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BCE Inc. Privatization: Fact or Fiction?

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Introduction

As he read his newspaper on the morning of March 29, 2007, Michael J. Sabia, CEO of BCE Inc. (Bell Canada) (NYSE/Toronto: BCE), could not help but feel the pressure being raised a notch. Rumours had been rife for several weeks that a private investment company would attempt to acquire control of his corporation. Now, in a financial paper, he was reading more details confirming that talks between Bell Canada and the New York firm Kohlberg Kravis Roberts & Co. regarding the private buy-out were at an advanced stage.

The past weeks' rumours had been enough that Bell Canada shares were trading at $29.15; two days before they had hit a 52-week high of $ 30.02. Mr. Sabia well knew that another official denial would have absolutely no impact and in fact would do nothing but add plausibility to the rumours. Only two days before, a Bell Canada spokesperson had denied the existence of the buy-out talks, but that had merely put a momentary brake on the steady rise in the price of BCE shares. Some decisions had to be made very quickly.

The offer that was the subject of so much speculation did in fact exist. It was in the neighbourhood of $30 billion, 20% more than the market capitalization of Bell Canada, which was valued at $24 billion. But there were multiple questions to which Michael Sabia had to find an answer. Was the value of the offer really as good as it looked given Bell's current financial situation and its future outlook? How would the money be paid? Should the offer be approved and recommended, first to the members of Bell's board of directors and then to its shareholders? Would it be better to wait until the other organizations that had indicated an interest actually came out with their offers? And what position would the Canadian communications regulatory authorities take, given that Canadian law prohibited foreign companies from owning a majority of Bell Canada shares? So many questions whose answers had to be part of Mr. Sabia's eagerly awaited final official report.

BCE Inc. and the Canadian Telecommunications Market

BCE Inc. is Canada's oldest and largest communications company with over $17 billion in revenues in 2006. BCE offers a wide variety of wire line, voice and wireless communications services to both residential, business and wholesale customers. In 2006, BCE derived 30% of its total revenues from "local and access" products and services, 24% from "data", 20% from "wireless", 10% from "long distance", 9% from "terminal sales and other" and 7% from the "video" segment. Between 2005 and 2006, BCE's "local and access" and "long distance" as well as "terminal sales and other" segments were losing revenue share to competition, showing declines in revenues of the order of 4.6%, 12.5%, and 3.7% respectively. The "video" and "wireless" segments were adding revenues at 17.8% and 13.2%, respectively. The "data" segment showed slower revenue growth with only 2.6%.

40% of BCE Inc.'s operating revenue came from its "residential" segment, 33% from its "business" segment, 17% from its "Bell Aliant" segment, 8% from its "other Bell Canada" segment and 2% from "other BCE" segment*(BCE Inc. Annual Report 2006).* As such BCE was a well-diversified large telecommunications company unlike many of its Canadian and even US counterparts.

Following rapid and breathless changes in technology, competitive and regulatory landscapes and increasing consumer demands, the telecom giant reorganized its business holding structure in the spring of 1983 with BCE Inc. becoming the parent company of Bell Canada, Bell Aliant and other Bell Canada segments, notably the wholesale business providing access and network services to other providers of local, long distance, wireless, internet, data and other telecommunications services (e.g., Northwestel).

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The product and service line of BCE Inc. includes local and wire line access and long distance services, data and high-speed internet subscriptions, wireless and video subscriptions (see product line analysis chart p.27 AR2006). In 2006 and early 2007, the Canadian telecom market was changing rapidly, following other parts of the world and the extensive internet and wireless penetration rates worldwide. The traditional wire line telephone service was undergoing one of the sharpest drops in subscriptions and a phenomenal growth in wireless subscriptions continued to characterize the industry as a whole. The wireless and interactive data, video and other internet-based services were contributing more profit margin enhancement power to the major telecom firms.

While the telecom industry in Canada is dominated by few major players, such as Telus Corp., Rogers Communications Inc., Shaw Communications Inc. and Manitoba Telecommunications Services Inc., it is quite heavily regulated by federal government agencies, namely the CRTC (Canadian Radio-television and Telecommunications Commission) The CRTC regulates prices and tariffs and access to facilities such as telecom networks. It attempts to balance competition requests for increased access to network infrastructure with the rights of the leading companies such as BCE and Telus to compete effectively and freely with market entrants and rivals by deciding how much to charge for access to those facilities and networks.

