BCE INC
Form 6-K
August 02, 2006

TABLE OF CONTENTS

Table of Contents

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: **August 2006** 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 o Form 40-F þ

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 o No þ

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

Notwithstanding any reference to BCE Inc. s Web site on the World Wide Web in the documents attached hereto, the information contained in BCE Inc. s site or any other site on the World Wide Web referred to in BCE Inc. s site is not a part of this Form 6-K and, therefore, is not filed with the Securities and Exchange Commission.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BCE Inc.

(signed) Siim A. Vanaselja
Siim A. Vanaselja
Chief Financial Officer

Date: August 2, 2006

Table of Contents

News Release
For immediate release

This news release contains forward-looking statements. For a description of the related risk factors and assumptions please see the section entitled Caution Concerning Forward-Looking Statements later in this release.

BCE REPORTS 2006 SECOND QUARTER RESULTS

Bell Canada reports steady financial performance

Focus on execution delivers continued progress on key elements of Bell Canada business plan

Improvement continues in customer service

Progress on BCE strategic agenda

MONTRÉAL, Québec August 2, 2006 Bell Canada s continued focus on profitable growth, combined with further cost reductions, produced steady financial and operating results for BCE Inc. (TSX, NYSE: BCE), as Canada s largest communications company today reported for the second quarter of 2006.

BCE s total revenues of $4,803 million for the quarter ended June 30, 2006 increased 1% over the same period last year. Bell Canada s revenues $4,296 million were up 0.9% from the same quarter last year, based on double-digit revenue growth from services such as wireless, video and high speed Internet and Information, Communication and Technology (ICT) solutions.

The $980 million of operating income reported by BCE for the quarter, while down from $1,087 million for the same period last year, reflects a $50 million charge related to a previously announced workforce reduction program, the related closing of real estate facilities, transaction costs incurred to form the Bell Aliant Regional Communications Income Fund, as well as an increase in amortization and pension costs over last year, consistent with our expectations. These same factors contributed to Bell operating income of $894 million in the quarter, down $87 million over the same period last year.

BCE s EBITDA[1] of $1,973 million is largely attributable to a 1% increase in Bell Canada s EBITDA to $1,857 million this quarter.

The higher overall revenues, combined with improved EBITDA performance, allowed Bell Canada s EBITDA margin for the quarter to remain stable at 43.2%, a major performance objective for Bell as its revenue mix evolves in an open, competitive market.

These results generated earnings per share (EPS) of $0.53 in the second quarter of 2006, compared to $0.61 for the same period last year, principally due to costs associated with the early redemption of Aliant s long-term debt in the quarter and the positive effect of net gains on investments in the second quarter of 2005. EPS before restructuring and other items, net gains on investments and costs incurred to form the Bell Aliant Regional Communications Income

Table of Contents

Fund(2) were $0.54 compared to $0.58 in the same period last year, principally reflecting the increase in pension and amortization costs.

BCE generated $1,332 million in cash from operating activities in the quarter compared to $1,403 million for the same period last year, due mainly to changes in working capital. Free Cash Flow(3) is at $16 million for the first six months of 2006, an improvement of $87 million over the first half of 2005.

Bell Canada made steady progress against key elements of its business plan and delivered steady financial results in the quarter even when compared to a strong second quarter last year, said Michael Sabia, President and Chief Executive Officer of BCE and Chief Executive Officer of Bell Canada. A relentless focus on execution across the company is producing measurable results as we work to transform Bell Canada.

Our response in an increasingly competitive market has been targeted and disciplined, Mr. Sabia said. We have improved our service levels, stepped up our cost reduction initiatives, and improved our profitability per customer.

We have achieved our objectives for the first half of the year and I am confident that as we continue to execute over the next two quarters we will finish the year on track and on plan, added Mr. Sabia.

In terms of BCE s strategic agenda, units of the newly formed Bell Aliant Regional Communications Income Fund began trading on the Toronto Stock Exchange on July 10. On July 21, approval was received from the Canadian Radio-television and Telecommunications Commission (CRTC) for the reduction of BCE s interest in Bell Globemedia, expected to occur in the third quarter of 2006. And plans remain on track for the recapitalization and public offering of a minority interest in Telesat in the second half of 2006.

SECOND QUARTER OPERATIONAL ACHIEVEMENTS

Our continued focus on execution generated improvements in both traditional and growth services in the quarter, said George Cope, President and Chief Operating Officer of Bell Canada. A disciplined approach to growth led to higher average revenues per user across all products and low churn rates. Targeted and consistent winback and retention strategies countered competitive pressures in our traditional wireline business.

Residential Segment

The Residential segment benefited from the strong financial performance of the video, wireless and Internet businesses and from an across-the-board increase in average revenue per user (ARPU) to deliver year-over-year revenue growth.

Revenues for the second quarter were $1,900 million, compared to $1,890 million in the same period last year, a 0.5% increase.

Operating income of $510 million in the quarter is down 7.6% over the same period last year, due mainly to the increase in amortization and pension costs.

Bell continued to advance its strategy of securing more high-value multi-product households to drive both revenue growth and customer loyalty. At the end of the quarter, 24% of Ontario and Québec households within the Bell footprint subscribed to three or more products, compared to 20% this time last year.

