LYA Commentary and ROBTV Interview on BCE's IVQ 2005 Results and announcements released on February 1, 2006

LYA is pleased to provide the following summary of comments further to Mr. Robert Yates' interview with ROBTv's Michael Hainsworth. The interview took place on Wednesday, February 1, 2006.

BCE, parent of Canada's largest ILEC Bell Canada, released its results for 2005 and also announced key initiatives. The initiatives can be boiled down into three areas…

1. Continued staffing reductions. Bell will reduce employees by 3,000 to 4,000 in 2006, representing a reduction of approximately 5%. While it has previously reduced staff, notably in 2004, as part of the Galileo program, management likely feels there is more trimming that can be done. LYA estimates that Bell currently operates at $306,000 in revenue per employee, about 20% lower than Telus or US-based Verizon.

2. Spin offs… 1.6 million telephone line customers in rural and regional areas of Ontario and Quebec are going into a new income trust – similar to Bell Nordiq but bigger. The new trust will use the Bell and Sympatico brands. It will have both residential and in-territory business customers, but not wireless – unlike Bell Nordiq – and not ExpressVu. Operationally a bit confusing, there are no doubt some kinks to work out. Financially speaking, BCE will distribute units to existing shareholders representing an 8% reduction in shares outstanding. The combination of the current dividend and income trust distributions will result in a 6% increase to shareholders. The new trust will have estimated revenues of $1.2 billion, 1,000 employees, an EBITDA margin of 50% and plans to spend annual capex of $150 million. This is intended to focus on broadband since DSL is not yet available to many of the customers to be included in the trust. After capex and interest there will be an estimated $380 million in cash to distribute. Another partial spin-off is a planned $1 billion IPO of Telesat shares. Telesat has been "on a roll", completing an acquisition in 2005 and realizing revenue

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growth of 31%. In 2006 Telesat will be launching a new satellite to address the future market for digital television (DTV) transmission.

3. The above initiatives will allow management to focus on core strategy – to move the majority of business to "next generation" revenues. The objective is to be 65% next gen – i.e. wireless and broadband – by the 2008-2009 timeframe. Telus has been aggressively transitioning its business to wireless and broadband, now accounting for around 60% of revenues up from 27% in 2000. A major component of this for Bell as with the industry overall is the growth in wireless services. Wireless accounts for 40% of Telus' revenues as well as those of Verizon and other operators such as BellSouth. Bell is at 18%. Given Bell's product mix it may not be able to reach 40%, but there is clearly a lot of room for growth.

Bell's recent divestiture of stakes in CGI and Bell Globemedia, as well as the new trust and a future IPO for Telesat will generate significant funds for investment. For now Bell is using cash to pay down debt on its balance sheet, buy back some shares and increase pension plan funding. But there is no shortage of future ways to spend money. Recently, speculation was that Bell would buy Shaw Communications. So far, amid denials all around, this appears to have been simply idle speculation. BCE is currently projecting declines in capex spending, but *a propos* to the core focus, Bell could in fact see a growing need for capital investment. Its capex program, albeit large at more than $3 billion per year, represents 18% of revenues currently projected to decline to 16%-17%. While this would still be higher than Telus at 13%, and comparable to Rogers, it is below Verizon, which is at 20%. Increased capex could focus on a variety of initiatives… IPTV and delivery of digital video, related high-speed access investment in fiber-to-the-node (FTTN), wireless data (now at 6% of wireless revenues), broadband and wireless broadband, and other areas such as IP-video for businesses.

Please feel free to send us your comments or questions by email at lya@lya.com.