Telus and Rogers are among the closest and fiercest competitors to Bell Canada and Bell Aliant (BCE subsidiaries). Although Rogers is mainly a wireless and cable player, it is well positioned to capture market share from both BCE and Telus, which it did as consumers fled wire line to wireless and internet services, and is further encouraged by the CRTC decision to let consumers keep their wire line numbers should they decide to switch to wireless instead.

By fall of 2006, the telecommunications industry in Canada was restructuring itself to provide more shareholder returns and respond more efficiently to competitive foreign and regulatory pressures. Telus Corp. for example announced a plan to restructure its business by proposing to move to an income trust with an estimated market capitalization of C$20 billion. Telus intended to consolidate its shares into one single class of units following this income trust proposal and needed two thirds of its shareholder approval to proceed. It was "inspired" by BCE Inc.'s Bell Aliant Regional Communications Income Fund created earlier in that year and figured a similar move would make its shareholders "happy," since it had been highly profitable particularly in its wireless high-growth business and would pass some of those gains in a tax-efficient way to its shareholders. Income trusts allow the company to pay out regular distributions to unit holders before corporate taxes are considered and taxes on such distributions are paid by the unit holders rather than the company. Telus's plans to convert to an income trust were abandoned following the statement by the minister of finance that income trusts would be taxable at the company level in November of that year.

Bell Canada's Principal Competitors

BCE Inc. faces increased competition from its traditional competitors (i.e., telephone companies) but also from non-traditional players such as cable and broadcasting companies. The rapid and transformative evolution of the telecommunications sector in North-America and worldwide, following the rapid penetration of personal computers, the internet, VoIP, IPTV, and other information and communication services, had blurred the frontiers between telecommunications, wireless and phone manufacturers, broadcasting companies and telephone giants. With its legacy wire-line networks and systems at risk of quickly becoming obsolete and its heavy reliance on capital to keep operating its networks and equipment, BCE was becoming less competitive in its own market space. The CRTC decision to uphold its May 2005 ruling that allows it to regulate

VoIP services pricing did not help BCE or Telus (its main competitor) to use their pricing power over the new rivals in setting their product and service offerings. Later on and in spring 2007, the deregulation of the local telephone industry in Canada was well underway. The industry minister amended changes to the CRTC final proposals to speed up the deregulation of pricing and competition structure in Canada, citing consumer benefits from increased competition and more reliance on market forces and innovation incentives in the telecom industry.

Bell Canada's Financial Situation

With 55,000 employees and a market capitalization of $20 billion, Bell is the colossus of the Canadian telecom industry. It is also one of the few widely held Canadian corporations. The Ontario Teachers' Pension Plan (OTPP), with only 6.3% of its shares, is Bell's largest shareholder.

Over the previous year, OTPP had not disguised its dissatisfaction with the market performance of Bell's shares, which it attributed in large part to the quality of the corporation's management. In fact, since its high of $45 in 2001, the price of Bell shares had dropped in 2002, and continued to fluctuate between $25 and $35 over the next five years without ever really showing any signs of picking up.

However, Bell shares have often been categorized as a 'Strong Buy' by brokers and investment dealers. With a beta between 0.3 and 0.5, its shares have always been regarded as a safe long-term investment with good revenue stability for investors.

Appendix 1 shows Bell Canada's main financial and accounting indicators to December 31 for the years for 2004, 2005 and 2006, as well as some projections for the first two quarters of 2007.

Bell Canada's Future Outlook

Because of its place in the Canadian economy in general and the stock market in particular, Bell Canada has always been followed by financial analysts and investment advisers and consultants. But several surveys conducted over the previous two years indicated that the company did not enjoy the same reputation with its customers as it did with its shareholders.

