders of Series AD Preferred Shares who have tendered Series AD Preferred Shares for conversion, new certificates evidencing the Series AD Preferred Shares tendered for conversion. Furthermore, if following the close of business on the 10th day preceding a Conversion Date BCE Inc. determines that there would remain outstanding on a Series AD Conversion Date less than 2,500,000 Series AD Preferred Shares after having taken into account all Series AD Preferred Shares tendered for conversion into Series AC Preferred Shares and all Series AC Preferred Shares tendered for conversion into Series AD Preferred Shares then, all, but not part, of the remaining outstanding Series AD Preferred Shares shall automatically be converted into Series AC Preferred Shares on the basis of one Series AC Preferred Share for each Series AD Preferred Share on the applicable Series AD Conversion Date and BCE Inc. shall give notice in writing thereof to the holders of such remaining Series AD Preferred Shares prior to the Series AD Conversion Date.

If BCE Inc. gives notice to the holders of the Series AD Preferred Shares of the redemption on a Series AC Conversion Date of all the Series AD Preferred Shares, BCE Inc. shall not be required to give notice as provided hereunder to the holders of the Series AD Preferred Shares of the conversion right of holders of Series AD Preferred Shares and the right of any holder of Series AD Preferred Shares to convert such Series AD Preferred Shares shall cease and terminate in that event.

### ***Purchase for Cancellation***

BCE Inc. may at any time purchase for cancellation all or any part of the Series AD Preferred Shares in the open market through or from an investment dealer or any firm holding membership on a recognized stock exchange, or by private agreement or otherwise, at the lowest price or prices at which in the opinion of the board of directors of BCE Inc. such shares are obtainable.

### ***Restrictions on Dividends and Retirement of Shares***

BCE Inc. will not, without the approval of the holders of outstanding Series AD Preferred Shares:

- (a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of BCE Inc. ranking junior to the Series AD Preferred shares) on the Common Shares or any other shares of BCE Inc. ranking junior to the Series AD Preferred Shares;
- (b) redeem, purchase or otherwise retire or make any capital distribution on or in respect of the Common Shares or any other shares of BCE Inc. ranking junior to the Series AD Preferred Shares (except out of the net cash proceeds of a substantially concurrent issue of shares of BCE Inc. ranking junior to the Series AD Preferred Shares);
- (c) purchase or otherwise retire less than all the Series AD Preferred Shares then outstanding; or
- (d) redeem, purchase or otherwise retire (except in connection with the exercise of any retraction privilege or mandatory redemption obligation attaching thereto) any other shares of BCE Inc. ranking on a parity with the Series AD Preferred Shares;

unless, in each such case, all cumulative dividends on outstanding Series AD Preferred Shares accrued up to and including the dividend payable for the last completed period for which dividends were payable shall have been declared and paid. Any approval of the holders of the Series AD Preferred Shares required with respect to the foregoing may be given by the affirmative vote of the holders of the majority of the shares present or represented at a meeting, or adjourned meeting, of the holders of Series AD Preferred Shares duly called for the purpose and at which a quorum is present.

### ***Rights on Liquidation***

In the event of any liquidation, dissolution or winding-up of BCE Inc., or any other distribution of assets of BCE Inc. for the purposes of winding up its affairs, the holders of the Series AD Preferred Shares will be entitled to receive \$25.00 per Series AD Preferred Share plus an amount equal to all accrued and unpaid dividends up to but excluding the date of payment or distribution before any payment or distribution is made to the holders of the Common Shares or any other shares of BCE Inc. ranking junior to the Series AD Preferred Shares. Upon payment of such amounts, the holders of the Series AD Preferred Shares will not be entitled to share in any further distribution of assets of BCE Inc.

### ***Voting Rights***

The holders of Series AD Preferred Shares will not be entitled (except as otherwise provided by law) to receive notice of, attend, or vote at, any meeting of the shareholders of BCE Inc. unless BCE Inc. shall have failed to pay eight dividends on the Series AD Preferred Shares, whether or not consecutive. In that event, and for only so long as any such dividends remain in arrears, the holders of Series AD Preferred Shares will be entitled to receive notice of and to attend all shareholders' meetings which take place more than sixty (60) days after the date on which the failure first occurred, and to one vote for each share held, except meetings at which only holders of another specified class or series are entitled to vote.

In connection with any action to be taken by BCE Inc. which requires the approval of the holders of Series AD Preferred Shares voting as a series or as part of the class, each such share shall entitle the holder thereof to one vote.

### ***Tax Election***

BCE Inc. will elect, in the manner and within the time provided under Part VI.1 of the *Income Tax Act* (Canada), to pay tax at a rate such that corporate shareholders of Series AD Preferred Shares will not be required to pay tax on dividends received on the Series AD Preferred Shares under Part IV.1 of such Act.

### ***Modification***

The provisions attaching to the Series AD Preferred Shares as a series may be repealed, altered, modified or amended with such approvals as may then be required by the CBCA, currently being at least two-thirds of the votes cast at a meeting or adjourned meeting of the holders of Series AD Preferred Shares duly called for the purpose and at which a quorum is present. The provisions relating to the Series AD Preferred Shares shall not be amended or otherwise changed unless, contemporaneously therewith, the provisions relating to the Series AC Preferred Shares are, to the extent deemed required by BCE Inc., amended or otherwise changed in the same proportion and in the same manner.

### **RISK FACTORS**

The purchase of the Series AC Preferred Shares offered hereby involves certain risks which prospective purchasers should take into consideration when making a decision to purchase Series AC Preferred Shares. These risk factors are disclosed in the Safe Harbor Notice, under the heading “Risk Factors”, which has been incorporated by reference into this short form prospectus.

In addition, there is no assurance that any credit rating assigned to the Series AC Preferred Shares issued hereunder will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely by the relevant rating agency. A lowering or withdrawal of such rating may have an adverse effect on the market value of the Series AC Preferred Shares.

### **RATINGS**

The Series AC Preferred Shares are rated Pfd-2 by Dominion Bond Rating Service Limited (“DBRS”), the second of the six standard categories used by DBRS for preferred shares. The Series AC Preferred Shares are rated P-2 by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”), the second of the eight standard categories used by S&P for preferred shares.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. Ratings for preferred shares range from “Pfd-1 (high)” from DBRS and “P-1 (High)” from S&P, which represent the highest quality of securities, to “D” from DBRS and S&P, which represent the lowest quality of securities rated. The Pfd-2 rating for the Series AC Preferred Shares is the second of the three sub-categories within the second of the six standard categories of DBRS and the P-2 rating is the second of the three sub-categories within the second of the eight standard categories of ratings granted by S&P in the Canadian market. Each rating should be evaluated independently of any other rating. The credit ratings accorded to the Series AC Preferred Shares by the rating agencies are not recommendations to purchase, hold or sell Series AC Preferred Shares inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

