

BCE INC
Form 6-K
February 02, 2005

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 under
the Securities Exchange Act of 1934

For the month of: **February 2005**

Commission File Number: **1-8481**

BCE Inc.

(Translation of Registrant's name into English)

1000, rue de La Gauchetière Ouest, Bureau 3700, Montréal, Québec H3B 4Y7, (514) 397-7000

(Address of principal executive offices)

Indicate by check mark whether the Registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F _____

Form 40-F _____

Indicate by check mark whether the Registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

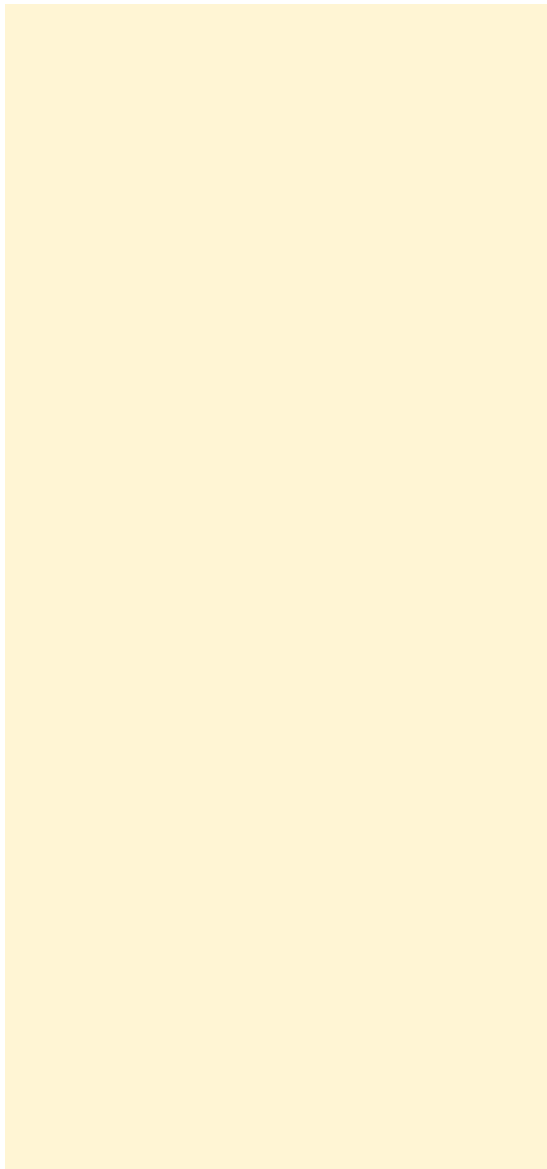
Yes _____

No _____

If "Yes" is marked, indicate below the file number assigned to the Registrant in connection with Rule 12g3-2(b):
82-_____.

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Only the BCE Inc. Management's Discussion and Analysis for the quarter ended December 31, 2004 and the BCE Inc. unaudited interim consolidated financial statements for the quarter ended December 31, 2004, included on pages 2 to 44 and 45 to 55, respectively, of the BCE Inc. 2004 Fourth Quarter Shareholder Report filed with this Form 6-K are incorporated by reference in the registration statements filed by BCE Inc. with the Securities and Exchange Commission on Form F-3 (Registration No. 333-12130), Form S-8 (Registration No. 333-12780), Form S-8 (Registration No. 333-12802) and Form S-8 (Registration No. 333-12804). Except for the foregoing, no other document or portion of document filed with this Form 6-K is incorporated by reference in BCE Inc. s registration statements. Notwithstanding any reference to BCE s Web site on the World Wide Web in the documents attached hereto, the information contained in BCE s site or any other site on the World Wide Web referred to in BCE s site is not a part of this Form 6-K and, therefore, is not filed with the Securities and Exchange Commission.





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In this MD&A, *we, us, our* and BCE mean BCE Inc., its subsidiaries and joint ventures.

All amounts in this MD&A are in millions of Canadian dollars, except where otherwise noted.

Please refer to the unaudited consolidated financial statements for the fourth quarter of 2004 when reading this MD&A. We also encourage you to read BCE Inc.'s MD&A for the year ended December 31, 2003 dated March 10, 2004 (2003 MD&A).

You will find more information about BCE, including BCE Inc.'s Annual Information Form for the year ended December 31, 2003 (2003 AIF) and recent financial reports, on BCE Inc.'s website at www.bce.ca, on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

A statement we make is forward-looking when it uses what we know and expect today to make a statement about the future.

Forward-looking statements may include words such as *anticipate, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, strive, target* and *will*.

We define EBITDA as operating revenues less operating expenses, which means it represents operating income before

Management's Discussion and Analysis

This management's discussion and analysis of financial condition and results of operations (MD&A) comments on BCE's operations, financial condition and cash flows for the three months (Q4) and twelve months ended December 31, 2004 and 2003.

ABOUT FORWARD-LOOKING STATEMENTS

Securities laws encourage companies to disclose forward-looking information so that investors can get a better understanding of the company's future prospects and make informed investment decisions.

This MD&A contains forward-looking statements about BCE's objectives, strategies, financial condition, results of operations, cash flows and businesses. These statements are forward-looking because they are based on our current expectations, estimates and assumptions about the markets we operate in, the Canadian economic environment and our ability to attract and retain customers and to manage network assets and operating costs.

It is important to know that:

- ◆ forward-looking statements in this MD&A describe our expectations on February 1, 2005
- ◆ our actual results could be materially different from what we expect if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statement will materialize and, accordingly, you are cautioned not to place undue reliance on these forward-looking statements.
- ◆ forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made may have on our business. For example, they do not include the effect of sales of assets, monetizations, mergers, acquisitions, other business combinations or transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made.
- ◆ we disclaim any intention and assume no obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

Risks that could cause our actual results to materially differ from our current expectations are discussed in this MD&A including, in particular, in *Risks That Could Affect Our Business*.

NON-GAAP FINANCIAL MEASURES

EBITDA

The term, EBITDA (earnings before interest, taxes, depreciation and amortization), does not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP). It is therefore unlikely to be comparable to similar measures presented by other companies. EBITDA is presented on a consistent basis from period to period.

We use EBITDA, among other measures, to assess the operating performance of our ongoing businesses without the effects of amortization expense, net benefit plans cost, and restructuring and other items. We exclude amortization expense and net benefit plans cost because they largely depend

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amortization expense, net benefit plans cost, and restructuring and other items.

on the accounting methods and assumptions a company uses, as well as non-operating factors, such as the historical cost of capital assets and the fund performance of a company's pension plans. We exclude restructuring and other items because they are transitional in nature.

EBITDA allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use EBITDA to measure a company's ability to service debt and to meet other payment obligations, or as a common valuation measurement in the telecommunications industry.

2 2004 Quarterly Report *Bell Canada Enterprises*

EBITDA should not be confused with net cash flows from operating activities. The most comparable Canadian GAAP financial measure is operating income which is discussed in the *Financial Results Analysis* section of this MD&A. The tables below are reconciliations of EBITDA to operating income on a consolidated basis for BCE and Bell Canada.

BCE	Q4 2004	Q4 2003	FY 2004	FY 2003
EBITDA	1,831	1,847	7,564	7,410
Amortization expense	(803)	(775)	(3,108)	(3,100)
Net benefit plans cost	(67)	(46)	(256)	(175)
Restructuring and other items	(126)	(13)	(1,224)	(14)
Operating income	835	1,013	2,976	4,121

Bell Canada	Q4 2004	Q4 2003	FY 2004	FY 2003
EBITDA	1,679	1,731	7,111	7,001
Amortization expense	(763)	(742)	(2,962)	(2,970)
Net benefit plans cost	(62)	(46)	(235)	(181)
Restructuring and other items	(123)	(13)	(1,219)	(14)
Operating income	731	930	2,695	3,836

FREE CASH FLOW

We define free cash flow as cash from operating activities after capital expenditures, total dividends and other investing activities.

The term, free cash flow, does not have any standardized meaning prescribed by Canadian GAAP. It is therefore unlikely to be comparable to similar measures presented by other companies. Free cash flow is presented on a consistent basis from period to period.

We consider free cash flow to be an important indicator of the financial strength and performance of our business because it shows how much cash is available to repay debt and to reinvest in our company. We believe that certain investors and analysts use free cash flow when valuing a business and its underlying assets.

The most comparable Canadian GAAP financial measure is cash from operating activities. You will find a reconciliation of free cash flow to cash from operating activities on a consolidated basis in *Financial and Capital Management*.