For this reason, Lemay-Yates Associates Inc. (LYA), a management consulting firm specializing in the telecommunications sector, had recommended to Bell that it improve its customers' perception by emphasizing a more aggressive innovation strategy. LYA told Bell that it would have to take action if it was to remain the major player in its sector over the next 5 to 10 years, whatever the outcome of the takeover process. Action would inevitably have to be along two main lines:

- Specialization in the most promising future niches, which would entail disposing of some of its assets. Bell could no longer be satisfied with its residential telephone and cable television service. The future of communications was moving rapidly to wireless and fibre optics, and therefore IP telephone and television.
- Geographic diversification through a carefully planned internationalization strategy. "It's a shame," said LYA, that this Canadian telecom giant had almost no international operations. It should not be satisfied with the regulatory regime in Canada, which had for so long protected it from foreign takeovers, but should be much more aggressive in taking over foreign companies. Moreover, LYA said, there was very little potential for Bell to grow significantly in Canada.

Features of the Offer

The first offer to buy came from the New York firm Kohlberg Kravis Roberts & Co. Aware of the regulatory barriers that prohibit foreign companies from holding more than 47% of a Canadian telecom company, the US firm had formed an alliance with the Canada Pension Plan

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Fund (CPPF) to make an offer of almost $30 billion in cash. Several other companies and pension funds were also showing interest. Another private New York investment company, Ceberus Capital Management (CCM), with different Canadian partners, made a partial offer with a more complex payment scheme. There were rumours as well of interest on the part of Telus.

But a month later, the most promising offer so far seemed to be that of the OTPP in partnership with the New York Equity multinational Providence Equity Partners (PEP), one of the biggest private investment companies specializing in communications in the world. The offer's net value was $34.8 billion, plus a $16.9 billion buy-back of the company's debts, making its total value $51.7 billion.

If the offer was accepted as it stood, OTPP and PEP would pay $42.75 per share in cash, which represented an average capital gain of almost 40% over the price of Bell shares before all the rumours of talks started. If successful, this would be the biggest takeover ever seen in Canada. The result would be that OTPP's stake in Bell would go from 6.3% to 52%, while that of its US partner would be 32%. The remaining shares would be held by a few private investors.

Just because the OTPP-PEP offer was the best so far did not necessarily mean that it was a good one. Michael Sabia was well aware that Bell's shareholders could vote against the offer for one reason or another. They might consider it undervalued, given the corporation's current financial situation and its future outlook, or deem the method of payment disadvantageous to them. They might also simply refuse to give up what had always been considered one of the few sure long-term bets and sources of stable dividends for individual Canadian investors.

Mr. Sabia had the difficult task of recommending to his shareholders whether the offer should be accepted or not, in a report that would have to respond to all their misgivings.

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Appendix 1

This appendix presents the main financial and accounting indicators for Bell Canada on December 31 of 2004, 2005 and 2006, as well as some projections for the first two quarters of 2007. The figures are expressed in thousands of Canadian dollars.

	2004	2005	2006	1st quarter 2007	2nd quarter 2007
	Extract from Operating Statement				
Total Revenue	17,009,000	17,551,000	17,656,000	4,343,000	4,374,000
Net Revenue	1,593,000	1,961,000	2,007,000	529,000	700,000
Operations Cash Flow	5,130,000	5,700,000	5,611,000		
	Extract from Balance Sheet				
Total Assets	39,140,000	40,482,000	37,171,000		
Short-term Assets	3,708,000	3,683,000	3,684,000		
Fixed Assets	21,104,000	21,772,000	19,533,000		
Intangible Assets	12,634,000	10,279,000	12,591,000		
Short-term Debt	5,467,000	5,587,000	4,688,000		
Long-term Debt	11,685,000	11,855,000	11,795,000		
Common Stock	16,781,000	16,806,000	13,487,000		
Retained Earnings	-5,432,000	-4,763,000	-4,343,000		
	Per Share Data (in dollars)				
Book Value	13.342	14.074	14.483		
Dividends	1.2	1.32	1.32		
Earnings	1.65	2.04	2.25	0.62	0.83
Top Price	30.28	33.00	34.250		
Bottom Price	25.64	26.45	25.32		
	Financial Ratios				
Debt over Equity Capital	0.92	0.88	0.96		
Distribution Ratio	72.88	64.62	58.44		
Earnings Margin	10.14	12.26	12.6		
Price/Book Value	2.17	1.98	2.17		
Price/Earnings	17.53	13.66	13.96		
Return on Equity Capital	12.56	14.89	15.65		
Return on Assets	4.41	5.32	5.98		
	Compensation: Michael J. Sabia, CEO (in dollars)				
Salary	1,250,000	1,250,000	1,000,000		
Bonus	114,614	34,700	33,006		
	Market Data				
Beta	0.3	0.4	0.5		
Return on 3-MonthTreasury Bills	2.35%	3.00%	3.8%		