### **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Ms. Martine Turcotte, Chief Legal Officer of BCE Inc., and of Borden Ladner Gervais LLP, Montréal, at the time of issue, the following is a general summary of the principal Canadian federal income tax considerations generally applicable to a prospective purchaser who, within the meaning of the *Income Tax Act* (Canada) (the “Act”), is resident in Canada and will hold Series AC Preferred Shares or Series AD Preferred Shares, as the case may be, as capital property and deals at arm’s length with BCE Inc. Under the Act, shares, including the Series AC Preferred Shares and Series AD Preferred Shares issued upon conversion of Series AC Preferred Shares, acquired by certain holders, including “restricted financial institutions” (as defined in the Act), registered or licensed investment dealers or corporations controlled by one or more of the foregoing, will generally not be held as capital property by such holders and will be subject to special “mark-to-market” rules.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular purchaser. Accordingly, prospective purchasers are urged to consult their own tax advisors with respect to their particular circumstances.**

This summary is based upon the current provisions of the Act, the regulations thereunder, all specific proposals to amend the Act and the regulations publicly announced by the Minister of Finance prior to the date hereof and the

administrative practices published by Canada Customs and Revenue Agency. This summary does not otherwise take into account any changes in law, whether by legislative, governmental or judicial decision or action, nor does it take into account or consider any provincial, territorial or foreign income tax considerations.

### **Taxation of Dividends**

Dividends (including deemed dividends) received on the Series AC Preferred Shares and Series AD Preferred Shares by an individual will be included in the individual's income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations.

Dividends (including deemed dividends) received on the Series AC Preferred Shares and Series AD Preferred Shares by a corporation other than a "specified financial institution", as defined in the Act, will be included in computing the corporation's income and will generally be deductible in computing the taxable income of the corporation.

However, a private corporation, as defined in the Act, or any other corporation controlled by or for the benefit of an individual or a related group of individuals, will generally be liable to pay a 33 $\frac{1}{3}$ % refundable tax under Part IV of the Act on dividends received (or deemed to be received) on the Series AC Preferred Shares and Series AD Preferred Shares to the extent such dividends are deductible in computing its taxable income.

Dividends (including deemed dividends) received on the Series AC Preferred Shares and Series AD Preferred Shares by a corporation that is a "specified financial institution", within the meaning of the Act, will be included in computing the corporation's income and will generally be deductible in computing the corporation's taxable income, provided the Series AC Preferred Shares and Series AD Preferred Shares are not "term preferred shares" within the meaning of the Act at the time the dividend is paid. A share may be considered a term preferred share if, as a consequence of its terms or conditions, the issuing corporation or any person related thereto or any partnership or trust of which the issuing corporation or a person related thereto is a member or beneficiary "may reasonably be expected at any time to redeem, acquire or cancel, in whole or in part, the share or to reduce its paid-up capital". RBC Dominion Securities Inc. has delivered its opinion of even date herewith that the terms and conditions of the Series AC Preferred Shares and Series AD Preferred Shares are not such that, as a consequence of such terms and conditions, BCE Inc. or a person related thereto or any partnership or trust of which BCE Inc. or a person related thereto is a member or beneficiary may reasonably be expected at any time to redeem, acquire or cancel, in whole or in part, any of the Series AC Preferred Shares or Series AD Preferred Shares or to reduce their respective paid-up capital. Based and relying, in part, on such opinion, the Series AC Preferred Shares and Series AD Preferred Shares will not be, in the opinion of counsel, term preferred shares.

The Series AC Preferred Shares and Series AD Preferred Shares are "taxable preferred shares" as defined in the Act. The terms of the Series AC Preferred Shares and Series AD Preferred Shares require BCE Inc. to make the necessary election under Part VI.1 of the Act so that corporate shareholders will not be subject to tax under Part IV.1 of the Act on dividends paid (or deemed to be paid) by BCE Inc. on the Series AC Preferred Shares and Series AD Preferred Shares. Consequently, provided that such election is made, dividends on the Series AC Preferred Shares and Series AD Preferred Shares received (or deemed to be received) by corporations, including "specified financial institutions", will not be subject to the 10% tax payable under Part IV.1 of the Act.

### **Disposition of Series AC Preferred Shares and Series AD Preferred Shares**

A holder who disposes of or is deemed to dispose of Series AC Preferred Shares and/or Series AD Preferred Shares will generally realize a capital gain (or sustain a capital loss) to the extent that the holder's proceeds of disposition, net of any costs of disposition, exceed (or are less than) the adjusted cost base of such shares to the holder. If the holder is a corporation, any capital loss may in certain circumstances be reduced by the amount of certain dividends, including certain deemed dividends, which have been received on the Series AC Preferred Shares and/or Series AD Preferred Shares. Analogous rules apply to a partnership or trust of which a corporation is a member or beneficiary.

### **Redemption of Series AC Preferred Shares and Series AD Preferred Shares**

If BCE Inc. redeems Series AC Preferred Shares and/or Series AD Preferred Shares, or otherwise acquires or cancels Series AC Preferred Shares and/or Series AD Preferred Shares (other than by a purchase in the open market in the manner in which shares are normally purchased by any member of the public in the open market), the holder will be

deemed to have received a dividend equal to the amount, if any, paid by BCE Inc. in excess of the paid-up capital of such shares at such time as computed for purposes of the Act. The amount of any such deemed dividend will generally not be included in computing the holder's proceeds of disposition for purposes of computing the capital gain or loss arising on disposition of such Series AC Preferred Shares and/or Series AD Preferred Shares. In the case of a corporate holder, it is possible that in certain circumstances all or part of any such deemed dividend may be treated as proceeds of disposition and not as a dividend.

#### **Conversion of Series AC Preferred Shares and Series AD Preferred Shares**

The conversion of the Series AC Preferred Shares into Series AD Preferred Shares and of the Series AD Preferred Shares into Series AC Preferred Shares will not constitute a disposition thereof and the cost to the holder of the Series AD Preferred Shares or Series AC Preferred Shares, as the case may be, acquired on the conversion will be the adjusted cost base to the holder of the converted Series AC Preferred Shares or Series AD Preferred Shares, as the case may be, immediately before the conversion.

#### **ELIGIBILITY FOR INVESTMENT**

In the opinion of Ms. Martine Turcotte, Chief Legal Officer of BCE Inc., and Borden Ladner Gervais LLP, Montréal, the Series AC Preferred Shares will, at the time of issue, qualify as investments under the *Income Tax Act* (Canada) for trusts governed by a registered retirement savings plan, a registered retirement income fund, a registered education savings plan or a deferred profit sharing plan under the *Income Tax Act* (Canada).

#### **LEGAL MATTERS**

Legal matters in connection with the issuance of the Series AC Preferred Shares have been passed upon on behalf of BCE Inc. by Ms. Martine Turcotte, Chief Legal Officer of BCE Inc., and on behalf of the Underwriters by Borden Ladner Gervais LLP, Montréal.

#### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Series AC Preferred Shares offered hereunder is Computershare Trust Company of Canada at its principal offices in Montréal and Toronto.