About our Business

BCE is Canada's largest communications company. Starting in the first quarter of 2004, we report our results of operations under five segments: Consumer, Business, Aliant, Other Bell Canada and Other BCE. Our reporting structure reflects how we manage our business and how we classify our operations for planning and measuring performance. Therefore, in addition to discussing our consolidated operating results in this MD&A, we discuss the operating results of each of our

Video services are television services provided to customers through our direct-to-home (DTH) satellites or by very high-speed digital subscriber line (VDSL) equipment.

segments. See Note 2 to the unaudited consolidated financial statements for information about our segments.

The Consumer segment provides local telephone, long distance, wireless, Internet access, video and other services to Bell Canada's residential customers mainly in Ontario and Québec. Wireless services are also offered in Western Canada and video services are provided nationwide.

The Business segment provides local telephone, long distance, wireless, data, including Internet access, and other services to Bell Canada's small and medium-sized businesses (SMB) and large enterprise customers in Ontario and Québec, as well as business customers in Western Canada.

The Aliant segment provides local telephone, long distance, wireless, data, including Internet access, and other services to residential and business customers in Atlantic Canada and represents the operations of our subsidiary, Aliant Inc. (Aliant).

3 2004 Quarterly Report *Bell Canada Enterprises*

The Other Bell Canada segment includes Bell Canada's wholesale business, and the financial results of Télébec Limited Partnership (Télébec), NorthernTel Limited Partnership (NorthernTel) and Northwestel Inc. (Northwestel). Our wholesale business provides local telephone, long distance, wireless, data and other services to competitors who resell these services. Télébec, NorthernTel and Northwestel provide telecommunications services to less populated areas in Québec, Ontario and Canada's northern territories.

The Other BCE segment includes the financial results of our media, satellite and information technology (IT) businesses, as well as the costs incurred by our corporate office. This segment includes Bell Globemedia Inc. (Bell Globemedia), Telesat Canada (Telesat) and CGI Group Inc. (CGI).

In classifying our operations for planning and measuring performance, all restructuring and other items at Bell Canada and its subsidiaries (excluding Aliant) are included in the Other Bell Canada segment.

In Q2 2004, we took another step forward in simplifying our operations by selling our 64% interest in BCE Emergis Inc. (Emergis) by way of a secondary public offering. Effective May 2004, we started presenting the financial results of Emergis as discontinued operations. Emergis was presented previously in the Other BCE segment.

In Q3 2004, we acquired full ownership of Bell West Inc. (Bell West) by completing the purchase of Manitoba Telecom Services Inc.'s (MTS) 40% interest in Bell West.

On November 19, 2004, we completed the acquisition of the Canadian operations of 360networks Corporation (360networks), as well as certain related interconnected U.S. network assets. Following the purchase, Bell Canada sold the retail customer operations in central and eastern Canada to Call-Net Enterprises Inc. This acquisition gives us an extensive fiber network across major cities in Western Canada. Financial results for the retail portion of this acquisition will be included in the Business segment and the wholesale portion will be included in the Other Bell Canada segment.

The products and services we provide and our objectives and strategy remain substantially unchanged from those described in the BCE 2003 MD&A.

The Year in Review

This section reviews the key measures we use to assess our performance and how our results in 2004 compare to our results in 2003.

The results for 2004 demonstrate steady progress on our strategic objectives. We set a solid foundation for future growth, simplification of our customers' experience and the transformation of our cost structure.

In the Consumer segment, we achieved solid revenue and operating income growth, while maintaining strong levels of customer acquisitions and loyalty. Bundle subscriptions significantly exceeded our expectations for the year.

In the Business segment, we grew our base of IP-based services and value-added solutions (VAS) within our SMB and Enterprise markets and expanded our presence in Western Canada. Overall, Business revenues grew modestly, despite increased competitive pressures, significant impacts from our exit from the low-margin cabling business, the completion of the Hydro-Québec outsourcing contract and lower revenues from Bell West's contract with the Government of Alberta (GOA) for the construction of the SuperNet. The improved momentum in our IP-connectivity and VAS business, combined with strong cost containment, led to operating income growth.

In the Other Bell Canada segment, market challenges persisted throughout the year for our wholesale business. While full year revenues declined, this was in part due to our decision in the fourth quarter of 2003 to exit certain low-margin contracts and promotional offers for international

switched minutes. In the last three quarters of the year, the rate of decline stabilized.

In the Other BCE segment, Bell Globemedia delivered strong revenue and operating performance compared to last year, largely driven by higher television advertising revenue. Higher advertising revenue resulted from CTV Inc. (CTV) s programming line-up which included the majority of the top 20 programs

in each season. The improvement in revenue, combined with cost savings, contributed to significantly higher operating performance compared to 2003. Telesat s revenues improved in 2004 as an increase in telecommunications revenue more than offset declines in consulting fees. CGI s revenues also increased due to its acquisition of American Management Systems Incorporated (AMS) in May 2004.

CUSTOMER CONNECTIONS

- ◆ **Wireless** Our total cellular and PCS subscriber base grew by 513,000 in 2004, or 11.6%, to 4,925,000 reflecting a similar level of net additions as 2003. We also improved blended and postpaid churn by 0.1 and 0.2 percentage points, respectively, over 2003.
- ◆ **High-Speed Internet** Our DSL high-speed Internet business added 350,000 customers in 2004, increasing our DSL customer base by 24% to 1,808,000. The additions achieved in 2004 were slightly lower than the 358,000 subscribers acquired in 2003. We also more than doubled our subscriptions to Sympatico value-added solutions over Q4 2003, to reach an end of period count of 624,000.
- ◆ **Video** We gained momentum in our video business in 2004, ending the year with over 1.5 million subscribers, growing by 8.4% over 2003. During the year, we had 116,000 net activations, an increase of 40% over 2003. Bell ExpressVu achieved its target in the deployment of VDSL to multiple-dwelling units (MDUs), signing 335 buildings by year end.
- ◆ **Network Access Services (NAS)** Our NAS levels declined by 146,000, or 1.1%, a similar rate of decline as in the prior year.

OPERATING REVENUES

Revenues of \$19,193 million for the year increased 2.4% over last year, a rate of growth which exceeded our 2003 performance. Bell Canada contributed most of the increase despite the trailing effects of the implementation of a new wireless billing system and a prolonged labour disruption at Aliant. Bell Canada s revenue growth reflects improved performance in the Consumer segment stemming from stronger wireless, Internet access and video services, along with higher IP-connectivity and VAS revenues in the Business segment. Revenue growth was enhanced further by higher revenues at CGI, resulting from the AMS acquisition, and at Bell Globemedia, resulting from higher television advertising revenues due to strong ratings performance.

OPERATING INCOME AND EBITDA

Operating income for the year of \$2,976 million was \$1,145 million lower than last year, mainly as a result of restructuring and other items of \$1,224 million during 2004. The cost of the employee departure programs announced at Bell Canada in June of this year, encompassing a total of 5,052 employees, and at Aliant, announced in the fourth quarter this year encompassing a total of 693 employees, amounted to \$1,063 million. In addition, the labour disruption at Aliant had an estimated negative impact of \$68 million on operating income. Operating income before restructuring and other items for the year of \$4,200 million was \$65 million higher than last year despite the estimated negative impact of \$68 million of the Aliant labour disruption. This increase reflects the EBITDA growth, partially offset by higher net benefit plans cost.

EBITDA grew to \$7,564 million this year, or 2.1% higher compared to 2003 EBITDA (3.0% excluding the estimated negative impact of \$71 million from the Aliant labour disruption). EBITDA growth at Bell Canada was driven by continued improvement in wireless, Internet access and video services growth engines. Wireless EBITDA grew significantly, driving a 5.2 percentage point margin improvement despite adverse impacts of the implementation of a new billing system.

Margin erosion in our legacy services was offset by a continued focus on productivity as well as

EBITDA contributions from IP-connectivity, VAS and Virtual Chief Information Officer (VCIO) revenue gains in our Business segment.

The Other BCE units also contributed to the overall EBITDA growth. Bell Globemedia's EBITDA improvement reflects a higher level of television advertising revenue and benefits from cost savings. CGI reflects the benefit of the AMS acquisition.

Our EBITDA margin for the year was 39.4%, down 0.1 percentage points from 2003, reflecting a lower EBITDA margin at CGI and higher corporate expenses, which more than offset margin improvement at Bell Canada. Bell Canada's EBITDA margin of 42.4% reflected a 0.3 percentage point improvement over last year. We achieved this by better managing acquisition costs per gross activation, particularly in the wireless business, and by placing a greater emphasis on more profitable contracts within the Enterprise and wholesale markets. The negative impact of the Aliant employee strike and the cost of the billing system migration partly offset the improvement at Bell Canada.

NET EARNINGS / EARNINGS PER SHARE

ROE (return on common shareholders' equity) is calculated as net earnings applicable to common shares as a percentage of average common shareholders' equity.

