BCE

Extract from the BCE 2013 Management Proxy Circular
Dated March 7, 2013

# Compensation Discussion & Analysis

# Compensation DISCUSSION & ANALYSIS

This CD&A describes our compensation philosophy, policies and programs and discusses the compensation provided in 2012 to our President and CEO, our CFO and our three other most highly compensated executive officers. These executive officers are referred to in this document as the "named executive officers" and are as follows:

- George A. Cope, President and CEO, BCE and Bell Canada
- Siim A. Vanaselja, Executive Vice-President and CFO, BCE and Bell Canada
- Wade Oosterman, President, Bell Mobility and Bell Residential Services & Chief Brand Officer, Bell Canada
- Kevin W. Crull, President, Bell Media
- Mary Ann Turcke, Executive Vice-President – Field Operations, Bell Canada

## COMPENSATION OVERALL OBJECTIVE

Our executive compensation is based on a pay-for-performance philosophy. Its overall goal is to increase shareholder value by:

- attracting, motivating and retaining the executive officers needed to drive the business strategy; and
- rewarding them for financial and operating performance and leadership excellence.

## COMPENSATION POLICY AND COMPONENTS

To achieve our objective, we use three key elements of compensation with an aggregate target value positioned at the 60th percentile of what is paid in the competitive market for similar positions. Consideration is also given to pay levels among our most direct competitors within our comparator group and their relative size, scope and complexity.

| | PRIMARY OBJECTIVE | WHAT DOES THE COMPENSATION ELEMENT REWARD? | HOW IS THE AMOUNT OR TARGET DETERMINED? | HOW DOES THE COMPENSATION ELEMENT FIT INTO THE OVERALL OBJECTIVE? | FORM OF PAYMENT |
|---|---|---|---|---|---|
| ANNUAL BASE SALARY | Provides a market competitive fixed rate of pay | Rewards the scope and responsibilities of the position and the specific skills needed to fulfill them | Is set at the 50th percentile of what is paid in the competitive market for similar positions | Provides for a vehicle to attract and retain skilled executives who can deliver on our overall goal while keeping the emphasis on rewarding actual performance | Cash |
| ANNUAL SHORT-TERM INCENTIVE | Encourages performance against our annual corporate and individual objectives | Rewards the achievement of our annual objectives | Is set at the 75th percentile of what is paid in the competitive market for similar positions | Provides for a vehicle to reward actual performance against objectives that are designed to support our overall company targets | Choice of cash and/or Deferred Share Units (DSUs)<br>• Payment in DSUs further aligns the interests of executives and shareholders as DSUs are payable only upon cessation of employment |
| EQUITY-BASED LONG-TERM INCENTIVE PLAN (LTIP) | Aligns long-term interests of executives and shareholders | Rewards the creation of shareholder value | Brings total compensation (1) to the 60th percentile of what is paid in the competitive market for similar positions | Provides for a vehicle to attract and retain skilled executives while rewarding the achievement of our overall goal of creating sustained shareholder value | Restricted Share Units (RSUs) (50%)<br>• Aligns executives' interests to share return growth<br>Performance Share Units (PSUs) (25%)<br>• Aligns executives' interests to dividend growth and their compensation to the Corporation's performance<br>Stock Options (25%)<br>• Aligns executives' interests with share price growth and their compensation to the Corporation's performance |

*(1) Total compensation comprises base salary, short-term incentive and long-term incentive.*

We also offer competitive pension, benefits and perquisites to promote the hiring and retention of qualified executives. These are discussed under ***Pension, benefits and perquisites***.

## Identification and Mitigation of Risks Associated with our Compensation Policies and Practices


As part of a company-wide risk evaluation initiative, our Risk Advisory Services and Human Resources groups conducted their annual evaluation of risks associated with our compensation practices to ensure that such practices do not encourage executives to take undue risk on behalf of the corporation for personal financial gain.

A balanced compensation plan should encourage executives to assume risk commensurate with delivery against strategic objectives and shareholders' appetite for risk. The plan should align the interests of management with those of shareholders and motivate the achievement of an acceptable level of return. Balanced performance is supported by transparency around risk-taking behaviour and a clear governance and oversight framework. Risk arises in relation to the compensation plan when factors exist within the design and operation of the compensation framework that prevent achieving these goals.

As part of the risk assessment process, our 5-pillar framework developed in 2011 was used and relevant potential risks were identified for each of the pillars.

OUR RISK ADVISORY SERVICES IDENTIFIED NO RISKS ASSOCIATED WITH OUR COMPENSATION POLICIES LIKELY TO HAVE A MATERIAL ADVERSE EFFECT ON THE COMPANY

The risk factors identified across the 5 pillars form the focus of the risk assessment associated with compensation policies and practices. Each risk factor is considered in the context of specific plan design characteristics and relevant risk mitigation practices in order to reach a conclusion on the residual risk exposure. Below are relevant risk mitigation practices that are part of the assessment:

### *Compensation Committee Independence and Use of External Consultants*

Being composed entirely of independent members, the Compensation Committee avoids conflicts of interests with respect to the compensation awarded to executives. The Compensation Committee is also supported by advice from its own compensation consultants, independent from the consultants used by management.

### *Structure of Variable Compensation Plans*

The structure of our compensation plans helps reduce the likelihood that executives will take undue risk to enhance their remuneration. The annual short-term incentive plan is structured so that the maximum payout possible is capped at two times the target award. The combination of performance metrics (both financial and operational targets) also ensures that no single element is maximized at the expense of the health of the overall business. For example, financial performance could not be driven at the expense of customer service without impacting the service metric. Furthermore, all executive vice-presidents share the same financial targets associated with their short-term incentive plan and these are based on total company results, thereby incenting all members of the senior management team to enhance overall company performance.