#### **STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

**BCE INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

**Consolidated Statements of Operations (unaudited)**

<u>For the period ended December 31</u>	<u>Three months</u>		<u>Twelve months</u>	
	<u>2002</u>	<u>2001<sup>(1)</sup></u>	<u>2002</u>	<u>2001<sup>(1)</sup></u>
	(\$ millions, except share amounts)			
<b>Operating revenues</b> .....	5,172	5,113	19,768	19,340
Operating expenses .....	3,259	3,286	12,146	12,098
Amortization expense .....	794	948	3,146	3,826
Net benefit plans credit .....	(8)	(31)	(33)	(121)
Restructuring and other charges (Note 4) .....	395	741	887	980
Total operating expenses .....	<u>4,440</u>	<u>4,944</u>	<u>16,146</u>	<u>16,783</u>
<b>Operating income</b> .....	732	169	3,622	2,557
Other income (expense) (Note 5) .....	2,242	(11)	2,468	4,015
Impairment charge (Note 1) .....	(770)	—	(770)	—
<b>Earnings from continuing operations before the under-noted items</b> . . .	<u>2,204</u>	<u>158</u>	<u>5,320</u>	<u>6,572</u>
Interest expense — long-term debt .....	278	243	1,041	952
— other debt .....	71	12	120	104
Total interest expense .....	<u>349</u>	<u>255</u>	<u>1,161</u>	<u>1,056</u>
<b>Earnings (loss) from continuing operations before income taxes and non-controlling interest</b> .....	1,855	(97)	4,159	5,516
Income taxes .....	753	31	1,593	1,759
Non-controlling interest .....	<u>267</u>	<u>(38)</u>	<u>668</u>	<u>186</u>
<b>Earnings (loss) from continuing operations</b> .....	835	(90)	1,898	3,571
Discontinued operations (Note 6) .....	<u>917</u>	<u>(195)</u>	<u>577</u>	<u>(3,057)</u>
<b>Net earnings (loss)</b> .....	1,752	(285)	2,475	514
Dividends on preferred shares .....	(16)	(14)	(59)	(64)
<b>Net earnings (loss) applicable to common shares</b> .....	<u>1,736</u>	<u>(299)</u>	<u>2,416</u>	<u>450</u>
<b>Net earnings (loss) per common share — basic</b> (Note 7)				
Continuing operations .....	0.92	(0.13)	2.15	4.34
Net earnings (loss) .....	1.92	(0.37)	2.74	0.56
<b>Net earnings (loss) per common share — diluted</b> (Note 7)				
Continuing operations .....	0.91	(0.13)	2.13	4.29
Net earnings (loss) .....	1.89	(0.37)	2.71	0.55
<b>Dividends per common share</b> .....	0.30	0.30	1.20	1.20
Average number of common shares outstanding (millions) .....	<u>909.1</u>	<u>808.5</u>	<u>847.9</u>	<u>807.9</u>
The following is a reconciliation of net earnings (loss) to reflect the comparative impact of the non-amortization of goodwill and indefinite-life intangible assets effective January 1, 2002 (Refer to Note 1):				
<b>Adjusted net earnings (loss)</b>				
Net earnings (loss), as reported .....	1,752	(285)	2,475	514
Amortization expense on goodwill and indefinite-life intangible assets . . .	—	234	—	971
Net earnings (loss), adjusted .....	<u>1,752</u>	<u>(51)</u>	<u>2,475</u>	<u>1,485</u>
Adjusted net earnings (loss) per common share				
Basic .....	1.92	(0.08)	2.74	1.76
Diluted .....	<u>1.89</u>	<u>(0.08)</u>	<u>2.71</u>	<u>1.74</u>

(1) Refer to Note 1 “Significant accounting policies” for basis of presentation.



**Consolidated Statements of Retained Earnings (Deficit) (unaudited)**

<u>For the period ended December 31</u>	<u>Three months</u>		<u>Twelve months</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
			(\$ millions)	
<b>Balance at beginning of period, as previously reported</b> .....	(7,605)	1,238	712	1,339
Adjustment for change in accounting policy (Note 1) .....	—	—	(8,180)	—
Balance at beginning of period, as restated .....	(7,605)	1,238	(7,468)	1,339
Net earnings (loss) .....	1,752	(285)	2,475	514
Dividends — Preferred shares .....	(16)	(14)	(59)	(64)
— Common shares .....	<u>(274)</u>	<u>(242)</u>	<u>(1,031)</u>	<u>(969)</u>
	(290)	(256)	(1,090)	(1,033)
Costs relating to the issuance of common shares .....	—	—	(62)	—
Premium on redemption of common and preferred shares .....	—	—	(6)	(108)
Other .....	<u>(6)</u>	<u>15</u>	<u>2</u>	<u>—</u>
<b>Balance at end of period</b> .....	<u><u>(6,149)</u></u>	<u><u>712</u></u>	<u><u>(6,149)</u></u>	<u><u>712</u></u>

## Consolidated Balance Sheets (unaudited)

	<u>December 31</u> <u>2002<sup>(1)</sup></u>	<u>December 31</u> <u>2001</u>
	(\$ millions)	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents <sup>(2)</sup> .....	306	569
Accounts receivable .....	2,343	4,118
Income and other taxes receivable .....	147	—
Other current assets .....	<u>769</u>	<u>1,213</u>
<b>Total current assets</b> .....	<b>3,565</b>	<b>5,900</b>
<b>Investments</b> .....	<b>777</b>	<b>1,106</b>
<b>Capital assets</b> .....	<b>20,486</b>	<b>25,861</b>
<b>Future income taxes</b> .....	<b>675</b>	<b>1,031</b>
<b>Other long-term assets</b> .....	<b>3,057</b>	<b>3,363</b>
<b>Indefinite-life intangible assets</b> .....	<b>900</b>	<b>866</b>
<b>Goodwill</b> .....	<b>10,103</b>	<b>15,947</b>
<b>Total assets</b> .....	<b><u>39,563</u></b>	<b><u>54,074</u></b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities .....	3,834	5,792
Income and other taxes payable .....	—	681
Debt due within one year .....	<u>2,026</u>	<u>5,263</u>
<b>Total current liabilities</b> .....	<b>5,860</b>	<b>11,736</b>
<b>Long-term debt</b> .....	<b>13,395</b>	<b>14,861</b>
<b>Future income taxes</b> .....	<b>815</b>	<b>924</b>
<b>Other long-term liabilities</b> .....	<b>3,026</b>	<b>4,129</b>
<b>Total liabilities</b> .....	<b><u>23,096</u></b>	<b><u>31,650</u></b>
<b>Non-controlling interest</b> .....	<b><u>3,596</u></b>	<b><u>5,625</u></b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Preferred shares</b> .....	<b>1,510</b>	<b>1,300</b>
<b>Common shareholders' equity</b>		
Common shares <sup>(3)</sup> .....	16,520	13,827
Contributed surplus .....	980	980
Retained earnings (deficit) .....	(6,149)	712
Currency translation adjustment .....	<u>10</u>	<u>(20)</u>
<b>Total common shareholders' equity</b> .....	<b><u>11,361</u></b>	<b><u>15,499</u></b>
<b>Total shareholders' equity</b> .....	<b><u>12,871</u></b>	<b><u>16,799</u></b>
<b>Total liabilities and shareholders' equity</b> .....	<b><u>39,563</u></b>	<b><u>54,074</u></b>

<sup>(1)</sup> Refer to Note 1 "Significant accounting policies" for basis of presentation.