Net earnings applicable to common shares for 2004 were \$1,523 million, or \$1.65 per common share. This compared to net earnings of \$1,744 million, or \$1.90 per common share in 2003. ROE was 12.5% in 2004, compared to 15.1% last year. Included in 2004 net earnings were net losses of \$349 million, or \$0.37 per common share, consisting primarily of:

- ◆ restructuring and other items of \$772 million after tax or \$0.83 per share, mainly relating to the employee departure programs announced at Bell Canada (\$647 million) and Aliant (\$24 million)

partly offset by:

- ◆ net gains of \$423 million from the sales of our 15.96% investment in MTS and our remaining interest in YPG General Partner Inc., the sale of our interest in Emergis and a \$69 million extraordinary gain on the purchase of 360networks reflecting the excess of the fair value of the net assets acquired over the purchase price.

This compared to net losses of \$5 million included in 2003 net earnings due to the loss on sale of Emergis' U.S. Health operations, which was partly offset by a gain on sale of an interest in YPG General Partner Inc.

Excluding the impact of these items, net earnings grew 7.0% to \$1,872 million, or \$2.02 per share in 2004, an increase of \$123 million, or \$0.12 per share, yielding an ROE of 15.2%, which is similar to last year. This increase reflected the improvement in operating income and lower interest expense.

CAPITAL EXPENDITURES

For the full year, capital expenditures of \$3,364 million were \$197 million, or 6.2% higher than 2003. Capital spending as a percentage of revenues this year was 17.5%, compared to 16.9% last year. Capital intensity at Bell Canada also increased from 17.4% to 18.0%. Bell Canada capital spending in 2004 reflected a mix of higher investment in the growth areas of the business and reduced expenditures in legacy areas. Our key strategic investments this year included the migration to one national IP-Multi-Protocol Label System (MPLS) network, our VDSL deployment strategy, our DSL footprint expansion facilitated through the deployment of new high-density remotes, and productivity enhancement initiatives. Higher spending related to satellite builds at Telesat also contributed to the increase.

CASH FROM OPERATING ACTIVITIES AND FREE CASH FLOW

Cash from operating activities for 2004 totalled \$5,519 million, down \$449 million compared to last year. The decline resulted mainly from cash tax refunds of \$440 million received in 2003 that did not recur this year, higher cash payments related to the employee departure programs and higher working

capital requirements, partly offset by the receipt of \$75 million from the settlement of lawsuits against MTS and Allstream Inc.

We generated free cash flow for the year totalling \$898 million or \$1,092 million before restructuring and other items. Compared to 2003, free cash flow was down \$691 million, mainly reflecting the \$449 million decline in cash from operating activities and higher capital expenditures of \$197 million.

Our net debt to total capitalization ratio improved to 42.8% at December 31, 2004, from 44.0% at the end of last year. The improvement reflects a reduction in net debt of \$610 million, which was driven by \$898 million of free cash flow, cash proceeds of approximately \$1 billion on our sales of MTS, YPG General Partner Inc. and Emergis, less \$1.3 billion of business acquisitions including Bell West and 360networks. This was complemented by an increase in shareholders' equity, which reflects the excess of net earnings over dividends of approximately \$400 million.

EXECUTING ON OUR PRIORITIES

Setting the Standard in Internet Protocol (IP)

In December 2003, we announced our multi-year plan to lead change in the industry and set the standard in the IP world. At that time, we identified two key objectives and during 2004, we made significant progress on each of those objectives.

The first of these objectives is to have 100% of our core traffic moved to a pervasive national IP MPLS network by the end of 2006.

- ◆ At the end of 2004, 61% of the traffic on our core network was IP based
- ◆ During 2004, we began the process of discontinuing several legacy data services by announcing that we would stop selling these services to customers who do not use them currently. This list of legacy services now includes Frame Relay, ATM, Megastream, Bell Electronic Business Network services, some business long distance services from the VNet portfolio and some packet services from the Datapac portfolio.

Our second objective is for 90% of customers to have access to a full suite of IP services by the end of 2006.

- ◆ At the end of 2004, our DSL footprint in Ontario and Québec reached 83% of homes and business lines passed compared to 80% at the end of 2003. This increase was in part due to the deployment of new high-density remotes which began in April of 2004. By year end, we had deployed 376 of these remotes.
- ◆ Throughout 2004, we enhanced our suite of IP services by:
 - ◆ Upgrading our Sympatico DSL services by increasing our High Speed Edition to 3 Mbps from 1.5 Mbps and our Ultra service from 3 Mbps to 4 Mbps
 - ◆ Launching our Global IP suite of network services, including the Global IP VPN service
 - ◆ Launching our Managed IP Telephony service for Enterprise customers
 - ◆ Launching ProConnect for small and medium businesses (SMBs)
 - ◆ By year end, Bell Canada had sold over 145,000 IP enabled lines on customer premises equipment (CPE).

Simplicity and Service

During 2004, we continued to make progress in simplifying the customer experience and in delivering simple and innovative services to our customers.

In our Consumer segment, we gained 118,000 subscriptions to The Bell Bundle (a combination of wireless, Internet and video services in one offer) in the fourth quarter bringing our total sales since our launch in September of last year to 431,000. Over the year, 48% of new Bundle activations, 49% of Q4 activations and 51% of December activations included the sale of at least one new service. Our \$5 Long Distance bundle introduced in June was also extremely successful with approximately 229,000 customers by year-end.

During the year, Bell ExpressVu announced a major overhaul of its service to stimulate growth and invigorate the business. This included program repackaging and All-in-One pricing principles. Bell ExpressVu also initiated service on Nimiq 3, a high powered direct broadcast satellite to boost capacity and to enhance signal quality. Bell ExpressVu made solid progress in the deployment of VDSL to MDUs. By the end of the year, we had signed access agreements with 335 buildings.

On December 15, 2004, we announced the launch of a five year, \$1.2 billion program to extend the reach and speed of our broadband network to some 4.3 million households, or approximately 85% of urban households in the Québec City to Windsor corridor, by 2008. This will give us the capability to deliver terrestrial video service to these households. Earlier in Q4, we received CRTC approval for our broadcast licence application to deliver video services terrestrially to single family units (SFUs).

In wireless, Bell Mobility completed the migration of all customer accounts to a new billing platform that will enable the consolidation of all services into our single bill. Delays in billing during this migration prompted many enquiries to call centres from customers in the third and the fourth quarters. Despite the employment of over 600 additional call centre representatives, the high volume of calls meant customers experienced service disruptions in these quarters. Call centre volume has been reducing during the quarter, although average handling time per call still remains higher than normal. In addition, we announced a joint venture with the Virgin Group which will offer wireless services to the key youth market under the dynamic Virgin brand.

Bell Mobility maintained its leadership in innovation in 2004 with its launch of leading-edge wireless location-based services and phone-to-phone video messaging service. We announced that we will trial technology that will seamlessly integrate services across Bell Mobility's wireless network with Bell Sympatico's DSL wireless home network. We are also trialing Canada's first Evolution, Data Optimized (EVDO) network, providing wireless broadband speeds up to six times faster than data speeds available today.

Our Sympatico unit enhanced the customer experience this year with:

- ◆ The launch of Sympatico.MSN.ca, a single portal combining the best features and Internet tools of MSN Canada Co. with the broadband content and innovative services of Sympatico.ca
- ◆ The introduction of MSN Premium
- ◆ The launch of Sympatico Home Networking (an integrated wireless high-speed modem and router solution)

We also made significant advancements in improving the customer experience in our corporate stores. A 30% reduction in activation time helped generate an increase of 15% in average revenue per store.

As part of our strategy to become the technology advisor of choice to SMB customers, we:

- ◆ Launched Productivity Pak (a self-serve bundle of tools that enable SMB customers to more easily access and share information) and ProConnect (a fully managed service enabling the sharing of information easily, securely and affordably across the most extensive private IP-based network in Canada)
- ◆ Acquired IT solutions provider Charon Systems Inc. (Charon) and, on January 27, 2005, an 86% interest in IT solutions provider Nexxlink Technologies Inc. (Nexxlink)
- ◆ Announced an initiative with Microsoft Canada Co. on December 14, 2004, whereby Bell Canada will combine telecommunications services and Microsoft software-based solutions to bring SMB customers reliable, secure, productivity enhancing services at affordable prices.

For Enterprise customers, we launched our Managed IP Telephony service. We also enhanced our portfolio of value-added services through the acquisitions of:

- ◆ Infostream Technologies Inc. (Infostream), a systems and storage technology firm, to address customer needs for secure and reliable information storage and redundant back-up capabilities

- ◆ Approximately 76% of Elix Inc. (Elix), a provider of call routing and management systems, IT application integration, and design and implementation of electronic voice-driven response systems
- ◆ The security business of Emergis

Telesat's Anik F2 satellite began commercial operation in October and became the world's first satellite to commercialize the Ka frequency band. This frequency band delivers two-way broadband services enabling high-speed satellite services to consumers and businesses in Canada and the U.S.