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Credit Ratings

	BCE INC.			
	S&P [1]	DBRS [2]	MOOODY'S [3]	FITCH [4]
Commercial paper	A-1 (low)	R-1 (low)	P-2	-
Extendible commercial notes	-	R-2 (high)	-	-
Long-term debt	BBB+	A (low)	Baa2	BBB+
Preferred shares	P-2	Pfd-2 (low)	-	-

	BELL CANADA			
	S&P [1]	DBRS [2]	MOOODY'S [3]	FITCH [4]
Commercial paper	A-1 (low)	R-1 (low)	P-2	-
Extendible commercial notes	-	R-1 (low)	-	-
Long-term debt	A-	A	Baa1	BBB+
Preferred shares	BBB+	BBB (high)	Baa2	BBB

(1) Standard & Poor's, a division of McGraw-Hill Companies, Inc
(2) Dominion Bond Rating Services Limited
(3) Moody's Investors Services, Inc.
(4) Fitch Ratings Ltd.

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Appendix 2

This appendix shows the principal financial and accounting indicators for Bell Canada's main competitors on December 31 of 2004, 2005 and 2006, as well as some projections for the first two quarters of 2007. The figures are expressed in thousands of Canadian dollars.

	Extracts from Operating Statements					
	Total Revenue		*Net Revenue*		*Operations Cash Flow*	
	2005	**2006**	**2005**	**2006**	**2005**	**2006**
Manitoba Telecom Services, Inc.	1,980,000	1,926,000	213,000	299,000	428,000	422,000
Rogers Communications Inc.	7,334,000	8,838,000	622,000	637,000	1,253,000	2,449,000
Shaw Communications Inc.	2,209,000	2,459,000	458,000	388,000	728,000	846,000
TELUS Corp.	8,142,000	8,681,000	700,000	1,145,000	2,914,000	2,803,000

	Extracts from Balance Sheets							
	Total Assets		*Short-term Assets*		*Fixed Assets*		*Intangible Assets*	
	2005	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**
Manitoba Telecom Services, Inc.	2,984,000	2,921,000	376,000	465,000	1,507,000	1,452,000	97,000	52,000
Rogers Communications Inc.	12,545,000	12,371,000	1,289,000	1,734,000	6,152,000	6,732,000	5,663	4,931
Shaw Communications Inc.	7,430,000	7,661,000	180,000	352,000	2,189,000	2,250,000	4,772,000	4,779,000
TELUS Corp.	16,222,000	16,661,000	1,242,000	1,344,000	7,339,000	7,117,000	6,758,000	7,033,000

	Extracts from Balance Sheets (cont.)							
	Short-term Debt		*Long-term Debt*		*Common Stock*		*Retained Earnings*	
	2005	2006	2005	2006	2005	2006	2005	2006
Manitoba Telecom Services, Inc.	590,000	536,000	964,000	878,000	1,333,000	1,322,000	96,000	183,000
Rogers Communications Inc.	1,992,000	2,496,000	8,314,000	7,409,000	4,134,000	4,233,000	- 606,000	- 33,000
Shaw Communications Inc.	564,000	593,000	5,268,000	5,258,000	2,026,000	1,982,000	- 428,000	- 172,000
TELUS Corp.	2,027,000	3,781,000	7,299,000	5,808,000	6,021,000	5,848,000	848,000	1,199,000