<sup>(2)</sup> At December 31, 2001, cash and cash equivalents include \$233 million of restricted cash (nil at December 31, 2002). This amount represented BCE's share of Telecom Américas Ltd.'s cash used by it to collateralize short-term bank loans of certain of its subsidiaries.

<sup>(3)</sup> At December 31, 2002, 915,867,928 (808,514,211 at December 31, 2001) BCE Inc. common shares and 20,470,700 (18,527,376 at December 31, 2001) BCE Inc. stock options were outstanding. 103 million common shares were issued during 2002 in connection with the repurchase by BCE Inc. of SBC Communications Inc.'s indirect minority interest in Bell Canada (refer to Note 3 "Business acquisitions and dispositions"). The stock options were issued under BCE's Long-Term Incentive Stock Option Programs and are exercisable on a one-for-one basis for common shares of BCE Inc. Additionally, Teleglobe stock option holders will receive, upon exercise of their stock options, 0.91 of a BCE Inc. common share for each Teleglobe stock option held. At December 31, 2002, all Teleglobe stock options outstanding were exercisable into 4,266,723 BCE Inc. common shares (10,204,966 at December 31, 2001).

## Consolidated Statements of Cash Flows (unaudited)

For the period ended December 31	Three months		Twelve months	
	2002	2001 <sup>(1)</sup>	2002	2001 <sup>(1)</sup>
	(\$ millions)			
<b>Cash flows from operating activities</b>				
Earnings (loss) from continuing operations	835	(90)	1,898	3,571
Adjustments to reconcile earnings (loss) from continuing operations to cash flows from operating activities:				
Amortization expense	794	948	3,146	3,826
Net benefit plans credit	(8)	(31)	(33)	(121)
Restructuring and other charges	333	731	805	915
Impairment charge	770	—	770	—
Net gains on investments	(2,260)	(50)	(2,435)	(4,088)
Future income taxes	612	179	602	682
Non controlling interest	267	(38)	668	186
Other items	(56)	(657)	(298)	(894)
Changes in non-cash working capital	(96)	268	(592)	157
	<u>1,191</u>	<u>1,260</u>	<u>4,531</u>	<u>4,234</u>
<b>Cash flows from investing activities</b>				
Capital expenditures	(1,074)	(1,196)	(3,771)	(4,999)
Investments	(5,097)	(152)	(6,604)	(535)
Divestitures	2,761	141	3,230	4,749
Other items	5	(73)	10	(122)
	<u>(3,405)</u>	<u>(1,280)</u>	<u>(7,135)</u>	<u>(907)</u>
<b>Cash flows from financing activities</b>				
Decrease in notes payable and bank advances	(636)	(217)	(210)	(2,744)
Issue of long-term debt	2,508	387	4,908	2,443
Repayment of long-term debt	(2,091)	(258)	(2,893)	(1,221)
Issue of common shares	303	5	2,693	71
Costs relating to the issuance of common and preferred shares	—	—	(78)	—
Purchase of common shares for cancellation	—	—	—	(191)
Issue of preferred shares	—	—	510	—
Redemption of preferred shares	—	—	(306)	—
Dividends paid on common and preferred shares	(284)	(256)	(1,042)	(1,033)
Issue of common shares, preferred shares, convertible debentures and equity-settled notes by subsidiaries to non-controlling interest	5	89	206	1,459
Redemption of preferred shares by subsidiaries	—	(1)	—	(347)
Dividends paid by subsidiaries to non-controlling interest	(147)	(89)	(468)	(357)
Other items	(10)	55	(46)	72
	<u>(352)</u>	<u>(285)</u>	<u>3,274</u>	<u>(1,848)</u>
Effect of exchange rate changes on cash and cash equivalents	2	(1)	3	(2)
Cash provided by (used in) continuing operations	(2,564)	(306)	673	1,477
Cash used in discontinued operations	—	(213)	(936)	(1,168)
Net increase (decrease) in cash and cash equivalents	(2,564)	(519)	(263)	309
Cash and cash equivalents at beginning of period	<u>2,870</u>	<u>1,088</u>	<u>569</u>	<u>260</u>
<b>Cash and cash equivalents at end of period</b>	<u>306</u>	<u>569</u>	<u>306</u>	<u>569</u>

(1) Refer to Note 1 "Significant accounting policies" for basis of presentation.

## Notes to Consolidated Financial Statements — BCE Inc.

The interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements as at December 31, 2001 and 2000 and for each of the years in the three-year period ended December 31, 2001, dated July 23, 2002.

### 1. Significant accounting policies

The interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”), using the same accounting policies as outlined in Note 1 of the annual consolidated financial statements as at December 31, 2001 and 2000 and for each of the years in the three-year period ended December 31, 2001, dated July 23, 2002 except as noted below. Certain comparative figures in the consolidated financial statements have been reclassified to conform to the current period presentation.

#### Basis of presentation

All financial information for 2002 and prior periods were restated to reflect the accounting treatment of BCE’s investments in Teleglobe Inc. (“Teleglobe”) and Bell Canada International Inc. (“BCI”) as discontinued operations (refer to Note 6 “Discontinued operations”), and the adoption of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1650 regarding the accounting treatment of foreign currency translation (refer to “Recent pronouncements”) effective in the first quarter of 2002. In addition, effective in the second quarter of 2002, BCE ceased to consolidate the financial results of Teleglobe and BCI, and during 2002 held these investments at cost (refer to Note 6 “Discontinued operations”).

#### Recent pronouncements

##### *Business combinations, goodwill and other intangible assets*

The CICA issued new Handbook Sections 1581, Business Combinations, and 3062, Goodwill and Other Intangible Assets. Effective July 1, 2001, the standards require that all business combinations be accounted for using the purchase method. Additionally, effective January 1, 2002, goodwill and intangible assets with an indefinite life are no longer being amortized to earnings and will be assessed for impairment on an annual basis in accordance with the new standards, including a transitional impairment test whereby any resulting impairment was charged to opening retained earnings. BCE’s management allocated its existing goodwill and intangible assets with an indefinite life to its reporting units and completed the assessment of the quantitative impact of the transitional impairment test on its financial statements. In 2002, an impairment of \$8,180 million was charged to opening retained earnings as of January 1, 2002, as required by the transitional provisions of the new CICA Handbook section 3062, relating to impaired goodwill of reporting units within Teleglobe (\$7,516 million), Bell Globemedia (\$545 million) and BCE Emergis (\$119 million).