New labour agreements

During the year, Bell Canada reached a new four-year agreement with approximately 7,100 technicians represented by the Communications, Energy and Paperworkers Union of Canada (CEP). This agreement will expire in November 2007.

Aliant reached an agreement with approximately 4,300 unionized employees represented by the Council of Atlantic Telecommunications Unions (CATU), ending a lengthy labour disruption. This agreement will expire in December 2007.

Rewarding Shareholders

On December 15, 2004, having achieved, by the end of 2004, strong sustainable free cash flow generation, a solid capital structure and traction on our strategic initiatives, we announced a 10% or \$0.12 per share increase in our annual dividend on BCE Inc. common shares.

This section reviews the key measures we use to assess our performance and how our results in Q4 2004 compare to our results in Q4 2003.

The Quarter at a Glance

We delivered Q4 revenue growth of 3.5% at BCE and 1.3% at Bell Canada, an improvement in our rate of growth for the fourth consecutive quarter. Consolidated operating income at BCE this quarter was down 17.6% driven by restructuring and other items mainly related to Aliant's employee departure program, costs associated with the new wireless billing platform, the residual impact of the Aliant labour disruption, higher costs of acquisition in our Consumer segment and cost pressures in the Business and Wholesale segments.

In our Consumer business, in the fourth quarter, due to the holiday season, customer acquisitions are typically higher. This quarter, customer acquisitions and bundle sales increased compared to last year and grew our Consumer revenues by 2.3%. Operating income was down 1.5%, impacted by higher costs of acquisition driven by increased customer wins particularly in wireless services. Working through the remaining effects of our wireless billing conversion had a negative impact on both Consumer revenues and operating expenses.

In our Business segment, while competitive pricing pressures persisted, we continued to grow within the SMB market and to increase our IP-based connectivity and VAS within the Enterprise market.

Bell Globemedia continued to demonstrate strong financial performance, driven by advertising revenues that reflected strong television ratings as CTV Television held 16 of the top 20 regularly scheduled programs during the fall season.

CUSTOMER CONNECTIONS

- ◆ **Wireless** We grew our wireless subscriber base by 217,000 customers this quarter, outpacing Q4 2003 net activations by 14.8%. Blended churn of 1.4% and postpaid churn of 1.2% for the fourth quarter were stable year over year.
- ◆ **High-Speed Internet** Our DSL high-speed Internet business added 91,000 customers this quarter. Subscriptions to Sympatico's value-added solutions more than doubled compared to Q4 2003, to reach an end of year count of 624,000.
- ◆ **Video** Net additions of 43,000 in our video business were 23% higher than the net additions achieved in Q4 last year.
- ◆ **Network Access Services (NAS)** Our NAS in service declined by 57,000 this quarter and by 1.1% compared to Q4 2003, a similar rate of decline to previous quarters.

OPERATING REVENUES

We achieved revenues of \$4,989 million this quarter, reflecting a year-over-year increase of 3.5% and a fourth consecutive quarter of improved growth rates. This growth reflected higher revenue performance at Bell Canada driven primarily by increases in wireless, Internet and video services and revenues stemming from the acquisition in November of 360networks included in our Wholesale unit. These increases were partly offset by the negative impact of the Aliant strike. Higher revenues at CGI resulting from the AMS acquisition and stronger advertising revenues at Bell Globemedia also contributed to the overall revenue growth.

OPERATING INCOME AND EBITDA

Operating income for the quarter was \$835 million, down \$178 million compared to the same period last year. This decrease resulted from the recognition of restructuring and other items in the amount of \$126 million in the quarter related to Aliant's employee departure program and costs related to the relocation of employees and the closure of excess real estate facilities at Bell Canada. Operating income before restructuring and other items for the quarter was \$961 million, down \$65 million compared to the same period last year reflecting the impacts of:

- ◆ new wireless billing system implementation costs, particularly call centre costs
- ◆ residual effects of the Aliant strike
- ◆ higher cost of acquisition expense from higher wireless gross activations
- ◆ completion of the Hydro-Québec contract and other cost pressures in Enterprise.

This quarter's results also reflect a higher net benefit plans cost compared to last year and accelerated depreciation expense related to our wireless legacy prepaid platform replacement.

Our EBITDA for the fourth quarter of 2004 totalled \$1,831 million, down slightly from \$1,847 million in the fourth quarter of last year.

This decrease was partially offset by growth in the other BCE units, principally Bell Globemedia from high television advertising revenues and cost savings.

Our EBITDA margin declined to 36.7%, which was 1.6 percentage points lower than Q4 2003.

NET EARNINGS / EARNINGS PER SHARE

Net earnings applicable to common shares for Q4 2004 were \$417 million, or \$0.45 per common share. This compared to net earnings of \$386 million, or \$0.41 per common share, in the fourth quarter last year. Included in this quarter's net earnings were a \$69 million extraordinary gain on the purchase of the Canadian operations of 360networks which was offset by costs of \$69 million mainly for the employee departure program at Aliant and other restructuring and other items. This compared to net losses of \$19 million in Q4 2003. In 2003, the loss on the sale of Emergis U.S. Health operations was partly offset by the gain on the sale of an interest in YPG General Partner Inc.

Excluding the impact of these items, net earnings were \$417 million, or \$0.45 per common share for the quarter, up \$0.03 per common share representing an increase of 7.1% over Q4 2003. The increase stemmed mainly from lower interest expense and a \$0.04 charge in Q4 last year relating to an increase in our net future income tax liability when the Ontario government increased corporate income tax rates.

CAPITAL EXPENDITURES

Capital expenditures totalled \$1,046 million in the fourth quarter. As a percentage of revenues, capital expenditures declined to 21.0% from 22.4% in Q4 of last year. The decline related to reduced spending on our new wireless billing platform. Expenditures were incurred in Q4 2003 in preparation for the May 2004 wireless billing conversion and spending on this project is now largely complete. In Q4, we continued to invest in rolling out our DSL footprint and VDSL strategies.

CASH FROM OPERATING ACTIVITIES AND FREE CASH FLOW

Cash from operating activities for Q4 2004 totalled \$1,307 million, down \$291 million compared to the same period last year, reflecting, in part, higher cash payments related to employee departure programs and changes in working capital. We resolved many invoicing delays associated with the new billing platform in the quarter, bringing our accounts receivable balances to more normal levels at year end.

Negative free cash flow of \$95 million this quarter compared to positive free cash flow of \$184 million in Q4 2003 due to lower cash from operating activities, partly offset by lower capital expenditures.

This section provides detailed information and analysis about our performance in Q4 2004 compared to Q4 2003. It focuses on our consolidated operating results and provides financial information for each of our reportable operating segments.

Financial Results Analysis

OPERATING REVENUES

	Q4 2004	Q4 2003	% change	FY 2004	FY 2003	% change
Consumer	1,911	1,868	2.3%	7,502	7,203	4.2%
Business	1,535	1,516	1.3%	5,851	5,827	0.4%
Aliant	506	527	(4.0%)	2,033	2,059	(1.3%)
Other Bell Canada	511	468	9.2%	1,939	2,015	(3.8%)
Inter-segment eliminations	(160)	(133)	(20.3%)	(538)	(490)	(9.8%)
Bell Canada	4,303	4,246	1.3%	16,787	16,614	1.0%
Other BCE	800	697	14.8%	2,861	2,597	10.2%
Inter-segment eliminations	(114)	(125)	8.8%	(455)	(474)	4.0%
Total operating revenues	4,989	4,818	3.5%	19,193	18,737	2.4%

BY SEGMENT

Consumer

Consumer revenues in the fourth quarter grew by 2.3% to \$1,911 million and 4.2% to \$7,502 million on a full-year basis reflecting continued strength in our wireless, Internet access and video businesses driven by strong gains in the subscribers for these services. Growth in these revenue streams more than offset steady rates of decline in long distance and local and access revenues.

Wireless

Consumer wireless revenues for Q4 2004 and on a full-year basis grew by 15.9% and 15.2%, respectively, compared to the same periods in 2003. These increases were achieved through strong subscriber growth, particularly as a result of the sales programs initiated during the first 4 months of the year. Although revenue performance was solid, we believe that our call centres focus on handling billing inquiries following the implementation of our new billing platform somewhat diminished our

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ability to sell more services to our customers and delayed the implementation of planned price increases.

Video

Video revenues for the fourth quarter 2004 grew to \$219 million and to \$850 million for the full year, reflecting increases of 9.5% and 12.0%, respectively, compared to the same periods last year driven by year over year growth in our subscriber base and average revenue per unit (ARPU). Our total video customer base reached 1,503,000, up 8.4% compared to 1,387,000 customers at the end of 2003.