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	Per Share Data											Others			
	Share Price ($)		*Average Share Price (2003 to 2006) ($)*	*Book Value ($)*		*Dividend ($)*		*Dividend (%)*		*Dividend Growth 2003 to 2006 (%)*	*Beta*	*Credit Rating*	*Number of Employees*	
	2005	2006	2006	2005	2006	2005	2006	2005	2006	2005	2006	2006	2005	2006
Manitoba Telecom Services, Inc.	0.40	46.40	43.91	21.11	22.54	2.60	2.60	6.4	5.6	39.9	0.50	BBB	5,837	5,837
Rogers Communications Inc.	4.60	34.70	17.17	5.62	6.61	0.06	0.08	0.3	0.2	101.8	0.89	BB+	25,800	25,800
Shaw Communications Inc	2.52	16.60	11.82	3.63	4.21	0.17	0.26	1.4	1.6	103.9	0.94	BB+	10,000	10,000
TELUS Corp.	7.86	53.52	35.35	19.62	20.86	0.88	1.20	1.8	2.2	25.7	0.68	BBB+	35,300	35,300

	Financial Ratios															
	Earnings		*Debt to Equity Capital*		*Interest Coverage Ratio*		*Dividend Payout Ratio*		*Net Earnings Margin (%)*		*Price/Book Value*		*Price/Earnings*		*Return on Equity Capital (%)*	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Manitoba Telecom Services, Inc.	3.34	2.49	0.56	0.50	39.51	36.40	0.89	1.82	10.8	15.5	1.91	2.06	12.10	18.60	15.2	20.4
Rogers Communications Inc.	0.93	- 0.01	1.89	1.43	0.94	2.08	N/A	0.08	8.5	7.2	4.38	5.25	N/A	37.10	-1.4	16.1
Shaw Communications Inc.	0.26	0.51	1.12	1.51	2.06	2.28	0.46	0.23	20.7	15.8	3.45	3.94	48.90	32.87	7.1	23.7
TELUS Corp.	2.04	2.95	0.67	0.68	7.21	5.38	0.45	0.36	8.6	13.2	2.44	2.57	23.46	18.14	10.1	16.5

	Return on Assets (%)		**Return on Investment (%)**	
	2005	*2006*	*2005*	*2006*
Manitoba Telecom Services, Inc.	7.2	10.1	11.0	10.1
Rogers Communications Inc.	-33.0	4.5	5.2	9.9
Shaw Communications Inc.	2.1	6.1	7.5	10.9
TELUS Corp.	4.1	7.0	9.1	13.1

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Appendix 3

Annual Financial Information

The following tables show selected consolidated financial data, prepared in accordance with Canadian GAAP, for each year from 2002 to 2006.

	2006	2005	2004	2003	2002
Operations					
Operating revenues	17,713	17,605	17,009	16,752	17,114
Operating expenses	(10,384)	(10,371)	(9,895)	(9,704)	(10,009)
EBITDA	7,329	7,234	7,114	7,048	7,105
Amortization expense	(3,129)	(3,061)	(3,000)	(3,001)	(2,932)
Net benefit plans (cost) credit	(513)	(359)	(241)	(168)	36
Restructuring and other items	(355)	(55)	(1,219)	(14)	(768)
Operating income	3,332	3,759	2,654	3,865	3,441
Other (expense) income	(176)	28	439	214	3,139
Impairment charge	–	–	–	–	(765)
Interest expense	(952)	(949)	(961)	(1,064)	(1,080)
Pre-tax earnings from continuing operations	2,204	2,838	2,132	3,015	4,735
Income taxes	(85)	(803)	(605)	(1,079)	(1,551)
Non-controlling interest	(228)	(201)	(132)	(166)	(860)
Earnings from continuing operations	1,891	1,834	1,395	1,770	2,324
Discontinued operations	116	127	129	45	83
Net earnings before extraordinary gain	2,007	1,961	1,524	1,815	2,407
Extraordinary gain	–	–	69	–	–
Net earnings	2,007	1,961	1,593	1,815	2,407
Dividends on preferred shares	(70)	(70)	(70)	(64)	(59)
Premium on redemption of preferred shares	–	–	–	(7)	(6)
Net earnings applicable to common shares	1,937	1,891	1,523	1,744	2,342
Included in net earnings:					
Net gains on investments					
Continuing operations	419	33	410	(81)	1,351
Discontinued operations	106	(6)	11	83	96
Restructuring and other items	(222)	(37)	(770)	3	(441)
Impairment charge	–	–	–	–	(26)
Cost incurred to form Bell Aliant	(42)	–	–	–	–
Net earnings per common share:					
Continuing operations – basic	2.12	1.90	1.44	1.85	2.66
Continuing operations – diluted	2.12	1.90	1.44	1.84	2.62
Net earnings – basic	2.25	2.04	1.65	1.90	2.66
Net earnings – diluted	2.25	2.04	1.65	1.89	2.62
Ratios					
EBITDA margin (%)	41.4%	41.1%	41.8%	42.1%	41.5%
EBITDA to interest ratio (times)	7.70	7.62	7.40	6.62	6.58
Operating margin (%)	18.8%	21.4%	15.6%	23.1%	20.1%
ROE (%)	15.7%	14.8%	12.5%	15.2%	17.8%