The following represents a reconciliation of the stated goodwill as at December 31, 2002:

	(\$ millions)
<b>Goodwill, January 1, 2002</b> .....	15,947
Transitional goodwill impairment charge .....	(8,652)
Goodwill acquired during the year <sup>(1)</sup> .....	5,472
Goodwill disposed during the year <sup>(2)</sup> .....	(218)
Deconsolidation of Teleglobe and BCI .....	(1,754)
Impairment charge <sup>(3)</sup> .....	(770)
Impact of changes in foreign currency translation .....	78
<b>Goodwill, December 31, 2002</b> .....	<u>10,103</u>

<sup>(1)</sup> The goodwill acquired during 2002 relates primarily to the acquisition of SBC Communications Inc.’s (“SBC”) 20% interest in Bell Canada Holdings Inc. (“BCH”) (refer to Note 3 “Business acquisitions and dispositions”).

<sup>(2)</sup> The goodwill disposed during 2002 relates primarily to the sale of the Directories business (refer to Note 3 “Business acquisitions and dispositions”).

<sup>(3)</sup> In the fourth quarter of 2002, BCE completed its annual assessment of goodwill of all of its reporting units, as required by the provisions of CICA Handbook section 3062, and recorded a charge to pre-tax earnings of \$770 million (\$530 million after non-controlling interest) relating to impaired goodwill of reporting units within Bell Globemedia (\$715 million) and Aliant (\$55 million). In each case, the goodwill was written down to its fair value, which was determined based on estimates of discounted future cash flows and corroborated by market-related values.

The primary factor contributing to the impairment at Bell Globemedia is a revised estimate of future cash flows that reflect management’s decision to scale back its trials in convergence products and other non-core businesses, as well as current market conditions for the media business. The write-down at Aliant was determined to be appropriate in light of current market conditions and the recent weak performance of its information technology line of business.

##### *Foreign currency translation*

Effective January 1, 2002, BCE also adopted the revised recommendations of CICA Handbook Section 1650, Foreign Currency Translation. The standards require that all unrealized translation gains and losses on assets and liabilities denominated in foreign currencies be included in earnings for the year, including gains and losses on long-term monetary assets and liabilities, such as long-term debt, which were previously deferred and amortized on a straight-line basis over the remaining lives of the related items. These amendments were applied retroactively with restatement of prior periods. The cumulative effect as at January 1, 2002 was to decrease other long-term assets by \$288 million, increase future income taxes by \$27 million, decrease non-controlling interest by \$70 million and decrease retained earnings by \$191 million.

*Stock-based compensation and other stock-based payments*

BCE also adopted the new recommendations of CICA Handbook Section 3870, Stock-based compensation and other stock-based payments, effective January 1, 2002. This Section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The standard requires that all stock-based awards made to non-employees be measured and recognized using a fair value based method. The standard encourages the use of a fair value based method for all awards granted to employees, but only requires the use of a fair value based method for direct awards of stock, stock appreciation rights, and awards that call for settlement in cash or other assets. Awards that a company has the ability to settle in stock are recorded as equity, whereas awards that the entity is required to or has a practice of settling in cash are recorded as liabilities. For BCE, this Section applies to all awards granted on or after January 1, 2002. Upon adoption, BCE has elected to account for employee stock options by measuring compensation cost for options as the excess, if any, of the quoted market price of BCE Inc.'s common shares at the date of grant over the amount an employee must pay to acquire the common shares<sup>(1)</sup>. The following outlines the impact and assumptions used if the compensation cost for BCE's stock options was determined under the fair value based method of accounting for awards granted on or after January 1, 2002.

<u>For the period ended December 31, 2002</u>	<u>Three Months</u>	<u>Twelve Months</u>
Net earnings, as reported (\$ millions) . . . . .	1,752	2,475
Pro forma impact (\$ millions) . . . . .	<u>(6)</u>	<u>(27)</u>
Pro forma net earnings (\$ millions) . . . . .	1,746	2,448
Pro forma net earnings per common share (basic) (\$) . . . . .	1.91	2.71
Pro forma net earnings per common share (diluted) (\$) . . . . .	1.88	2.67
Assumptions used in Black Scholes option pricing model:		
Dividend yield . . . . .	3.5%	3.3%
Expected volatility . . . . .	30%	30%
Risk-free interest rate . . . . .	3.8%	4.6%
Expected life (years) . . . . .	3	4.4
Number of options granted . . . . .	104,180	8,051,159
Weighted average fair value per option granted (\$) . . . . .	\$3	\$7

<sup>(1)</sup> In December 2002, BCE announced that effective January 1, 2003, it will account for employee stock options by measuring compensation cost for options granted on or after January 1, 2002 under the fair value based method of accounting, using a Black Scholes option pricing model. As a result of applying this new accounting policy, BCE expects to record operating expenses of approximately \$40 million to \$55 million in 2003, representing an impact of approximately \$0.04 to \$0.05 on net earnings per share.

**2. Segmented information**

BCE operates under four segments, based on products and services, reflecting the way that management classifies its operations for purposes of planning and performance management. These segments are the Bell Canada segment, Bell Globemedia, BCE Emergis and BCE Ventures.

<u>For the period ended December 31</u>		<u>Three months</u>		<u>Twelve months</u>	
		<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
(\$ millions)					
<b>Operating revenues</b>					
Bell Canada	External .....	4,499	4,468	17,318	17,038
	Inter-segment <sup>(1)</sup> .....	33	68	171	164
		<u>4,532</u>	<u>4,536</u>	<u>17,489</u>	<u>17,202</u>
Bell Globemedia	External .....	366	344	1,246	1,175
	Inter-segment .....	13	10	44	28
		<u>379</u>	<u>354</u>	<u>1,290</u>	<u>1,203</u>
BCE Emergis	External .....	100	105	399	451
	Inter-segment .....	31	76	141	205
		<u>131</u>	<u>181</u>	<u>540</u>	<u>656</u>
BCE Ventures	External .....	202	196	796	670
	Inter-segment .....	80	91	268	374
		<u>282</u>	<u>287</u>	<u>1,064</u>	<u>1,044</u>
Corporate and other	External .....	5	—	9	6
	Inter-segment .....	44	30	165	85
		<u>49</u>	<u>30</u>	<u>174</u>	<u>91</u>
Less: Inter-segment eliminations <sup>(1)</sup> .....		<u>(201)</u>	<u>(275)</u>	<u>(789)</u>	<u>(856)</u>
<b>Total operating revenues</b> .....		<u>5,172</u>	<u>5,113</u>	<u>19,768</u>	<u>19,340</u>
<b>EBITDA<sup>(2)</sup></b>					
Bell Canada .....		1,788	1,704	7,289	6,876
Bell Globemedia .....		72	43	180	108
BCE Emergis .....		20	35	30	127
BCE Ventures .....		72	88	289	290
Corporate and other, including inter-segment eliminations .....		<u>(39)</u>	<u>(43)</u>	<u>(166)</u>	<u>(159)</u>
<b>Total EBITDA</b> .....		<u>1,913</u>	<u>1,827</u>	<u>7,622</u>	<u>7,242</u>
<b>Net earnings (loss) applicable to common shares</b>					
Bell Canada .....		1,407	(101)	2,423	663
Bell Globemedia .....		(493)	(25)	(492)	(150)
BCE Emergis .....		7	(45)	(51)	(281)
BCE Ventures .....		32	41	131	270
Corporate and other, including inter-segment eliminations .....		<u>(118)</u>	<u>40</u>	<u>(113)</u>	<u>3,069</u>
<b>Total earnings (loss) from continuing operations</b> .....		<u>835</u>	<u>(90)</u>	<u>1,898</u>	<u>3,571</u>
Discontinued operations .....		917	(195)	577	(3,057)
Dividends on preferred shares .....		<u>(16)</u>	<u>(14)</u>	<u>(59)</u>	<u>(64)</u>
<b>Total net earnings (loss) applicable to common shares</b> .....		<u>1,736</u>	<u>(299)</u>	<u>2,416</u>	<u>450</u>