Growth in video was driven by net activations of 43,000 in the fourth quarter and 116,000 for the full year, which were significantly higher than the 35,000 and 83,000 achieved for the same periods in 2003. The growth in net activations was stimulated by the continued success of the Bell Bundle, as well as initiatives focussed on churn containment which resulted in the lowest churn level since 2001. One of the initiatives is Bell ExpressVu's move to provide services to new DTH customers strictly on a contract basis. As of August 1, 2004, all new DTH customers must opt for a one or two-year contract.

ARPU per month of \$49 for video services increased \$1 for the quarter and \$3 for the full year compared to the same periods last year. The increase in ARPU for the quarter was mainly driven by the elimination of promotional programming discounts in Q3 2004, more customers paying for a second receiver, and higher pay per view revenues. The increase in ARPU for the year was also positively impacted by the \$2 to \$3 rate increase on specific programming packages introduced on February 1, 2003 and the introduction of the \$2.99 system access charge for all customers effective April 28, 2003.

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Our focus on customer retention resulted in a reduction in churn for both the quarter and full year when compared to the same periods last year. Churn for the quarter was 0.8% reflecting a 0.2 percentage point improvement when compared to Q4 2003. Churn for the full year was 1.0% reflecting a 0.1 percentage point improvement compared to full year 2003.

Data

Consumer data revenues grew 20% for the quarter and 21% on a full-year basis. This was driven by growth of 22% in our High-Speed Internet subscriber base and a 49% increase in revenues from our Sympatico.MSN.ca web portal.

Consumer DSL net additions this quarter were up slightly over last year despite increased competitive activity. Bell Sympatico value-added services such as MSN Premium, Security Services and Home Networking added 171,000 subscriptions this quarter and 337,000 on a full-year basis. Our MSN Premium subscriptions this quarter have increased 118% over Q3 2004.

Wireline

Local and access revenues declined slightly for the quarter and on a full-year basis compared to the same periods last year. Lower NAS revenues and related SmartTouch feature revenues partly offset higher revenues from wireline insurance and maintenance plans.

Long distance revenues in Q4 2004 and on a full-year basis were down compared to the same periods in 2003 primarily as a result of volume declines in domestic, overseas and US minutes reflecting competition from non-traditional long distance providers, partially offset by strong sales of pre paid cards. Fourth quarter 2004 wireline revenues also decreased relative to Q4 2003 due to the pricing impact of the \$5 Long Distance Bundle which had an increased take rate during the quarter.

The reduction in higher priced overseas minutes and the impact of the \$5 Long Distance Bundle also led to a lower average wireline revenue per minute in Q4 2004 and on a full-year basis.

Business

Business segment revenues were \$1,535 million this quarter and \$5,851 million for the year, or 1.3% and 0.4% higher, respectively, compared to the same periods in 2003. In each case, increases in wireless revenues driven by subscriber growth and terminal sales and other revenues were offset by declines in long distance, data and local and access revenues.

On November 19, 2004, we completed the acquisition of the Canadian operations of 360networks. The Business segment includes the financial results for the retail portion of this acquisition from that date.

Enterprise

Revenues from enterprise customers decreased this quarter as declines in long distance and data revenues more than offset increases in wireless and terminal sales and other revenues. On a full-year basis, the revenue decline also reflected lower local and access services. Data revenues declined reflecting the completion of the Hydro-Québec outsourcing contract.

Despite the overall decline in data revenue from enterprise customers, our IP-based connectivity and VAS revenues continued to grow significantly. IP-based connectivity and VAS service revenues grew from 22% of enterprise data revenues in 2003 to 43% in 2004. By year-end, over 65% of our Enterprise customers utilized some element of our VAS portfolio.

On December 10, 2004, we announced the signing of a seven-year, \$140 million, exclusive out-sourcing agreement with Manulife Financial for the provisioning and management of its IP-based voice and data services. The outsourcing arrangement will lever our VAS capabilities by using BCE Connexim, Bell Canada's outsourcing and professional services unit, providing an end-to-end solution that reduces and simplifies Manulife Financial's transition to IP. Our outsourcing capabilities play a key role in our strategy of securing the connectivity business of our enterprise customers and preventing possible disinter-mediation by systems integrators.

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Other significant contract wins this quarter included a three-year, \$66 million contract with Fédération des Caisses Desjardins du Québec for a point-of-sale solution across Canada to perform debit transactions, a five-year, \$28 million contract with Ministère du développement économique et régional du Québec for its portal, and a five-year, \$5.8 million contract with La Senza Inc. which will be our first customer to deploy a full IP VPN network to its 300 sites.

SMB

Revenues from SMB customers increased this quarter and for the year as increases in data, wireless and terminal sales and other revenues more than offset revenue declines in long distance and local and access. Recent business acquisitions, such as Accutel Conferencing Systems Inc. (Accutel) and Charon, contributed to revenue growth, as did our continued growth in DSL high-speed Internet access services and value-added solutions services. Subscriptions to VAS increased by 18,000 this quarter and we closed the year at 83,000. Long distance revenues declined due to competitive pricing pressures and lower usage in our payphone business. Local and access revenues were also lower in our payphone business.

Bell West

Bell West continued to grow its customer base leading to increases in local and access and long distance revenues both this quarter and on a full-year basis. In 2001, we were awarded a contract by the GOA to build a next generation network (SuperNet) to bring high-speed Internet and broadband capabilities to rural communities in Alberta. Mechanical construction of the network was completed in December 2004. Data revenues increased this quarter reflecting higher GOA construction revenue compared to Q4 of 2003. On a year over year basis, data revenues declined as a result of lower GOA construction revenue in the amount of approximately \$43 million as this contract nears completion.

Aliant

Aliant segment revenues of \$506 million for the quarter and \$2,033 million for the year declined 4.0% and 1.3%, respectively, compared to the same periods last year. The labour disruption that commenced on April 23, 2004 and concluded on September 20, 2004 negatively impacted revenues for the quarter by an estimated \$14 million bringing the total estimated revenue impact for the year to about \$40 million. The strike resulted in fewer new installations and wireless and Internet activations, slower product sales, lower data growth and the offering of promotional long distance rates. Strong wireless and Internet services growth for the quarter and on a year-to-date basis was more than offset by declines in other areas due to the on going impact of regulatory restriction and competition.

Aliant's wireless revenue grew 13.5% in the quarter and 15.4% on a year-to-date basis over the same periods last year. The growth was driven by a year-over-year increase of 9.6% in Aliant's wireless customer base, including a 26% increase in digital customers, reflecting a positive response to the extensive dealer-supported network, attractive pricing offers and the expansion of digital cellular service into new areas. In addition, ARPU was up \$3 on a year-to-date basis compared to last year, reflecting the impacts of a higher percentage of customers subscribing to digital service, higher usage and increased customer adoption of features.

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Intense long distance competition, the difficulty in maintaining win-back efforts during the labour disruption and substitution of long distance calling with Internet and wireless options by customers resulted in long distance revenue declines for the quarter and the year. Consumer minute volumes were down due to customer losses to competition and the capping of minutes on certain long-distance plans in late 2003. Business long distance pricing declines continued to reflect the impact of competitive pressures, as did long distance volume declines, in addition to a reduction of contact centre activity.

Data revenues for the quarter and on a full year basis declined slightly as higher Internet revenues were more than offset by other data revenue declines from the scaleback of marketing and sales efforts during the labour disruption and the continued rationalization of circuit networks by customers. The continued increase in Internet revenues stemmed from increased popularity of enhanced services and year-over-year subscriber growth of 6%, reflecting 21% growth in Aliant's high-speed Internet customer base. The higher subscriber base reflected the expansion of high-speed Internet service into new areas, attractive introductory offers, an emphasis on bundling with other products and services as well as dealer and on-line sales channels initiatives.

Terminal sales and other revenues declined for the quarter and for the year as a result of slower product sales during the labour disruption and the divestiture of non-core operations in the second and third quarters, which resulted in a reduction in IT service revenue.

Other Bell Canada

Other Bell Canada segment revenues for the quarter were \$511 million, or 9.2% higher, compared to the same period last year. Higher revenues in our Wholesale unit resulting mainly from the acquisition of the Canadian operations of 360networks in the fourth quarter this year and increased long distance revenues due to higher switched minute volumes more than offset the impact of competitive pricing pressures.

On a full year basis, revenues were \$1,939 million, or 3.8% lower, compared to last year reflecting declines in the Wholesale unit stemming from lower long distance and data revenues resulting from price competition, and from customers migrating services to their own network facilities. Last year we also decided to exit certain contracts and promotional offers for international switched minutes that had low margins.