The considerable proportion of compensation allocated to long-term incentives ensures that executives focus on sustainable value creation. An executive is not motivated to take undue short-term risks because the short-term reward would not offset the negative impact on share ownership and the equity components of compensation. In addition, stock options, the component of compensation with the greatest leverage to share price fluctuation, represent only approximately 11% of the total compensation awarded to executive officers, thereby providing for the alignment of management objectives with those of shareholders while mitigating the likelihood of undue risk-taking associated with this component.

It is also to be noted that the 2011 shift to annual long-term incentive grants enables the Compensation Committee to continually review targets and grant levels to ensure incentives remain properly aligned. As part of the process to set annual targets, the Compensation Committee "back-tests" the results achieved on previous targets to make sure that payout is commensurate with the level of performance achieved.

Finally, for total direct compensation, stress tests are performed on various payout scenarios to ensure the Compensation Committee is comfortable with the range of potential payouts.

### *Internal Controls and Testing*

To provide the Compensation Committee and the Board with the assurance that the approved compensation policies are applied as intended, the Corporation has set up a comprehensive set of internal controls that are performed as frequently as bi-weekly by members of the Human Resources, Finance and Legal groups. Any deviation from the set policies is then identified and presented to senior management for corrective action to be taken.

### *Clawback Provisions*

When Mr. Cope was appointed President and CEO in July 2008, a clawback clause was included in his employment agreement. It provides for the company, at its discretion, to claw back a portion of cash and equity compensation awarded to him as well as to obtain reimbursement for a portion of the gains realized on the exercise of options granted to him after his appointment. This may occur if there is a financial restatement due to gross negligence, intentional misconduct or fraud during the 24 months preceding the restatement, and it is determined that the cash or equity awards paid would have been lower had the restatement occurred prior to the payment of such awards.

In addition, our stock option plan includes clawback provisions in case employees, including executive officers, engage in prohibited behaviours, as described in greater detail under ***Equity-based long-term incentive plan***.

### *Share Ownership*

We believe in the importance of substantial share ownership to align executives' interests with those of shareholders. A minimum share ownership level has been set for each executive position as a percentage of annual base salary. Share ownership requirements are discussed under ***Share ownership requirements***.

### *Deferred Share Units (DSUs)*

The deferred share unit plan is designed to align the interests of the executive officers with those of the shareholders by providing a mechanism for executives to receive incentive compensation in the form of equity.

Executives can defer up to 100% of the payout of their vested performance share units and restricted share units by rolling those units into the DSU plan. In addition, the annual short-term incentive award can also be converted into DSUs at time of payout. The DSU plan is explained in greater detail under ***Deferred share unit plan***.

### *Trading and Hedging Restrictions*

To help minimize the risk of an unintentional violation of insider trading prohibitions, we recommend that our executives trade BCE securities (including exercising stock options) only during company-set permissible trading window periods, provided they are not otherwise aware of undisclosed material information.

The Compensation Committee also adopted a formal policy prohibiting all executives from hedging the economic exposure of their BCE share ownership and equity-based compensation. This ensures that the alignment between executive and shareholder incentives created by our share ownership and equity-based LTIP programs is fully maintained.

## SETTING EXECUTIVE COMPENSATION

The roles of management and the Compensation Committee in setting and administering executive compensation are described below.

| MANAGEMENT | COMPENSATION COMMITTEE |
|---|---|
| • Proposes the elements of a compensation program that supports a performance culture<br>• Implements the processes required to administer the program<br>• Manages the process used to establish performance objectives and to measure individual and corporate performance against set objectives<br>• Provides the Compensation Committee with an assessment of the results achieved by each of the executive officers, as well as an assessment of the leadership attributes each demonstrates in fulfilling their roles and responsibilities<br>• Recommends to the Compensation Committee the base salary as well as the short and long-term incentive awards for the officers of the corporation<br>• Proposes the succession plan for the officers of the corporation | • Oversees and recommends for approval by the Board the company's executive compensation philosophy, policies, programs and grants of equity-based compensation<br>• Reviews with the President and CEO any proposed major changes in organization or personnel, including the succession plan<br>• Reviews any proposed major changes in the company's benefit plans and recommends for approval any change requiring Board approval<br>• Reviews annually with the members of the Board the performance of the President and CEO and other executive officers<br>• Recommends annually to the members of the Board all forms of compensation for the President and CEO and other officers<br>• Reviews the company's executive compensation disclosure for inclusion in the company's public disclosure documents<br>• Reviews and monitors the company's exposure to risk associated with its executive compensation and policies and identifies practices and policies to mitigate such risk [1]<br>• Seeks advice from independent compensation consultants on emerging trends in executive compensation and, when considered advisable by the committee, other professional advice to enable the committee to function independently of management |

*(1) The Compensation Committee charter was amended in 2012 to include this role.*

## Succession Planning

A critical responsibility of the Compensation Committee is to ensure that a comprehensive succession plan is in place for the company's most senior executive leaders. To achieve this, the committee meets annually with the President and CEO to review and update the succession plan for all executive officers, including the President and CEO position.

The plan identifies potential successors for each executive and highlights any personal development experiences required for each candidate to be fully prepared to take on the position. In addition, if appropriate, the plan identifies any candidates who could assume critical leadership roles in the short term should unexpected events leave such roles vacant earlier than expected.

The executive succession plan is fully integrated with the company's overall succession planning process, which covers all key management positions and ensures a strong pipeline of talent is being developed at all levels in the organization. As such, the plan that is presented to the Compensation Committee is the culmination of an extensive process performed within each business unit and function and integrated at the cross-company level. This includes the identification of key talent, the roles they may be able to assure in the future, and their development plan to prepare for these roles. This may include development moves to other positions, internal or external courses, and close on-the-job mentoring. If no strong internal succession candidates are identified, an external search may be launched. Twice a year, all members of the senior management team are reviewed by the President and CEO and his direct reports in order to provide an integrated and balanced view of talent across the company, and to ensure development plans are on track.