(1) Certain comparative figures have been reclassified to conform to the current period presentation.

(2) "EBITDA" is defined as operating revenues less operating expenses and therefore reflects earnings before interest, taxes, depreciation and amortization, as well as any non-recurring items. BCE uses "EBITDA", amongst other measures, to assess the operating performance of its on-going businesses. The term "EBITDA" does not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. EBITDA should not be construed as the equivalent of net cash flows from operating activities.

### 3. BUSINESS ACQUISITIONS AND DISPOSITIONS

#### Repurchase of SBC's 20% interest in BCH

On June 28, 2002, BCE Inc., BCH and entities controlled by SBC entered into agreements that led to the repurchase by BCE Inc. of SBC's 20% indirect interest in BCH, the holding company of Bell Canada, for \$6.3 billion. Pursuant to these agreements, on June 28, 2002, BCH purchased for cancellation a portion of its outstanding shares from SBC for a purchase price of \$1.3 billion, resulting in an increase in BCE Inc.'s ownership in BCH to 83.5%. On December 2, 2002, BCE Inc. completed the repurchase of the remaining 16.5% interest in BCH for a purchase price of \$4.99 billion. The excess of the purchase price over the carrying value of the 20% interest in BCH amounted to \$5.4 billion. This amount will be allocated to the individual net assets including intangibles of BCH based on a valuation of those individual net assets with any remaining excess being allocated to goodwill. Preliminarily, this excess has been allocated entirely to goodwill.

BCE Inc. completed the financing of the \$6.3 billion repurchase price of SBC's indirect interest in Bell Canada through the following steps:

- \$1.1 billion drawn on July 15, 2002 under a \$3.3 billion two-year non-revolving credit agreement;

- proceeds from the issuance on July 15, 2002 of 9 million BCE Inc. common shares for \$250 million (\$27.63 per share), by way of a private placement to SBC;
- net proceeds from the public issuance on August 12, 2002 of 85 million common shares of BCE Inc. for \$2 billion (\$24.45 per share);
- net proceeds from the public issuance on October 30, 2002 of long-term notes of BCE Inc. for \$2 billion;
- proceeds from the issuance on December 2, 2002 of 9 million BCE Inc. common shares for \$250 million (\$28.36 per share), by way of a second private placement to SBC; and
- the remaining \$0.7 billion was financed from a portion of the net proceeds from the sale of the Directories business.

As part of the agreements, BCE Inc. will also purchase, at face value, on or before December 31, 2004, \$314 million of BCH Convertible Series B Preferred Securities held by SBC.

In connection with the arrangements described above, on June 28, 2002, BCH granted to SBC an option (“BCH option”) to purchase 20% of the then outstanding common shares of BCH at an exercise price of approximately \$39.48 per share, representing an approximate 25% premium to the June 28, 2002 negotiated repurchase price of the BCH shares, exercisable no later than January 30, 2003.

#### **Sale of the Directories business**

On November 29, 2002, Bell Canada and certain affiliates completed the sale of their print and electronic Directories business for \$3 billion cash. As a result, BCE recorded a gain on sale of \$2.3 billion. The purchasers own an approximate 90% equity interest of an acquisition vehicle that holds the Directories business. Bell Canada indirectly acquired an approximate 10% equity interest in the acquisition vehicle for approximately \$91 million.

#### **Creation of Bell West Inc. (“Bell West”)**

In April 2002, Bell Canada and Manitoba Telecom Services Inc. (“MTS”), a related party, combined their interests of the wireline assets of BCE Nexxia Inc. in Alberta and British Columbia with Bell Intrigna Inc. to create Bell West, a company providing telecommunications services in those two provinces. Bell West operates under the Bell brand and is owned 60% by Bell Canada and 40% by MTS. The terms of the agreement between Bell Canada and MTS also include certain put and call options with respect to MTS’ 40% ownership of Bell West.

The put options for MTS are as follows:

- In February 2004, MTS can sell its interest in Bell West to Bell Canada at a guaranteed floor value of \$458 million plus incremental funding (including an 8% return on that incremental funding) invested by MTS going forward (floor value). In January 2007, MTS can sell its interest in Bell West to Bell Canada at fair market value less 12.5%. MTS can also sell its interest in Bell West to Bell Canada at fair market value less 12.5% upon the occurrence of certain change events affecting Bell West.

The call options for Bell Canada should MTS not exercise its put options are as follows:

- In March 2004, Bell Canada has the option to purchase MTS interest at the greater of the floor value and fair market value. In February 2007, Bell Canada has the option to purchase MTS interest at fair market value. Bell Canada can also purchase MTS interest at fair market value upon a change of control of MTS to a party other than Bell Canada or its affiliates.

#### **Creation of the Bell Nordiq Income Fund**

In April 2002, Bell Canada announced the completion of an initial public offering of units of a newly created income fund (the “Bell Nordiq Income Fund”). The Fund acquired from Bell Canada a 36% interest in each of Télébec Limited Partnership and Northern Telephone Limited Partnership. Bell Canada retains management control over both partnerships and holds a 64% interest in the partnerships. Bell Canada received gross proceeds of \$324 million and recorded a gain on sale of \$222 million (BCE’s share is \$170 million on an after-tax basis).

### **4. RESTRUCTURING AND OTHER CHARGES**

#### **Bell Canada streamlining costs and other charges**

In the fourth quarter of 2002, Bell Canada recorded a pre-tax restructuring charge of \$302 million (\$190 million after tax), representing restructuring and other charges of \$232 million and \$70 million, respectively. The restructuring charge is related to employee severance, including enhanced pension benefits and other directly related employee costs, for approximately 1,700 employees, which resulted primarily from a decision to streamline certain management, clerical, line and other support functions. The restructuring program is expected to be completed in 2003. At December 31, 2002, the remaining unpaid balance of this restructuring provision relating to employee severance and other directly related employee costs was \$111 million. Other charges consisted primarily of various accounts receivable write-downs relating to billing adjustments and unreconciled balances from prior years.