Other BCE

	Q4 2004	Q4 2003	% change	FY 2004	FY 2003	% change
Bell Globemedia	405	375	8.0%	1,420	1,363	4.2%
Telesat	102	99	3.0%	362	345	4.9%
CGI	274	208	31.7%	1,019	838	21.6%
Other	19	15	26.7%	60	51	17.6%
Other BCE revenues	800	697	14.8%	2,861	2,597	10.2%

Other BCE segment revenues were \$800 million this quarter and \$2,861 million for the year or 14.8% and 10.2% higher compared to the same periods in 2003. In each case, revenue growth was driven by CGI's acquisition of AMS in May 2004, as well as higher revenues at Bell Globemedia and Telesat.

Bell Globemedia's revenue grew 8.0% to \$405 million this quarter and by 4.2% to \$1,420 million for the year. Television advertising grew by 8.1% this quarter and by 8.0% for the year reflecting the strength

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of CTV's schedule, which included 16 of the top 20 shows this fall. The NHL lockout had a positive impact on advertising on CTV's conventional television channels, as hockey sponsors sought alternate advertising opportunities which helped offset the loss of advertising on hockey broadcasts on our specialty channels TSN and RDS.

Bell Globemedia's subscriber revenue grew 11.6% this quarter and by 2.4% in 2004 compared to 2003 reflecting specialty channel subscription growth and subscription and newstand cover price increases at The Globe and Mail. Production and other revenue declined 4.3% this quarter and 13.8% for the year as a result of the sale of a 50% interest in Dome Productions Inc. in January 2004.

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Telesat had revenues of \$102 million this quarter or 3.0% higher than the same period in 2003 as higher telecommunications revenues more than offset declines in consulting fees. On a full-year basis, Telesat had revenues of \$362 million or 4.9% higher than 2003 as a result of higher telecommunications and Infosat revenues offsetting lower consulting fees. On October 1, 2004, Telesat's Anik F2 satellite began commercial service and became the world's first satellite to commercialize the Ka frequency band, enabling two-way, high-speed Internet access services to consumers and businesses in Canada and the U.S.

Our share of CGI's revenues was \$274 million this quarter and \$1,019 million on a full-year basis, or 32% and 22% higher respectively driven mainly as a result of CGI's acquisition of AMS in May 2004.

BY BELL CANADA CONSOLIDATED PRODUCT LINES

	Q4 2004	Q4 2003	% change	FY 2004	FY 2003	% change
Local and access	1,397	1,401	(0.3%)	5,572	5,601	(0.5%)
Long distance	560	602	(7.0%)	2,327	2,544	(8.5%)
Wireless	742	658	12.8%	2,818	2,461	14.5%
Data	963	955	0.8%	3,640	3,717	(2.1%)
Video	219	200	9.5%	850	759	12.0%
Terminal sales and other	422	430	(1.9%)	1,580	1,532	3.1%
Total Bell Canada Consolidated	4,303	4,246	1.3%	16,787	16,614	1.0%

Local and access

Local and access revenues of \$1,397 million for the quarter and \$5,572 million for the full year declined slightly by 0.3% and 0.5% compared to the respective periods last year mainly as a result of lower network access services (NAS) and lower SmartTouch feature revenues, partly offset by revenue gains from wireline insurance and maintenance plans.

NAS in service declined by 146,000 or 1.1% over the fourth quarter of 2003 as a result of continued pressure from growth in high-speed Internet access which reduces the need for second telephone lines, losses from competition, and customers substituting wireline with wireless telephone service.

Long Distance

Long distance revenues were \$560 million for the quarter and \$2,327 million on a full-year basis, reflecting year-over-year decreases of 7.0% and 8.5%, respectively, compared to the same periods in 2003. These declines stemmed from lower long distance revenues in both our Consumer and Business markets. The Consumer segment reflected lower minute volumes and lower domestic rates, as well as the pricing impact of increased subscriptions to the \$5 Long Distance Bundle. The Business segment was impacted by volume and price declines resulting from competitive pressures.

Overall, minute volumes this quarter declined 2.7% to 4,559 million and 5.6% to 18,070 million on a full-year basis compared to the same periods last year. ARPM also decreased in the quarter to \$0.109, reflecting a decrease of 10.7% impacted mainly from the acceleration of our bundle take-up rate. On a full-year basis, ARPM declined slightly by \$0.007 compared to last year.

Wireless

Wireless service revenues of \$742 million for the quarter and \$2,818 million on a full-year basis increased 12.8% and 14.5%, respectively, over the same periods last year. Revenue increases were driven by subscriber growth of 11.6%, as well as an ARPU increase of \$1 per month for the full-year results. Revenue growth was impacted by our call centre's focus on handling the high volume of billing inquiries after the migration to a new billing platform, diminishing our ability to sell more services to our customers and to implement planned price increases.

Our total cellular and PCS subscriber base reached 4,925,000 at the end of the fourth quarter. Net additions of 217,000 for the fourth quarter were higher than the net additions of 189,000 in Q4 2003. For the year, net activations were 513,000, essentially unchanged over last year. Despite the transfer to the new billing platform and increased competitive pressures, we achieved solid subscriber growth through focussed marketing campaigns and strong churn management. As a result, blended churn of 1.4% and postpaid churn of 1.2% in Q4 2004 were unchanged compared to the same period last year. On a full-year basis, blended churn of 1.3% and postpaid churn of 1.1% improved by 0.1 and 0.2 percentage points, respectively, over 2003. Including paging subscribers, our total wireless customer base totalled 5,352,000.

For the quarter, gross activations from post-paid rate plans decreased to 71% of the total gross activations due to a very successful Grab n Go prepaid offer. On a full-year basis, 75% of gross activations came from post-paid rate plans, compared with 80% for 2003. We ended the year with 76% of our total cellular and PCS subscriber base consisting of post-paid customers, unchanged from the end of Q4 2003.

Total ARPU of \$50 for the quarter was unchanged over Q4 2003, while post-paid ARPU was down \$1 over the same period last year. Post-paid ARPU was impacted by issues surrounding the migration of customers to the new billing system including delayed price increases, billing adjustments and the cancelling of late payment fees. Prepaid ARPU of \$13 for Q4 2004 was up \$1 over last year due to increased revenues from higher usage. On a full-year basis, both blended ARPU of \$49 and post-paid ARPU of \$61 increased \$1 over the same periods last year, driven by increased revenues from value-added services, such as Message Centre and Call Display, data and long distance services, as well as higher usage.

To further strengthen our wireless data revenues, we announced plans to rollout the fastest and most advanced wireless data network in Canada through EVDO technology. This will allow users to download data on their mobile devices up to six times faster than the fastest wireless network currently available in Canada. With speeds of up to 2.4 Mbps, customers will be able to use data-rich content and run applications such as e-mail, video messaging, gaming, video conferencing, telematics and streaming entertainment.

Data

Data revenues of \$963 million in Q4 2004 increased slightly by 0.8% compared to \$955 million in the same period last year. The improvement was a result of growth in high-speed Internet services, revenues related to acquisitions and revenues from the GOA contract, which more than offset declines from the completion of the Hydro-Québec outsourcing contract and price competition. On a full-year basis, data revenues of \$3,640 million in 2004 were 2.1% lower than 2003, as growth in high-speed Internet services and revenues related to acquisitions were more than offset by lower construction revenues related to the GOA contract, declines resulting from competitive pricing and volume

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pressures including wholesale customers migrating their traffic onto their own networks, the completion of the Hydro-Québec contract, and our exit from the low margin cabling business.

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The number of high-speed Internet subscribers increased by 91,000 this quarter and by 350,000 on a full-year basis to reach a total subscriber count of 1,808,000. While net additions this quarter were slightly up compared to Q4 2003, on a full-year basis, net additions were slightly down, due to an increasingly competitive environment. Total dial-up customers amounted to 743,000 at the end of this year compared to 869,000 at the end of 2003.

Video

See discussion under Consumer Segment

Terminal sales and other

Terminal sales and other revenues were \$422 million this quarter or 1.9% lower compared to the same period last year mainly as a result of lower revenues related to equipment sales, particularly wireless handsets, due to higher discounting during the holiday season, slower product sales at Aliant as a result of the labour disruption and Aliant's divestiture of non-core assets in the second and third quarters resulting in lower Aliant IT service revenue. On a full-year basis terminal sales and other revenues were \$1,580 million, up 3.1% compared to 2003 mainly as a result of higher equipment sales (wireless handsets, satellite dishes and receivers) and growth from the acquisitions made during the year, which more than offset declines from slower product sales at Aliant.