In addition to the regular annual review, key executive talent and succession plans are discussed by the Compensation Committee throughout the year including, for example, as part of the performance reviews used to determine executive compensation.

## Benchmarking

To ensure the competitiveness of the compensation provided to our executives, the Compensation Committee regularly reviews the compensation for similar executive positions at other companies with whom we compete for talent (our comparator group).

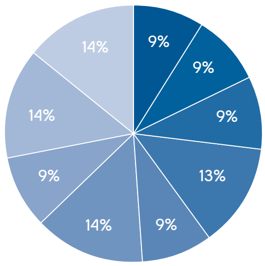
In late 2012, Towers Watson was mandated to conduct an updated benchmarking study of all executive positions, including the named executive officers.

Our comparator group was updated to add CGI Group Inc. in 2012. Similar to previous benchmarking reviews, our comparator group is designed to be representative of the Canadian marketplace while avoiding overweighting any particular industry. In light of CGI Group's acquisition of Logica plc, it was deemed appropriate to expand our comparator group to include this major player from the technology industry.

The comparator group of 22 companies, the rationale for its use and comparative financial information are outlined in the two tables below.

| DESCRIPTION | RATIONALE FOR USE | LIST OF COMPANIES |
|---|---|---|
| Represents a select sample of the largest Canadian companies based on revenues and market capitalization and reflects an approximately equal representation of industries | Ensures the competitiveness of our executive compensation by comparing it to that offered at companies that are similar to us in size, revenues and market capitalization and that compete with us for key talent. The equal representation of industries ensures that our comparator group is representative of the marketplace in which we compete for talent | Agrium Inc., Air Canada, Alimentation Couche-Tard Inc., Barrick Gold Corporation, Blackberry Inc., Bombardier Inc., Canadian National Railway Company, CGI Group Inc., EnCana Corporation, Kinross Gold Corporation, Magna International Inc., Manulife Financial Corporation, Metro Inc., Potash Corporation of Saskatchewan Inc., Rogers Communications Inc., Royal Bank of Canada, Shoppers Drug Mart Corporation, Suncor Energy Inc., Teck Resources Limited, TELUS Corporation, The Toronto-Dominion Bank, TransCanada Corporation |

## *Comparative financial information*




| | |
|---|---|
| Telecom | 9% |
| Technology | 9% |
| Transportation | 9% |
| Retail | 13% |
| Manufacturing | 9% |
| Energy | 14% |
| Chemicals | 9% |
| Metals and Mining | 14% |
| Financial Services | 14% |

| INDUSTRY | BCE TELECOMMUNICATIONS | MEDIAN | 75TH PERCENTILE |
|---|---|---|---|
| Total revenue ($M) | 19,975 | 12,011 | 17,602 |
| Market capitalization ($M) | 33,055 | 17,989 | 33,239 |
| Net income ($M) | 3,050 | 1,164 | 2,190 |
| Dividend yield | 5.32% | 2.52% | 3.63% |
| Employees | 55,250 | 24,500 | 60,125 |

*The comparative financial information was obtained from public continuous disclosure filings for the most recently available fiscal year.*

The comparator group information is just one of the factors the Compensation Committee takes into consideration when making recommendations to the Board with regard to target executive compensation. The Compensation Committee also considers the relative pay levels among its most direct industry competitors within the comparator group, the relative size, scope and complexity of comparator businesses, as well as BCE's relative performance against these comparators.

## SERVICES RENDERED BY INDEPENDENT COMPENSATION CONSULTANTS

### 2012

In preparation for the 2013 compensation review, management retained the services of Towers Watson to conduct an updated benchmarking study of all executive positions within BCE and Bell Canada. Compensation components (base salary, target short-term incentive, long-term incentive, perquisite allowance and pension) were evaluated against our comparator group. Related compensation adjustments, including adjustments for our executive officers, were assessed and made by the Compensation Committee in early 2013.

Towers Watson was also mandated to appraise the extent to which BCE's compensation aligns with the company's performance. The results of that analysis showed that BCE was well within the norms of what is considered proper alignment by major shareholder advisory groups.

### 2011

Early in 2011, the Compensation Committee, advised by Hugessen Consulting, finalized the key terms related to the 2011 grants under our long-term incentive plan, including treatment in case of involuntary termination, change in control and resignation. Hugessen Consulting and Towers Watson also provided an opinion on the methodology for valuation of stock options for the February 2011 grants and the Compensation Committee established a stock option value based on a binomial model.

In advance of establishing the compensation for 2012, management and Towers Watson reviewed the positioning of the executive vice-presidents' remuneration versus those in our comparator group. The Compensation Committee asked Hugessen Consulting to review the work performed by management and Towers Watson with respect to compensation levels and benchmarking.

### Independence of the Compensation Consultants

None of our directors or executive officers has any affiliation or relationship with Hugessen Consulting or Towers Watson. Hugessen Consulting does not provide any services to management directly without the prior consent of the Compensation Committee. No such services were provided by Hugessen Consulting in 2011 or 2012. We therefore consider Hugessen Consulting to be independent of our company.

The executive compensation recommendations the Compensation Committee makes to the Board are the responsibility of the committee and may reflect factors and considerations other than the information and recommendations provided by the Compensation Committee's consultant.