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	2006	2005	2004	2003	2002
Balance Sheet					
Total assets	36,957	40,482	39,133	39,846	39,388
Long-term debt (including current portion)	12,817	12,925	12,312	13,593	14,220
Net debt	12,272	12,667	12,175	13,115	14,702
Total capitalization	27,819	30,286	29,107	30,076	30,880
Preferred shares	1,670	1,670	1,670	1,670	1,510
Common shareholders' equity	11,697	13,051	12,354	11,895	11,090
Ratios					
Net debt to total capitalization (%)	44.1	41.8	41.8	43.6	47.6
Net debt to EBITDA (times)	1.67	1.75	1.71	1.86	2.07
Total debt to total assets (times)	0.35	0.32	0.32	0.34	0.38
Long-term debt to equity (times)	0.96	0.88	0.88	1.00	1.13
Cash Flows					
Cash flows from operating activities	5,389	5,337	5,268	5,717	4,545
Cash flows from investing activities	(3,701)	(3,762)	(3,551)	(2,797)	(6,878)
Capital expenditures	(3,133)	(3,357)	(3,272)	(3,052)	(3,644)
Business acquisitions	(71)	(228)	(1,118)	(54)	(6,432)
Business dispositions	–	–	2	10	3,166
Bell Aliant	(255)	–	–	–	–
Other investing activities	(2)	39	183	167	35
Cash flows from financing activities	(3,639)	(1,613)	(2,571)	(2,704)	3,402
Repurchase of common shares	(1,241)	–	–	–	–
Net issuance of equity instruments	29	25	32	172	2,819
Net (repayment) issuance of debt instruments	432	47	1,140	1,541	2,047
Financing activities of subsidiaries with third parties	(292)	(77)	(17)	(29)	91
Cash dividends paid on common shares	(1,169)	(1,195)	(1,108)	(1,029)	(999)
Cash dividends paid on preferred shares	(84)	(86)	(85)	(61)	(43)
Cash dividends paid by subsidiaries to non-controlling interest	(293)	(169)	(179)	(172)	(468)
Cash provided by (used in) discontinued operations	2,087	103	512	200	(1,332)
Ratios					
Free cash flow	708	569	807	1,570	(574)
Capital intensity (%)	17.7%	19.1%	19.2%	18.2%	21.3%
Cash flow per share (dollars)	2.62	2.14	2.16	2.90	1.06
Cash flow yield (%)	7.4%	6.8%	7.2%	9.7%	1.6%
Share Information					
Average number of common shares (millions)	861.4	926.8	924.6	920.3	847.9
Common shares outstanding at end of year (millions)	807.6	927.3	925.9	924.0	915.9
Market capitalization	25,359	25,844	26,777	26,704	26,103
Dividends declared per common share (dollars)	1.32	1.32	1.20	1.20	1.20
Book value per share (dollars)	14.48	14.07	13.34	12.87	12.11
Total dividends declared on common shares	(1,132)	(1,222)	(1,110)	(1,105)	(1,031)
Total dividends declared on preferred shares	(70)	(70)	(70)	(64)	(59)
Market price per common share (dollars)					
High	32.92	32.95	30.00	32.35	36.87
Low	25.56	26.60	25.75	26.60	23.00
Close	31.40	27.87	28.92	28.90	28.50
Ratios					