OPERATING INCOME

	Q4 2004	Q4 2003	%	FY 2004	FY 2003	%
			change			change
Consumer	464	471	(1.5%)	2,119	2,019	5.0%
Business	183	199	(8.0%)	896	781	14.7%
Aliant	23	108	(78.7%)	268	415	(35.4%)
Other						
Bell Canada	61	152	(59.9%)	(588)	621	(194.7%)
Bell Canada						
Consolidated	731	930	(21.4%)	2,695	3,836	(29.7%)
Other BCE	104	83	25.3%	281	285	(1.4%)
Total operating income	835	1,013	(17.6%)	2,976	4,121	(27.8%)

CONSOLIDATED

Our operating income of \$835 million for the fourth quarter and \$2,976 million for the year reflected declines of \$178 million and \$1,145 million, respectively, compared to the same periods last year. These decreases resulted from the recognition of restructuring and other items of \$126 million in the quarter and \$1,224 million for the year mainly related to Bell Canada's and Aliant's employee departure programs and other charges consisting primarily of closure costs for excess facilities and asset write-downs.

In June 2004, Bell Canada announced a two-phase voluntary employee departure program. Under this program, 5,052 employees or approximately 11% of Bell Canada's workforce elected to receive a package. By year end, approximately 4,900 employees had left the company.

During the fourth quarter, Aliant offered a voluntary early retirement program to eligible employees. The offer was accepted by 693 employees, or 8% of Aliant's workforce. Of these employees, about 400 had left the company by January 1, 2005, with the remainder scheduled to leave through the early part of 2005.

Excluding the impact of the restructuring and other items, operating income of \$961 million for the quarter was down \$65 million compared to the same period last year. This decline resulted mainly from increases in operating expenses, amortization expense and a higher net benefit plans cost which more than offset the contribution from higher revenues. The higher operating expenses for the quarter were driven by higher costs of acquisition related to subscriber increases in wireless, higher salaries mainly from the 2.8% wage increase effective December 1, 2004 for CEP members, higher contact centre agent costs to support increased call handling times associated with our new wireless billing conversion, as well as the negative residual impact of Aliant's labour disruption.

On a full year basis, operating income excluding the impact of the restructuring and other items reached \$4,200 million, reflecting an increase of \$65 million stemming from operating income growth in our Consumer and Business segments as well as improvements in Bell Globemedia and Telesat in the Other BCE Segment, driven by the underlying growth in these sectors.

Wireless costs of acquisition (COA) of \$402 per gross activation in the quarter and \$411 on a full-year basis improved by \$43 and \$15, respectively, over the same periods last year, driven primarily from more targeted and cost-effective advertising campaigns.

COA for video services for the quarter of \$537 per gross activation improved \$44 compared to the same period last year as a result of lower set-top box pricing, partly offset by a higher number of customers taking second receivers as a result of our 2TV bundle and free installation promotion. For the year, video COA of \$571 per gross activation was up \$39 due to more customers taking a second receiver and aggressive retail pricing by competitors.

Amortization expense of \$803 million for the quarter increased \$28 million primarily due to a higher capital asset base and accelerated full amortization of the wireless legacy prepaid platform. Amortization expense of \$3,108 million for the full year was stable compared to 2003. The impact of our higher capital asset base was offset by lower amortization from an increase in the estimated useful life of Bell Canada's internal use software from 3 to 4 years, effective October 1, 2003.

Net benefit plans cost totalled \$67 million for the quarter and \$256 million year-to-date, increases of \$21 million and \$81 million compared to the same periods last year. These increases resulted primarily from a higher accrued benefit obligation based on our most recent actuarial valuation.

BY SEGMENT

Consumer

The Consumer segment achieved operating income of \$464 million in the quarter, or 1.5% lower, and \$2,119 million for the year, or 5.0%, higher compared to the same periods in 2003. For the full year, growth reflected the increase in revenues partially offset by increased operating expenses related to salaries, cost of goods sold and higher net benefit plans cost compared to the full year of 2003. For the fourth quarter, the decline in operating income was caused by the accelerated full amortization of the wireless legacy prepaid platform and the costs of activating more subscribers.

In addition, higher costs were driven by the increase in the number of contact centre agents to support increased customer handling time associated with the Bell Bundle and increased call volumes resulting from the implementation of the new billing platform.

Business

On a full-year basis, despite essentially flat revenue growth, business segment operating income was \$896 million, or 14.7% higher than 2003. Our strategy of driving the shift to IP with improved profitability through ongoing productivity has traction and is delivering.

Business segment operating income this quarter was \$183 million or 8.0% lower than the same period last year reflecting some unusual pressures which included:

- the completion of the Hydro-Québec contract in Q4 2003. At the end of the contract, there were some additional asset sales to Hydro-Québec that exacerbated the impact of this contract in Q4.
- the costs of the mobility billing conversion.
- costs associated with the workforce realignment due to the restructuring program executed during the quarter which led to the departure of 2,000 employees associated with the Business segment. The costs were primarily related to preparation and training for Q1 2005, especially in customer service network operations which suffered the bulk of the departures.

In the Enterprise unit operating income declined for the quarter mainly as a result of the completion of the Hydro-Québec contract in 2003, and cost pressures, in part due to the impact of the implementation of the wireless billing system. On a full-year basis, the Enterprise unit achieved strong operating income growth reflecting our focus on more profitable contracts, as well as overall productivity which led to reductions in cost of goods sold, partly offset by higher operating expenses of acquired businesses during the year (Infostream and Elix).

Our SMB unit incurred higher salary expenses and cost of goods sold related to its increased revenues from business acquisitions (Accutel and Charon).

Bell West incurred lower cost of goods sold related to the GOA contract this quarter and on a full-year basis. Salary expenses at Bell West are higher this year reflecting a growing workforce.

Aliant

Aliant's operating income for the fourth quarter was \$23 million and was \$268 million for the year reflecting declines of \$85 million, or 79%, and \$147 million, or 35%, respectively, compared to the same periods last year.

The estimated impact of the labour disruption on operating income during the fourth quarter and on a year-to-date basis was approximately \$13 million and \$68 million, respectively. Operating expenses were negatively impacted by the labour disruption by an estimated \$31 million year-to-date. Costs incurred during the labour disruption consisted primarily of security requirements and property repairs to enable operations to continue with relatively few interruptions and to ensure the safety of employees, up-front costs to train and equip management employees for their new roles and overtime costs to meet increased customer demand during the third and fourth quarters, a traditionally busy period.

During the fourth quarter, Aliant offered a voluntary early retirement program to eligible employees. The offer resulted in a charge of \$67 million, or \$24 million after taxes and non-controlling interest, in the fourth quarter.

In addition, the year-over-year operating income declines reflected higher operating expenses from growth in wireless and Internet services relating to costs of acquisition, increased customer service levels, an increase in net benefit plans cost, normal wage and annual salary adjustments and higher amortization expense resulting from a higher proportion of capital spending in broadband and wireless assets in recent years that have shorter depreciable lives. These increases were partly offset by lower operating costs stemming from the Xwave restructuring in 2003 and the divestiture of non-core operations in the second and third quarters.

Other Bell Canada

Operating income for the Other Bell Canada segment was \$61 million this quarter, or 60% lower than the comparable period in 2003, reflecting restructuring and other charges of \$56 million related mostly to the relocation of employees and closure of excess real estate facilities as well as higher salary costs and higher cost of goods sold within our Wholesale unit.

On a full-year basis, the Other Bell Canada segment had operating losses of \$588 million compared to operating income of \$621 million in 2003 due to restructuring and other items of \$1,147 million related mostly to the voluntary employee departure program announced in June 2004.

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Underlying operating performance, before restructuring items, decreased by 29% this quarter and 9.7% on a full-year basis compared to the same periods last year. The decrease reflected higher costs associated with increased volumes of cross-border carrier exchange traffic and repricing for data and long distance services.

Other BCE

Operating income for the Other BCE segment grew by 25% this quarter to \$104 million. Growth in operating income at Bell Globemedia, Telesat and CGI offset higher corporate expenses. On a full-year basis, the Other BCE segment had operating income of \$281 million, 1.4% lower than 2003 as higher corporate expenses more than offset higher operating income at Bell Globemedia, Telesat and CGI.

Both Bell Globemedia's and Telesat's operating income grew due to revenue growth and cost savings. CGI's operating income grew reflecting its acquisition of AMS. Corporate expenses increased reflecting higher net benefit plans cost and an increased level of corporate activities.