## Executive Compensation – Related Fees

The table below summarizes the aggregate fees paid to the compensation advisors for services they provided in 2011 and 2012. Hugessen Consulting and Towers Watson have both confirmed that the fees received from BCE in 2011 and 2012, relative to the aggregate fees received from all of their clients in 2011 and 2012, are not of such magnitude as to compromise their independence from BCE or its management.

| | HUGESSEN CONSULTING | | TOWERS WATSON | |
|---|---|---|---|---|
| | 2011 | 2012 | 2011 | 2012 |
| Compensation Committee mandates | $64,690 | – | – | – |
| | 100% | 0% | 0% | 0% |
| Governance Committee mandates [1] | – | $49,447 | | |
| | | 100% | | |
| Management mandates | – | – | $131,852 | $188,371 |
| | 0% | | 100% | 100% |
| Total annual fees | $64,690 | $49,447 | $131,852 | $188,371 |

*(1) As described under **Directors' Compensation** section of this circular, Hugessen Consulting performed a review of the compensation of non-management directors under the authority of the Governance Committee in 2012.*

## 2012 COMPENSATION ELEMENTS

### Base Salaries

The Compensation Committee recommends for Board approval the base salary of each executive officer within a salary range that reflects the scope and responsibilities of the position, the executive officer's experience, the positioning of his or her base salary and total compensation versus the comparator group and internal equity. The mid-point of the salary range corresponds to the median of the salary paid by our comparator group for similar positions. The minimum for the salary range is 20% below the mid-point and the maximum is 20% above.

In order to encourage a cultural shift towards greater individual accountability and higher levels of performance, base salaries offered to all of our executives have been adjusted only to reflect an increase in responsibilities or job scope, with adjustments made to variable compensation when required to maintain competitive market positioning of our total compensation.

### Annual Short-Term Incentive Awards

The annual short-term incentive applicable to the President and CEO and all executive officers has two components. The corporate performance component is based on quantitative financial targets and qualitative objectives aligned with our 6 Strategic Imperatives. There is also an individual component that allows the Compensation Committee to assess and reward leadership behaviours demonstrated by the executive in the achievement of business-unit and overall corporate results.

The Compensation Committee reviews short-term incentive targets for our executive officers each year as well as upon hire, promotion or when there are significant changes in the responsibilities of an executive officer. When making a recommendation to set or increase the incentive target of an executive officer, the Compensation Committee takes into consideration the scope of the executive officer's responsibilities, the executive officer's base salary, internal equity and the positioning of his or her short-term incentive target compared to market.

In 2012, short-term incentive targets remained at their 2011 level of 100% of base salary for all our named executive officers except our President and CEO whose target was increased from 125% to 150% of base salary to better align with the compensation offered to chief executive officers from our comparator group companies and our pay-for-performance compensation philosophy.

Short-term incentive awards are calculated as follows:

BASE SALARY × SHORT-TERM INCENTIVE TARGET × { CORPORATE PERFORMANCE INDEX (MAY VARY BETWEEN 0% AND 150%) 70% WEIGHTS + INDIVIDUAL PERFORMANCE INDEX (MAY VARY BETWEEN 0 AND 3.0X) 30% WEIGHTS }

In order to reinforce our *One Company/One Team* concept, 70% of the executive officers' annual short-term incentive award is based on corporate objectives. In order to recognize and reward personal accomplishments, 30% of the executive officers' annual short-term incentive award is based on individual performance.

Following the end of each year, the Compensation Committee and the Board evaluate the performance of the company against the corporate objectives established for the year to determine the corporate performance index. This can vary between 0% and 150% with a target performance of 100%. The Compensation Committee has discretion to recommend to the Board a different payout level from that suggested by the quantitative results to take into account unforeseen occurrences and non-recurring events and also to ensure that the payout is appropriate in the Compensation Committee's judgment.

At the conclusion of the year, the Compensation Committee and the independent directors of the Board assess the individual performance and the demonstration of leadership skills of the President and CEO. In addition, the President and CEO provides the Compensation Committee with his assessment of the leadership behaviours demonstrated by the other executive officers. Taking into account all information provided, including the recommendations of the President and CEO, the Compensation Committee exercises its discretion and recommends for Board approval the individual performance index for each of the executive officers. The index may vary between 0 and 3.0x with a target performance of 1.0x.

The maximum payout that can be achieved on the combined corporate and individual performance under the short-term incentive formula is two times the target award.

## *2012 Short-Term Incentive*

**Corporate performance objectives**

PERFORMANCE MEASURE = CORPORATE PERFORMANCE (70% WEIGHTING) [FINANCIAL OBJECTIVES + STRATEGIC IMPERATIVES] + INDIVIDUAL PERFORMANCE (30% WEIGHTING)

At the beginning of each year, the Compensation Committee recommends for approval by the Board the company's financial and operating objectives used to determine the corporate performance objectives that will account for 70% of the weighting of the short-term incentive award for that year.

The following illustration indicates the corporate performance objectives employed for setting short-term incentive awards for 2012, and the rationale for their use.

### *Why use EBITDA[1]?*

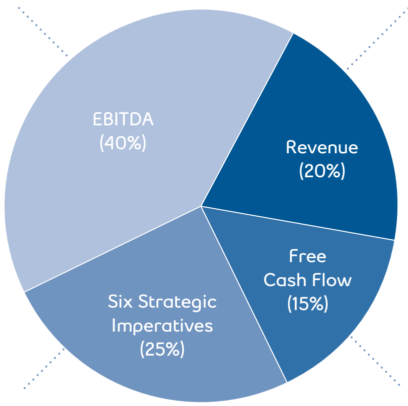
EBITDA is an industry-wide measure of in-year operational profitability and is a common measure for valuation of companies in the industry.

As such, EBITDA measures our executives' operational efficiency and their success in ensuring the value from revenues flows to the enterprise value of the company.

### *Why use the 6 Strategic imperatives?*

The 6 Strategic Imperatives have been put in place to focus our efforts to achieve our goal of being recognized by customers as Canada's leading telecommunications company. Their assessment includes many operating metrics typically used in the industry.

As such, progress made against the 6 Strategic Imperatives provides a relevant measure of our executives' success in executing on the operating plan required to achieve our goal.




### *Why use Revenue?*

Revenue is a simple measure of the total value of the products and services sold by the company.

As such, revenue provides a relevant measure of our executives' ability to design and sell attractive products and services, to compete in the market, to attract customers and to capture value from those products and services.