#### **Write-off of deferred costs**

In the fourth quarter of 2002, BCE recorded a pre-tax charge of \$93 million (\$61 million on an after tax basis), representing a write-off of deferred costs relating to various convergence initiatives after an analysis indicated that it is unlikely that these costs will be recovered.

#### **Settlement of pay equity complaints**

On September 25, 2002, the members of the Canadian Telecommunications Employees’ Association (“CTEA”) ratified a settlement reached between the CTEA and Bell Canada with respect to the 1994 pay equity complaints filed by members of the CTEA before the Canadian Human Rights Tribunal. The settlement includes a cash payout of \$128 million and related pension benefits of approximately \$50 million. As a result of the settlement, Bell Canada recorded a one-time charge of \$79 million (BCE’s share is \$37 million on an after-tax basis) in the third quarter of 2002,

which corresponds to the \$128 million cash payout, net of a previously recorded provision. The pension benefits will be deferred and amortized into earnings over the estimated average remaining service life of active employees and the estimated average remaining life of retired employees.

#### Write-down of Bell Canada's accounts receivable

Coincident with the development of a new billing platform, Bell Canada has adopted a new and more precise methodology to analyze the amount of receivables by customer and service line, which permits a more accurate determination of the validity of customer balances to Bell Canada. This analysis indicated that as at June 30, 2002, a write-down of accounts receivable amounting to \$272 million (BCE's share is \$142 million on an after-tax basis) is appropriate. As these amounts arose from legacy billing systems and processes, Bell Canada has carried out a detailed review of billings and adjustments for the period from 1997 to 2002. This review determined that these amounts arose as the cumulative result of a series of individually immaterial events and transactions pertaining to its legacy accounts receivable systems dating back to the early 1990's.

#### BCE Emergis restructuring plan

BCE Emergis Inc. ("BCE Emergis") recorded a pre-tax charge of \$119 million (BCE's share is \$63 million on an after-tax basis) in the second quarter of 2002, representing restructuring and other charges of \$100 million and \$19 million, respectively, related to the write-off of certain assets, employee severance and other employee costs, contract settlements and costs of leased properties no longer in use, which resulted primarily from the streamlining of BCE Emergis' service offerings and reduction in its operating cost structure. The restructuring program is substantially complete. As at December 31, 2002, the remaining unpaid balance of this restructuring provision was \$23 million.

### 5. OTHER INCOME (EXPENSE)

<u>For the period ended December 31</u>	<u>Three months</u>		<u>Twelve months</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	(\$ millions)			
Net gains on investments .....	2,246	7	2,427	4,044
Foreign currency gains (losses) .....	(1)	(8)	36	(83)
Other .....	(3)	(10)	5	54
Other income (expense) .....	<u>2,242</u>	<u>(11)</u>	<u>2,468</u>	<u>4,015</u>

In the fourth quarter of 2002, net gains on investments of \$2,246 million resulted primarily from the sale of the Directories business (\$2,310 million). The remaining \$64 million net loss consists of various write-downs of portfolio investments. Included in other is a \$30 million write-down of deferred financing costs relating to the early retirement of credit facilities.

In 2002, net gains on investments of \$2,427 million also included the sale of a 36% interest in both Télébec Limited Partnership and Northern Telephone Limited Partnership upon the creation of the Bell Nordiq Income Fund (\$222 million) and a \$98 million write-down of the remaining portfolio investment in Nortel Networks.

### 6. DISCONTINUED OPERATIONS

<u>For the period ended December 31</u>	<u>Three months</u>		<u>Twelve months</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	(\$ millions)			
Teleglobe .....	1,042	(174)	893	(2,810)
BCI .....	(125)	(21)	(316)	(247)
Net gain (loss) from discontinued operations .....	<u>917</u>	<u>(195)</u>	<u>577</u>	<u>(3,057)</u>

#### Teleglobe

Teleglobe provides international voice and data telecommunications services. Until the second quarter of 2002, Teleglobe also provided, through its investment in the Excel Communications group ("Excel"), retail telecommunications services such as long distance, paging and Internet services to residential and business customers in North America. The results of operations of Teleglobe include an impairment charge of \$2,049 million recorded in the first quarter of 2001 after completion of an assessment of the carrying value of Teleglobe's investment in Excel.

On April 24, 2002, BCE Inc. announced that it would cease further long-term funding to Teleglobe. BCE Inc.'s decision was based on a number of factors, including a revised business plan and outlook of the principal operating segment of Teleglobe with associated funding requirements, a revised assessment of its prospects, and a comprehensive analysis of the state of its industry. In light of that decision, Teleglobe announced that it would pursue a range of financial restructuring alternatives, potential partnerships and business combinations. Also on April 24, 2002, all BCE Inc.-affiliated board members of Teleglobe tendered their resignation from the Teleglobe board. The effective result of these events was the exit by BCE of the Teleglobe business and the eventual material reduction in BCE's approximate 96% economic and voting interest in Teleglobe as a result of the ongoing restructuring of Teleglobe. Accordingly, effective April 24, 2002, BCE reclassified the financial results of Teleglobe as a discontinued operation.

BCE's management completed its assessment of the net realizable value of BCE's interest in the net assets of Teleglobe and determined it to be nil, resulting in a loss from discontinued operations of \$73 million, which is in addition to the transitional impairment charge of \$7,516 million to opening retained earnings as at January 1, 2002, as required by the transitional provisions of the new CICA Handbook section 3062 (refer to Note 1).



On May 15, 2002 and later during the year, Teleglobe and certain of its subsidiaries filed for court protection under insolvency statutes in various countries, including Canada and the United States. On September 19, 2002, Teleglobe announced the execution of agreements for the sale of its core telecommunications business. Effective November 30, 2002, BCE Inc.'s debtor-in-possession and employee severance and retention facilities were fully repaid by Teleglobe and terminated. On December 31, 2002, after obtaining court approval, BCE Inc. and its affiliates sold all of their common and preferred shares in Teleglobe to the court-appointed monitor for nominal consideration.

The sale triggered approximately \$10 billion of capital losses. BCE recorded a gain of \$1,042 million, relating primarily to the tax benefit from (i) reinstating non-capital losses that were previously used to offset the gain on sale of Nortel Networks shares in 2001; and (ii) applying a portion of the capital losses against the gain on the sale of the Directories business in 2002. A valuation allowance has been provided against the entire amount of the unused tax benefit associated with the capital losses.

#### *Change in accounting for Teleglobe*

Since (i) BCE's management did not expect any future economic benefits from its approximate 96% economic and voting interest in Teleglobe; (ii) BCE has not guaranteed any of Teleglobe's obligations; and (iii) BCE has ceased further long-term funding to Teleglobe, BCE deconsolidated Teleglobe's financial results effective May 15, 2002, and began accounting for the investment at cost.