OTHER ITEMS

	Q4 2004	Q4 2003	%	FY 2004	FY 2003	%
			change			change
Operating income	835	1,013	(17.6%)	2,976	4,121	(27.8%)
Other income	18	127	(85.8%)	411	175	134.9%
Interest expense	(247)	(266)	7.1%	(1,005)	(1,105)	9.0%
Pre-tax earnings from continuing operations	606	874	(30.7%)	2,382	3,191	(25.4%)
Income taxes	(199)	(331)	39.9%	(710)	(1,119)	36.6%
Non-controlling interest	(40)	(57)	29.8%	(174)	(201)	13.4%
Earnings from continuing operations	367	486	(24.5%)	1,498	1,871	(19.9%)
Discontinued operations	(2)	(86)	97.7%	26	(56)	146.4%
Net earnings before extraordinary gain	365	400	(8.8%)	1,524	1,815	(16.0%)
Extraordinary gain	69		n.m.	69		n.m.
Net earnings	434	400	8.5%	1,593	1,815	(12.2%)
Dividends on preferred shares	(17)	(14)	(21.4%)	(70)	(64)	(9.4%)
Premium on redemption of preferred shares					(7)	n.m.
Net earnings applicable to common shares	417	386	8.0%	1,523	1,744	(12.7%)
EPS	0.45	0.41	9.8%	1.65	1.90	(13.2%)

n.m.: not meaningful

EPS improved by \$0.04 to \$0.45 in Q4 2004, compared to Q4 2003. Factors increasing EPS included non-recurring items of \$0.01 relating to net gains on investments and restructuring and other items, higher future income taxes of \$0.04 in Q4 2003 following the increase in corporate tax rate made by the Ontario government, an increase in other miscellaneous income of \$0.03 and a decline in interest expense of \$0.01. Factors decreasing EPS resulted from a shortfall in EBITDA of \$0.02, an increase in amortization expense of \$0.02 and an increase in net benefit plans cost of \$0.01.

For 2004, EPS decreased by \$0.25 to \$1.65, compared to 2003. Non-recurring items of \$0.37 relating to restructuring and other items and net gains on investments, an increase in net benefit plans cost of \$0.05, lower foreign exchange gains of \$0.03 and a decline in other miscellaneous income of \$0.02 contributed to the decrease. These decreases were offset partly by improvements in EBITDA of \$0.11, a decline in interest expense of \$0.07 and the impact of the increase in the Ontario tax rate.

OTHER INCOME

Other income of \$18 million in Q4 2004 decreased \$109 million compared to the same period last year. The decline mainly relates to a decrease in net gains on investments as a 3.66% interest in YPG General Partner Inc. was sold in Q4 2003 for a gain of \$120 million partly offset by a \$44 million loss from the write-down of a number of our cost-accounted investments. In addition, interest income was lower due to lower average cash balances in 2004.

For the full year 2004, other income increased by \$236 million to \$411 million, compared to the same period last year. The increase mainly relates to:

- ◆ a gain of \$108 million from the sale of Bell Canada's remaining 3.24% interest in YPG General Partner Inc. for net cash proceeds of \$123 million. Capital loss carryforwards fully sheltered the taxes on the gain.
- ◆ a gain of \$217 million from the sale of BCE Inc.'s 15.96% interest in MTS for net cash proceeds of \$584 million. On August 1, 2004, as a result of a corporate reorganization, the MTS shares were transferred from Bell Canada to BCE Inc. This reorganization ensured that capital loss carryforwards at BCE Inc. would be available to fully shelter the taxes on the gain.

These were partly offset by a \$120 million gain from the sale of a 3.66% interest in YPG General Partner Inc. for net cash proceeds of \$135 million in Q4 2003.

We also had higher miscellaneous income in 2004, partly offset by higher foreign exchange gains in 2003. In April 2003, we entered into forward contracts to hedge U.S.\$200 million of long-term debt at Bell Canada that had not been hedged previously. This removed the foreign currency risk on the principal amount of that debt, which has minimized the effect of foreign exchange in 2004.

INTEREST EXPENSE

Interest expense of \$247 million in Q4 2004 and \$1,005 million for the full year of 2004 showed a 7.1% and a 9.0% decline, respectively, compared to the same periods last year due to \$815 million of debt repayments (net of issues) year-over-year. The decline in average debt levels was driven mainly by positive free cash flows. The average interest rate on our outstanding debt in Q4 2004 and on for the full year was 7.1% which is comparable to the same periods last year.

INCOME TAXES

Income tax expense of \$199 million in Q4 2004 and \$710 million for 2004 represents a 40% and 37% reduction, respectively, compared to the same periods last year mainly from:

- ◆ lower pre-tax earnings
- ◆ no tax on the gains on sale of MTS and YPG General Partner Inc. in Q3 2004 due to the availability of capital loss carryforwards, partly offset by restructuring charges in Q3 2004 related to future lease costs for excess facilities which are not tax deductible

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- ◆ \$14 million of additional future income tax expense in Q4 2003 when the Ontario government raised corporate tax rates to 14% for 2004 and subsequent years
- ◆ the reduction in the statutory income tax rate to 34.3% in 2004 from 35.4% in 2003 also contributed to a reduction in the effective tax rate in the quarter.

As a result of these items, the effective tax rate was 29.8% for the full year of 2004 compared to 35.1% in the same period last year.

NON-CONTROLLING INTEREST

Non-controlling interest of \$40 million in Q4 2004 represents a 30% decrease compared to the same period last year. The decrease was due to lower earnings at Aliant as a result of the restructuring charge, partly offset by the impact of purchasing MTS's interest in Bell West.

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For the full year of 2004, non-controlling interest of \$174 million was 13.4% lower compared to the same period last year. The decrease resulted from:

- ◆ a higher net loss at Bell West due to the loss on the GOA SuperNet contract in Q2 2004
- ◆ lower earnings at Aliant as a result of the strike and the restructuring charge partly offset by
- ◆ higher earnings at Bell Globemedia and Bell Nordiq.

DISCONTINUED OPERATIONS

The net gain from discontinued operations of \$26 million in 2004 consisted of:

- ◆ a gain of \$58 million on the sale of our 63.9% interest in Emergis in the second quarter partly offset by
- ◆ our share of Emergis' operating losses of \$44 million.

The net loss from discontinued operations of \$56 million in 2003 consisted of a loss of \$160 million relating to Emergis' sale of its U.S. Health operations in the fourth quarter.

The loss was partly offset by:

- ◆ net gains of \$56 million on our share of Aliant's sales of its emerging business and remote communication segments
- ◆ net gains of \$39 million from the use of available loss carryforwards that were applied against taxes payable on Bell Canada's sale of its 3.24% interest in YPG General Partner Inc. and Aliant's sale of its investment in Stratos Global Corporation (Stratos).
- ◆ our share of operating gains from the discontinued businesses of \$9 million.

EXTRAORDINARY GAIN

We purchased the Canadian operations of 360networks in the fourth quarter of 2004 for \$293 million in cash. The fair value of the net assets acquired exceeded the purchase price by approximately \$227 million. This resulted in negative goodwill which is presented as an extraordinary gain in the statement of operations. For accounting purposes, the excess was eliminated by:

- ◆ reducing the amounts assigned to the acquired non-monetary assets (e.g. capital and intangible assets) to nil
- ◆ recognizing the balance of \$69 million as an extraordinary gain.

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This section tells you how we manage our cash and capital resources to carry out our strategy and deliver financial results. It provides an analysis of our financial condition, cash flows and liquidity on a consolidated basis.

Financial and Capital Management

CAPITAL STRUCTURE

At December 31	2004	2003
Debt due within one year	1,276	1,519
Long-term debt	11,809	12,381
Less: Cash and cash equivalents	(380)	(585)
Total net debt	12,705	13,315
Non-controlling interest	2,914	3,403
Total shareholders' equity	14,032	13,573
Total capitalization	29,651	30,291
Net debt to capitalization	42.8%	44.0%
Outstanding share data at end of period (in millions)		
Common shares	925.9	924.0
Stock options	28.5	25.8

Our net debt to capitalization ratio was 42.8% at the end of 2004, an improvement from 44.0% at the end of 2003. This reflected lower net debt and higher total shareholders' equity, partly offset by lower non-controlling interest.

Net debt was reduced by \$610 million to \$12,705 million in 2004. This was driven mainly by \$898 million of free cash flow generated in 2004 and approximately \$1 billion of net cash proceeds from the disposition of our 15.96% interest in MTS (\$584 million), our 63.9% interest in Emergis (\$315 million) and our remaining 3.24% interest in YPG General Partner Inc. (\$123 million). We invested \$1.3 billion in acquisitions in 2004.

Non-controlling interest declined by \$489 million driven by Bell Canada's purchase of MTS's 40% interest in Bell West and the sale of our investment in Emergis.

Total shareholders' equity increased \$459 million to \$14,032 million in 2004. This was mainly a result of \$413 million of net earnings in excess of the dividends declared on common and preferred shares in 2004.

SUMMARY OF CASH FLOWS

	Q4 2004	Q4 2003	FY 2004	FY 2003
Cash from operating activities	1,307			