### *Why use Free Cash Flow[2]?*

Free Cash Flow measures the cash generated by the business after paying short-term operating costs, making long-term investments and meeting financing costs. It is commonly used as a valuation measure for companies in the industry.

As such, Free Cash Flow is a measure of our executives' success in running the business as a whole and in generating cash that may be returned to shareholders or further invested in the business.



*(1) The term EBITDA does not have any standardized meaning under IFRS. Therefore, it is unlikely to be comparable to similar measures presented by other companies. We define EBITDA as operating revenues less operating costs, as shown in BCE's consolidated income statements. We use EBITDA to evaluate the performance of our businesses as it reflects their ongoing profitability. 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 measurement to value companies in the telecommunications industry. EBITDA also is one component in the determination of short-term incentive compensation for all management employees. EBITDA has no directly comparable IFRS financial measure.*

*(2) The term free cash flow does not have any standardized meaning under IFRS. It is therefore unlikely to be comparable to similar measures presented by other companies. For 2012, we define free cash flow as cash flows from operating activities excluding acquisition costs paid, plus dividends/distributions received from Bell Aliant, less capital expenditures, preferred share dividends, dividends/distributions paid by subsidiaries to non-controlling interest, and Bell Aliant free cash flow. 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 reinvest in our company. We present free cash flow consistently from period to period, which allows us to compare our financial performance on a consistent basis. We believe that certain investors and analysts use free cash flow to value a business and its underlying assets. The most comparable IFRS financial measure is cash from operating activities.*

### Financial Objectives

| PERFORMANCE MEASURE | = | CORPORATE PERFORMANCE (70% WEIGHTING)<br>FINANCIAL OBJECTIVES + STRATEGIC IMPERATIVES | + | INDIVIDUAL PERFORMANCE (30% WEIGHTING) |
|---|---|---|---|---|

Financial objectives account for 75% of the weighting of the overall corporate objectives (EBITDA 40%, Revenue 20% and Free Cash Flow 15%). The Compensation Committee sets a threshold, a low, a target and a maximum value for each financial objective. The payout varies between 0% and 150% depending on the performance, as illustrated in the table below.

Target values are set within the financial guidance ranges provided to the investment community which ensures that payouts are well aligned to the performance expectations of our shareholders. A payout exceeding the target award requires exceptional performance versus market expectations on these measures and versus other companies in the sector.

| OVERALL PERFORMANCE | THRESHOLD | LOW | TARGET | STRETCH |
|---|---|---|---|---|
| Payout (1) | 0% | 50% | 100% | 150% |

*(1) The overall performance takes into account the results and relative weight of each financial objective. Results achieved between these values are interpolated.*

### Strategic Imperatives

| PERFORMANCE MEASURE | = | CORPORATE PERFORMANCE (70% WEIGHTING)<br>FINANCIAL OBJECTIVES + STRATEGIC IMPERATIVES | + | INDIVIDUAL PERFORMANCE (30% WEIGHTING) |
|---|---|---|---|---|

The remaining 25% weighting of the overall corporate objectives is used to recognize the achievements related to the company's 6 Strategic Imperatives:

| | |
|---|---|
| • Improve customer service | • Accelerate wireless |
| • Leverage wireline momentum | • Invest in broadband |
| • Achieve a competitive cost structure | • Expand Media leadership |

Progress on the 6 Strategic Imperatives is evaluated by measuring performance against a set of operating metrics, many of which are commonly used across the industry. Each strategic imperative carries an equal weight. The following ranking scale applies and the total out of 36 possible points is then converted to a result out of 25%:

| POINTS | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|---|
| Results | Failed | Significantly Below | Below | Slightly Below | Met | Exceeded | Stretched |

The cumulative total of points earned for the 6 Strategic Imperatives determines the payout according to the following table:

| SUM OF POINTS | THRESHOLD 0 POINTS (6 X 0 POINTS) | TARGET 30 POINTS (6 X 5 POINTS) | STRETCH 36 POINTS (6 X 6 POINTS) |
|---|---|---|---|
| Payout (1) | 0% | 100% | 150% |

*(1) The results achieved between these values are interpolated.*

The Board and the Compensation Committee believe that these operating objectives were set for 2012 at an ambitious level but could be achieved under normal economic and market conditions. Payout at target may only be achieved by exceeding these operating objectives. Hence, the 2012 results that exceeded the aggregate target for the 6 Strategic Imperatives is a reflection of the company's exceptional execution and delivery on its operational targets.

### 2012 Corporate Performance Index

The following table outlines the corporate results achieved for 2012

| COMPONENT | WEIGHTING | CALCULATED PAYOUT | 2012 TARGET | 2012 RESULTS | COMMENTS |
|---|---|---|---|---|---|
| EBITDA | 40% | Payout: 60%<br>Min: 0%<br>Max: 60% | $6,517 million | $6,616 million | BCE reported EBITDA growth of 4.4% for 2012 which exceeded both our financial guidance and our internal targets for the year.<br>Results were driven by strong performances from Wireless and Bell Media and disciplined cost controls across all business units. |
| Revenue | 20% | Payout: 10%<br>Min: 0%<br>Max: 30% | $17,947 million | $17,642 million | BCE reported revenue growth of 3.0% for 2012 which was at the low end of our financial guidance range and below our internal targets, largely due to the high competitive intensity in both consumers and business markets.<br>BCE revenues reflected growth of 6.5% in Wireless, a strong contribution from Bell Media, with the Wireline segment showing a decline of 3.8% year over year. |
| Free Cash Flow | 15% | Payout: 22.5%<br>Min: 0%<br>Max: 22.5% | $2,400 million | $2,502 million | BCE reported Free Cash Flow at the mid-point of our financial guidance range and exceeded our internal targets.<br>Growth of 7.0% year over year for 2012 was driven largely by strong EBITDA performance and better working capital management while continuing to invest more capital in networks and research and development, and delivering dividend growth to shareholders. |
| Strategic Imperatives Progress | 25% | Payout: 33%<br>Min: 0%<br>Max: 37.5% | various | N/A | The Board approves a scorecard of about 30 operating metrics to monitor the progress against the strategic imperatives. Considerable progress was made on each imperative and expectations were exceeded in most cases. In addition to the strong performance in the Wireless, Wireline and Media sectors, strong results were also achieved in the areas of Customer Service and Investment in Broadband Services. Further details may be found under ***President and CEO Compensation***. |
| Total | 100% | 125% | | | |