The following are amounts relating to BCE's interest in the net assets of Teleglobe on May 15, 2002: current assets of \$1.4 billion, non-current assets of \$4.3 billion, current liabilities of \$3.6 billion, and non-current liabilities of \$2.1 billion.

Refer to Note 8 "Commitments and Contingencies" for a description of the lending syndicate lawsuit filed against BCE Inc.

#### **BCI**

Prior to the sale of its interest in Telecom Américas Ltd., BCI developed and operated advanced communications companies in markets outside Canada, with a focus on Latin America. Effective January 1, 2002, BCE adopted a formal plan to dispose of its operations in BCI. As a result, BCI's results were reported as discontinued operations.

#### *BCI's plan of arrangement*

BCI completed the sale of its interest in Telecom Américas Ltd. in July 2002. BCI held most of its investments through Telecom Américas Ltd. BCI will be liquidated once all of its assets have been disposed of and all claims against it have been determined. A final distribution will be made to BCI's creditors and shareholders with the approval of the court.

#### *Change in accounting for BCI*

Effective June 30, 2002, BCE deconsolidated BCI's financial results, and now accounts for the investment at cost. Therefore, all future financial results of BCI will not affect BCE's future financial results.

BCE recorded a charge of \$316 million in 2002 (\$191 million in the second quarter and \$125 million in the fourth quarter), representing a write-down of its investment in BCI to an estimate of its net realizable value. The charge was reported as a loss from discontinued operations.

Amounts included in the consolidated balance sheets relating to discontinued operations are as follows:

	<b>December 31 2002</b>	<b>December 31 2001</b>
	(\$ millions)	
Current assets .....	—	1,957
Non-current assets .....	50	16,576
Current liabilities .....	—	(5,855)
Non-current liabilities .....	—	(5,250)
Net assets of discontinued operations .....	<u>50</u>	<u>7,428</u>

The summarized statements of operations for the discontinued operations are as follows:

<b>For the period ended December 31</b>	<b>Three months</b>		<b>Twelve months</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	(\$ millions)			
Revenue .....	—	984	681	3,695
Operating loss from discontinued operations, before tax .....	—	(251)	(123)	(3,407)
Gain (loss) on discontinued operations, before tax .....	(125)	—	(407)	461
Income tax recovery on operating loss .....	—	75	40	209
Income tax recovery (expense) on (gain) loss .....	1,042	—	1,060	(45)
Non-controlling interest .....	—	(19)	7	(275)
Net gain (loss) from discontinued operations .....	<u>917</u>	<u>(195)</u>	<u>577</u>	<u>(3,057)</u>

## 7. EARNINGS PER SHARE DISCLOSURES

The following is a reconciliation of the numerators and the denominators of the basic and diluted earnings per common share computations for earnings from continuing operations:

<b>For the period ended December 31</b>	<b>Three months</b>		<b>Twelve months</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
<b>Earnings (loss) from continuing operations (numerator) (\$ millions)</b>				
Earnings (loss) from continuing operations .....	835	(90)	1,898	3,571
Dividends on preferred shares .....	(16)	(14)	(59)	(64)
Earnings from continuing operations — basic .....	819	(104)	1,839	3,507
Exercise of put options by CGI shareholders .....	3	— <sup>(1)</sup>	12	2
Earnings (loss) from continuing operations — diluted .....	<u>822</u>	<u>(104)</u>	<u>1,851</u>	<u>3,509</u>
<b>Weighted average number of common shares outstanding (denominator) (millions)</b>				
Weighted average number of common shares outstanding — basic .....	909.1	808.5	847.9	807.9
Exercise of stock options .....	1.9	— <sup>(1)</sup>	2.0	4.4
Exercise of put options by CGI shareholders .....	13.0	— <sup>(1)</sup>	13.0	5.6
Weighted average number of common shares outstanding — diluted .....	<u>924.0</u>	<u>808.5</u>	<u>862.9</u>	<u>817.9</u>

(1) Anti-dilutive

## 8. COMMITMENTS AND CONTINGENCIES

### Teleglobe lending syndicate lawsuit

Certain members of the Teleglobe lending syndicate (the “Plaintiffs”) filed a lawsuit against BCE Inc. in the Ontario Superior Court of Justice on July 12, 2002. The Plaintiffs seek damages from BCE Inc. in the aggregate amount of US\$1.19 billion (together with interests and costs), which they allege is equal to the amount they advanced as members of the Teleglobe and Teleglobe Holdings (U.S.) Corporation lending syndicate. The Plaintiffs’ claim is based on several allegations, including that the actions and representations of BCE Inc. and its management in effect constituted a legal commitment of BCE Inc. that the advances would be repaid and that the court should disregard Teleglobe as a corporate entity and hold BCE Inc. responsible to repay the advances as Teleglobe’s alter ego. The Plaintiffs represent approximately 95.2% of the US\$1.25 billion advanced by the members of such lending syndicate. While the final outcome of any legal proceeding cannot be predicted with certainty, based upon information currently available, BCE Inc. is of the view that it has strong defences and it intends to vigorously defend its position.

### CRTC second price cap Decision 2002-34

On May 30, 2002, the CRTC released Decision 2002-34, “Second Price Cap Decision”, making a number of changes to the rules governing Canada’s telecommunications industry with respect to local service for the next four years. One of the changes resulting from this Decision is that there be a mechanism (referred to in the Decision as the “deferral account”) to provide to the majority of residential customers a combination of certain enhanced services, reduced rates and/or rebates, and certain other adjustments. Bell Canada will propose the manner in which it will implement these directives to the CRTC in March 2003. As at December 31, 2002, BCE’s commitment associated with this Decision is estimated at \$99 million.

## CERTIFICATE

Dated: February 20, 2003

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Prince Edward Island, Nova Scotia and Newfoundland. For the purpose of the Province of Quebec, this simplified prospectus, as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

(Signed) M.J. Sabia  
President and Chief Executive Officer

(Signed) S. A. Vanaselja  
Chief Financial Officer

On behalf of the Board of Directors:

(Signed) R.J. Currie  
Director

(Signed) P.M. Tellier  
Director

## **CERTIFICATE OF UNDERWRITERS**

Dated: February 20, 2003

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Prince Edward Island, Nova Scotia and Newfoundland. For the purpose of the Province of Québec, to our knowledge, this simplified prospectus, as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

### **RBC DOMINION SECURITIES INC.**

By: (signed) Daniel R. Coholan

### **SCOTIA CAPITAL INC.**

By: (signed) John Faris

### **TD SECURITIES INC.**

By: (signed) Jacques Massicotte

### **BMO NESBITT BURNS INC.**

By: (signed) Luigi Fraquelli

### **CIBC WORLD MARKETS INC.**

By: (signed) Benoît C. Lauzé

### **NATIONAL BANK FINANCIAL INC.**

By: (signed) Xavier Guillard

### **MERRILL LYNCH CANADA INC.**

By: (signed) Erik Charbonneau