Common dividend yield (%)	4.6%	4.6%	4.1%	3.9%	3.8%
Common dividend payout ratio (%)	60.4%	63.2%	72.8%	59.0%	42.7%
Price to earnings ratio (times)	13.96	13.66	17.53	15.21	10.71
Price to book ratio (times)	2.17	1.98	2.17	2.25	2.35
Price to cash flow ratio (times)	11.98	13.02	13.39	9.97	26.89
Other Data					
Number of employees (thousands) (1)	54	56	51	54	57

(1) The number of employees for 2004 excludes virtually all employees who left under the voluntary departure program of 2004.

Annual Operational Information

The following table shows selected data on operations from 2004 to 2006.

	2006	**2005**	**2004**
Wireline			
Local network access services (thousands)	12,056	12,581	12,905
Long distance conversation minutes (millions)	18,222	18,243	18,070
Long distance average revenue per minute (cents)	9.3	10.3	11.7
Data			
High-speed Internet net activations (thousands)	267	387	350
High-speed Internet subscribers (thousands)	2,462	2,195	1,808
Dial-up Internet subscribers (thousands)	511	586	743
Wireless			
Cellular and PCS net activations (thousands)	432	516	513
Cellular and PCS subscribers (thousands)	5,873	5,441	4,925
Average revenue per unit ($/month)	51	49	49
Churn (%) (average per month)	1.5	1.6	1.3
Cost of acquisition ($/subscriber)	419	406	411
Paging subscribers (thousands)	281	347	427
Video			
Video net activations (thousands)	93	224	116
Video subscribers (thousands)	1,820	1,727	1,503
Average revenue per subscriber ($/month)	54	50	49
Churn (%) (average per month)	1	0.9	1

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Quarterly Financial Information

The following table shows selected consolidated financial data by quarter for 2006 and 2005. This quarterly information is unaudited but has been prepared on the same basis as the annual consolidated financial statements.

	2006					2005				
	EXERC.	T4	T3	T2	T1	EXERC.	T4	T3	T2	T1
Operating revenues	17 713	4 547	4 422	4 388	4 356	17 605	4 539	4 408	4 368	4 290
EBITDA	7 329	1 773	1 840	1 875	1 841	7 234	1 740	1 817	1 856	1 821
Amortization expenses	(3 129)	(797)	(786)	(790)	(756)	(3 061)	(0 776)	(0 774)	(0 763)	(0 748)
Net benefit plans cost	(513)	(125)	(118)	(134)	(136)	(359)	(59)	(103)	(99)	(98)
Restructuring and other items	(355)	(91)	(126)	(50)	(88)	(55)	(24)	(31)	(5)	5
Operating income	3 332	760	810	901	861	3 759	881	909	989	980
Earnings from continuing operations	1 891	717	324	444	406	1 834	390	444	541	459
Discontinued operations	116	–	(22)	50	88	127	40	15	40	32
Net earnings	2 007	717	302	494	494	1 961	430	459	581	491
Net earnings applicable to common shares	1 937	699	285	476	477	1 891	413	441	563	474
Included in net earnings :										
Net gains on investments										
Continuing operations	419	410	8	–	1	33	–	–	33	–
Discontinued operations	106	2	(11)	35	80	(6)	–	–	(5)	(1)
Restructuring and other items	(222)	(66)	(71)	(27)	(58)	(37)	(16)	(21)	(3)	3
Cost incurred to form Bell Aliant	(42)	–	(28)	(14)	–	–	–	–	–	–
Net earnings per common share										
Continuing operations – basic	212	84	39	47	42	190	39	46	57	48
Continuing operations – diluted	212	84	39	47	42	190	39	46	57	48
Net earnings – basic	225	84	36	53	52	204	44	48	61	51
Net earnings – diluted	225	84	36	53	52	204	44	48	61	51
Average number of common shares outstanding (millions)	861.4	811.6	818.8	896.4	920.5	926.8	927.3	927.0	926.6	926.,2

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