The financial results for 2012, along with the progress made against the 6 Strategic Imperatives, were reviewed by the Compensation Committee against the set of financial and operating objectives used for setting short-term incentive awards. Based upon their assessment, the Compensation Committee recommended, and the Board approved, a corporate payout index of 125%. No discretionary adjustment was made to the calculated payout for 2012.

### Individual Performance Objectives

PERFORMANCE MEASURE = CORPORATE PERFORMANCE (70% WEIGHTING) [FINANCIAL OBJECTIVES + STRATEGIC IMPERATIVES] + INDIVIDUAL PERFORMANCE (30% WEIGHTING)

The individual performance component is based on an assessment of the performance of an executive on two dimensions.

The first dimension is the achievement of results measured against the pre-determined business unit objectives. At the beginning of the year, the Compensation Committee reviews the President and CEO's individual performance goals for that year and recommends them to the Board for approval. Our President and CEO's goals, as well as those of our other executive officers, are designed to support the execution of the 6 Strategic Imperatives and thereby create value for shareholders.

The other dimension is the demonstration of the leadership attributes required to achieve those results. These include people leadership attributes which serve to build and leverage talent and drive team effectiveness, along with strategic leadership attributes which reinforce the transformation of the business and the execution of the strategy.

At the end of the year, the Compensation Committee and the independent directors of the Board assess the President and CEO's performance on both the achievement of results against the pre-determined objectives as well as the demonstration of leadership in the attainment of those results. Likewise, the President and CEO provides the Compensation Committee with his assessment of the performance of the other executive officers.

Taking into account all information provided, including the recommendations of the President and CEO, the Compensation Committee makes an informed judgment and recommends for Board approval the individual performance index (between 0 and 3x) for each of the executive officers. This multiplier index applies on 30% of the total target bonus only. In 2012, individual performance indexes for the named executive officers ranged from 2.25x to 3.0x, with an average index of 2.65x. Combined with the corporate performance factor that was achieved at 125%, the 2012 short-term incentive awards for our named executive officers ranged from $887,500 to $3,328,125, with an average payout of $1,490,000.

#### Deferred Share Unit Plan

The deferred share unit plan is designed to further align the interests of the executive officers to those of the shareholders by providing a mechanism to receive incentive compensation in the form of equity. Executive officers and other key employees of the company and those of certain subsidiaries may elect to participate in the deferred share unit plan.

Executive officers can choose to have up to 100% of their annual short-term incentive award paid in deferred share units instead of cash. The award is converted into deferred share units based on the market value of a BCE common share on the day before the award becomes effective. Vested performance share units and restricted share units may also be rolled into deferred share units at time of payout. Deferred share units count towards the minimum share ownership requirements, which are described under ***Share ownership requirements***.

Deferred share units have the same value as BCE common shares. The number and terms of outstanding deferred share units are not taken into account when determining if and how many deferred share units will be awarded under the plan. No vesting conditions are attached to deferred share units; they therefore vest at time of grant.

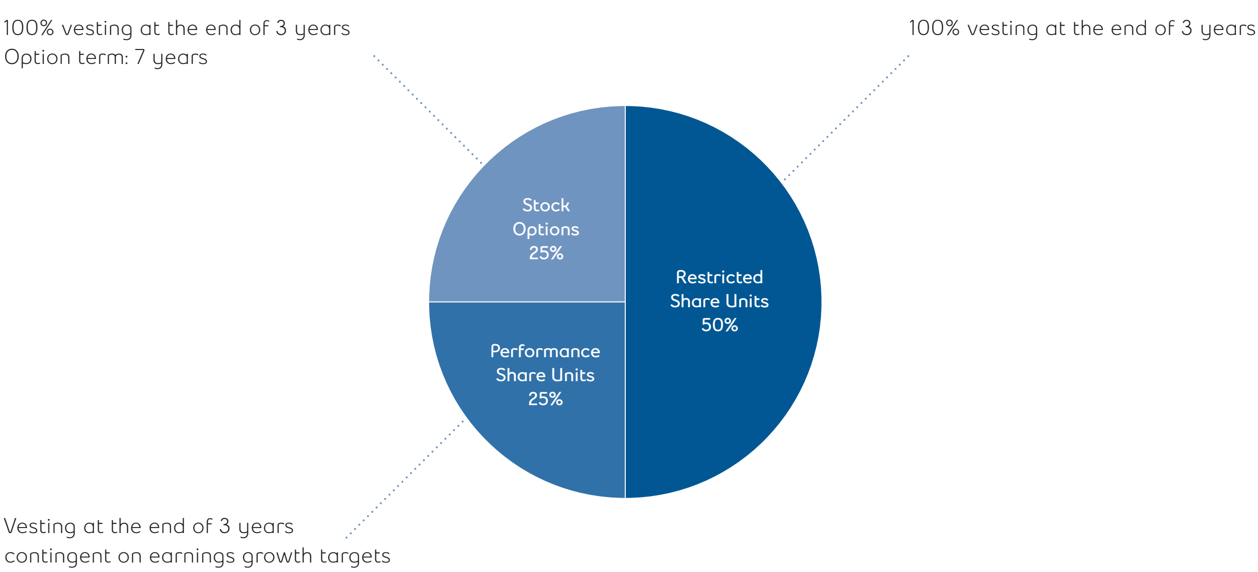
Dividend equivalents in the form of additional deferred share units are equal in value to dividends paid on BCE common shares and credited to the participant's account on each dividend payment date based on the number of units in the account as of the dividend record date.

The Compensation Committee may also recommend for Board approval special awards of deferred share units to recognize outstanding achievements or for reaching certain corporate objectives. There were no such awards made in 2012.

Holders of deferred share units cannot settle their deferred share units while they are employed by a company within the BCE group of companies. Once they leave the BCE group, the company will buy, through a trustee, a number of BCE common shares on the open market equal to the number of deferred share units a participant holds in the plan, after withholding taxes and any other deductions. These shares are then delivered to the former employee or to the estate in case of death.

### Equity-Based Long-Term Incentive Plan

Our long-term incentive plan is designed to reward the creation of value for our shareholders while providing a vehicle to attract and retain talented and skilled executives. Being 100% equity-based, our long-term incentive plan's value to the executive is very much dependent on sustained share price performance, which in turn benefits all shareholders. Furthermore, the performance share unit component of the long-term incentive plan rewards the achievement of earnings growth targets that enable BCE to grow its dividend, which also aligns with shareholders interests. The 2012 grants under our long-term incentive plan were allocated as follows:




EXECUTIVE COMPENSATION

Below are the key terms that apply to each component of the long-term incentive plan:

| ELEMENT | RESTRICTED SHARE UNITS | PERFORMANCE SHARE UNITS | STOCK OPTIONS |
|---|---|---|---|
| Shareholder interest alignment | RSUs align executives' and shareholders' interests in share return growth. Time vesting also supports the retention of executives to better enable the company to execute its long-term strategy. | PSUs align executives' and shareholders' interests in dividend growth and their compensation to the Corporation's performance. Multi-year vesting also supports the retention of executives to better enable the company to execute its long-term strategy. | Stock options align executives' and shareholders' interests in share price growth and their compensation to the Corporation's performance.<br>Multi-year vesting also supports the retention of executives to better enable the company to execute its long-term strategy. |
| Term | 3 years | | 7 years (10-year maximum under the plan text) |
| Vesting type | 3-year cliff vesting | | |
| Vesting date for 2012 grants | December 31, 2014 | | February 17, 2015 (3 years from the date of grant) |
| Vesting criteria | Being employed by BCE or Bell on the vesting date | Being employed by BCE or Bell on the vesting date<br>To achieve 100% vesting, earnings growth must be sufficient to provide the Board with the ability to increase the dividend by a target compound annual dividend growth rate over the three-year performance period while keeping the dividend payout ratio between 65% and 75% of the free cash flow available to common shareholders. Pro-rated payment is made if the target is only partially attained. | Being employed by BCE or Bell on the vesting date |
| Dividend equivalents | Credited as additional units, at the same rate as dividends declared on BCE common shares | | None |
| Methods of payment[(1)] | Cash, BCE common shares or Deferred Share Units | | BCE common shares when options are exercised |
| Pricing at time of grant | Conversion from dollar value to units made using the volume weighted average of the trading price per common share for the last 5 consecutive trading days ending immediately on the last trading day prior to the effective date of the grant and rounded up to the nearest unit | | Higher of the volume weighted average of the trading price per common share of a board lot of common shares traded on the Toronto Stock Exchange; 1) on the trading day immediately prior to the effective date of the grant, or if at least one board lot of common shares has not been traded on such day, then the volume weighted average of the trading price per common share of a board lot of common shares for the next preceding day for which at least one board lot was so traded; and 2) for the last 5 consecutive trading days ending immediately on the trading day prior to the effective date of the grant. |
| Clawback | With the exception of Mr. G.A. Cope, for whom the clawback clause of his employment agreement is disclosed under *Identification and mitigation of risks associated with our compensation policies and practices*, no clawback clause is applicable on restricted share units and performance share units | | Option holders will lose all of their unexercised options if they engage in prohibited behaviours after they leave our company. This includes using our confidential information for the benefit of another employer. In addition, the option holder must reimburse the after-tax profit realized on exercising any options during the six-month period preceding the date on which the prohibited behaviour began. |

*(1) At any time, the Compensation Committee may require that a participant receive a long-term incentive payment in BCE common shares or in deferred share units as an interim measure to help the participant reach his mandatory share ownership requirement.*

The Compensation Committee may also recommend special grants to recognize specific achievements or, in some cases, to retain or motivate executive officers and key employees. There were none made in 2012.

Information on change in control and termination provisions applicable to stock options can be found under ***Compensation of Our Named Executive Officers – Termination and change in control benefits***.

The company uses the fair value method of accounting for equity-based compensation.

## Pension, Benefits and Perquisites

### *Pension*

No change was made to our pension plan in 2012 as it was well positioned relative to market.

With the exception of Mr. S.A. Vanaselja, all named executive officers participate in the Defined Contribution (DC) pension plan which has been the only pension plan available to employees hired since 2004. Mr. S.A. Vanaselja, who was hired prior to 2004, participates in Bell Canada's Defined Benefit (DB) pension plan.

Our named executive officers have also entered into supplementary retirement arrangements. The pension benefits provided to our named executive officers are described under ***Compensation of Our Named Executive Officers – Pension arrangements***.

### *Benefits and Perquisites*

We believe that offering competitive and flexible benefits is essential to attract and retain qualified employees. The Corporation provides the Omniflex benefit program which gives employees the flexibility to choose health, life and accident insurance most suited to their individual needs. The named executive officers are provided with additional benefits, mainly relating to incremental life and accident insurance.

We also offer to all of our employees the possibility to participate in our Employees' Savings Plan. The Employees' Savings Plan is focused to support long-term share ownership and to build greater interest in the growth and success of our company. Under the Employees' Savings Plan, when employees elect to contribute up to 6% of their eligible earnings to buy BCE common shares, the company contributes $1 for every $3 that the employee contributes. The shares purchased with the company contributions are vested to employees after two years. More information on the Employees' Savings Plan can be found under ***Compensation of Our Named Executive Officers – Employees' Savings Plans (ESPs)***.

The named executive officers receive a competitive cash allowance for perquisites.

## SHARE OWNERSHIP REQUIREMENTS

We believe in the importance of substantial share ownership and our compensation programs are designed to encourage share ownership by executive officers. A minimum share ownership level has been set for each position as a percentage of annual base salary.

| | |
|---|---|
| • President and CEO – 750% | • Senior Vice-Presidents – 200% |
| • Executive Vice-Presidents – 300% | • Vice-Presidents – 100% |

Executives must meet their target within five years of their hire or promotion date, with the objective that 50% of their target will be reached within three years of this date. Direct and indirect holdings of common shares of BCE and Bell Aliant, including shares or deferred share units received under the following programs, can be used to reach the minimum share ownership level:

- deferred share unit plan, described under ***Deferred share unit plan***
- Employees' Savings Plan, described under ***Benefits and Perquisites***
- shares acquired and held by exercising stock options granted under our stock option plans, described under ***Equity-based long-term incentive plan***
- shares received upon payment of restricted share units and performance share units, described under ***Equity-based long-term incentive plan***

In-the-money option grants and unvested equity grants do not count towards the minimum share ownership level.

Share ownership status is calculated using the higher of acquisition cost and the current market value at time of review. The Compensation Committee reviews at least annually the status of compliance with the share ownership requirements. Concrete measures may be taken if the three-year target or the five-year target is missed. These measures include, but are not limited to, the payment of a portion of the short-term annual incentive award in deferred share units, the payment of restricted share units or performance share units in shares or in deferred share units and, when stock options are exercised, the requirement to hold BCE common shares having a market value equal to a portion of the after-tax financial gain resulting from the exercise. These measures remain in effect until the target is reached. As shown in the table below, all of our named executive officers have achieved and surpassed their five-year targets.

Below is the share ownership status for our named executive officers as of March 7, 2013.

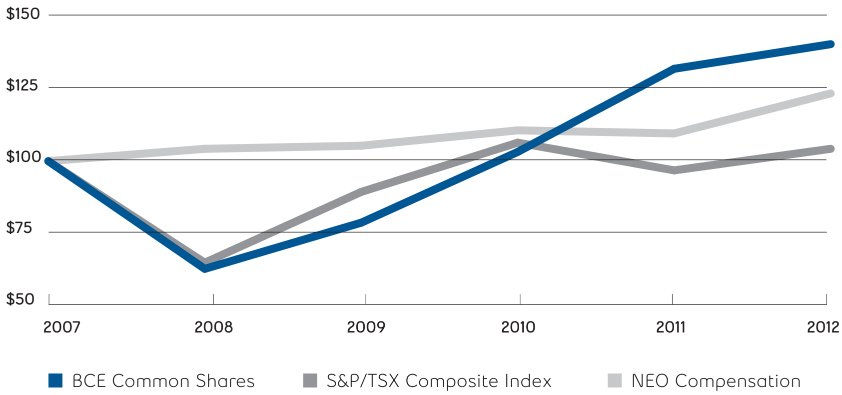
| NAMED EXECUTIVE OFFICER | BASE SALARY ($) | OWNERSHIP REQUIREMENT | TOTAL BCE EQUITY OWNERSHIP VALUE [1] ($) | PERCENTAGE OF OWNERSHIP IN DSUs | PERCENTAGE OF 5-YEAR TARGET ACHIEVED |
|---|---|---|---|---|---|
| George A. Cope | 1,250,000 | 750% | 44,524,559 | 83.7% | 475% |
| Siim A. Vanaselja | 575,000 | 300% | 11,864,933 | 97.9% | 688% |
| Wade Oosterman | 750,000 | 300% | 29,956,315 | 58.3% | 1,331% |
| Kevin W. Crull | 700,000 | 300% | 4,153,043 | 83.9% | 185% |
| Mary Ann Turcke | 500,000 | 300% | 1,780,198 | 80.6% | 113% |

*(1) Estimated using a BCE share price of $47.03 and a Bell Aliant share price of $27.05.*

## SHAREHOLDER RETURN PERFORMANCE GRAPH

### FIVE-YEAR CUMULATIVE TOTAL RETURN ON $100 INVESTMENT

DECEMBER 31, 2007 – DECEMBER 31, 2012




| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| BCE Common Shares | 100 | 65 | 80 | 103 | 130 | 138 |
| S&P/TSX Composite Index | 100 | 67 | 90 | 106 | 97 | 104 |
| NEO Compensation | 100 | 104 | 105 | 110 | 109 | 122 |

The graph compares the cumulative annual total return of BCE common shares against the cumulative annual total return of the S&P/TSX Composite Index assuming an initial investment of $100 and that all subsequent dividends were reinvested. Also shown is the growth rate of the named executive officers' compensation over the same 5-year period. Compensation is defined as total direct compensation awarded to named executive officers, including salary, short-term incentive awards and annualized grants of restricted share units, performance share units and stock options. The Compensation Committee is satisfied that, while the compensation awarded to our named executive officers remained fairly constant, a large portion of total compensation is awarded in the form of equity and the actual payouts related to those awards are linked very closely to the evolution of the company's share price and dividend growth.

### *BCE*

BCE total return is based on BCE common share price on the Toronto Stock Exchange and assumes the reinvestment of dividends.

### *S&P/TSX Composite Index*

With approximately 95% coverage of the Canadian equities market, the S&P/TSX Composite Index is the primary gauge for Canadian-based, Toronto Stock Exchange-listed companies. Such companies include, among others: BCE, Royal Bank of Canada, Toronto-Dominion Bank, Suncor Energy, Canadian Natural Resources and Canadian National Railway Company.