Table of Contents

Business Segment

The Business segment generated revenue growth as a result of higher wireless subscriptions and increased sales of IP-based connectivity and ICT solutions to both Enterprise and small and medium-sized business (SMB) customers.

Revenues for the second quarter were up 2.1% to $1,530 million, compared to $1,499 million for the same period last year.

Operating income of $199 million for the quarter is down 10.0% over the same period last year, mainly as a result of higher amortization and pension costs.

SMB contributed significantly to Business segment results in the quarter. Bell continued to advance its strategy as the Virtual Chief Information Officer (VCIO) for Canadian small and midsize businesses.

In Enterprise, demand for IP-based network solutions, particularly for IP VPN services continued. Several large Enterprise customers chose Bell Canada for their ICT needs, in areas such as security solutions, wireless data and contact centre management.

- For example, Enterprise secured a multi-year contract with RBC Financial Group (RBC) to convert 1,300 branch offices from a legacy frame relay network to a consolidated IP-based Multi Protocol Label Switching (IP MPLS) network.

Wireless

Wireless executed on its strategy to shift its subscriber base towards higher value customers who make more use of data services, resulting in an increase in post-paid ARPU.

Revenue growth of 11.2% to $857 million in the second quarter compared to $771 million in the second quarter of 2005.

Post-paid ARPU of $63 per month, an increase of $2 compared to the same quarter in 2005, due to an improved mix of higher value subscribers as well as higher data revenues from services such as text messaging, mobile browsing, video streaming and gaming.

Wireless EBITDA in the second quarter is up 10.2% to $367 million due to revenue growth and lower subscriber acquisition costs.

Wireless EBITDA margin is down modestly to 41.8%, partly attributable to the recognition in the second quarter of 2005 of deferred revenues related to unused prepaid minutes.

106,000 postpaid activations were offset by the cancellation of inactive pre-paid subscribers, generating 90,000 net activations in the quarter.

The total subscriber base rose to 5,590,000 at the end of the second quarter.

Blended churn for the quarter stable at 1.6% per month, while postpaid churn has improved by 0.3% to 1.1% in the second quarter.

Video

Bell s video group reported strong financial performance for the quarter. Bell ExpressVu remains Canada s leading digital TV provider.

Revenue growth of 21.2% in the second quarter.

ARPU up $4 year over year to $54, reflecting the success of our upsell strategy to premium programming packages, higher pay-per-view subscriptions, price increases implemented over the past year and continued traction of the set-top box (STB) rental program.

EBITDA of $66 million in the quarter, up significantly from $6 million in the second quarter of 2005.

While the 19,000 subscribers added this quarter represent a decrease from the same period last year, the total subscriber base is up 10.2% year over year to 1,758,000 at the end of the second quarter.

Churn remains low at 1% per month.

Table of Contents

High-Speed Internet

In high-speed, Bell continued to focus on profitable growth while delivering revenue increases in a highly competitive environment.

Total subscribers ended the quarter up 14.1% year over year to reach 2,313,000.

Although net additions in the quarter of 47,000 are down compared to the second quarter of 2005, subscriber growth picked up month by month throughout the quarter.

Bell remains Canada s leading Internet service provider.

EXECUTING ON KEY ELEMENTS OF BUSINESS PLAN

Growth services: Revenues from next generation services such as wireless, video and Internet generated 48% of Bell s total revenues in the quarter, up from 44% one year earlier and 47% in the first quarter of 2006. Revenues from these services are expected to surpass revenues from traditional services in the second half of 2006.

Enhanced bandwidth and IP platforms: Bell extended fibre to the node (FTTN) to 565 neighbourhood nodes in the second quarter of 2006, for a total of 2,892. In July, the company launched Sympatico Optimax in Montréal. This is the first commercialization of the company s leading-edge FTTN network and offers 10 to 16 megabit per second (mbps) at any time of day, delivering speed and consistency. Bell also continued to expand the footprint of its next-generation EVDO wireless data network.

Service: A fully re-designed process for the Québec move season delivered a significantly improved experience for residential customers. In the Residential segment, the first-call resolution rate is up again, by 2.2 percentage points in the quarter. Simplifying their relationship with Bell, 84% of Enterprise customers have now signed on to a new online bill management tool. And at the end of the quarter, five million residential customers were enjoying the benefits of a single bill for their wireline, Internet, video and wireless services.

Cost savings: The company s various cost-reduction initiatives resulted in savings of $172 million in the second quarter of 2006, for a cumulative total of $297 million on a year-to-date basis. Savings were realized through the ongoing review of the company s procurement spend, process improvements such as the migration to One Bill and the improvement of customer appointment scheduling and repair times, as well as through the previously announced workforce reductions.

PROGRESS ON BCE AGENDA

Telesat

Telesat continued to deliver strong underlying operating performance in the quarter. As a result of a one-time sale of equipment related to an interactive distance learning network in the second quarter of 2005, Telesat s revenues decreased 12.4% in the second quarter of 2006 to $120 million, with only a modest decrease in EBITDA. Operating income decreased 9.3% to $39 million.

Bell Globemedia

Bell Globemedia revenues for the quarter were $431 million, up 8.0% from the second quarter of 2005. Despite the increased revenue, Bell Globemedia s operating income decreased by 17.9% to $78 million, mainly as a result of higher programming costs associated with the resumption of NHL hockey broadcasts and the maintenance of a ratings-strong schedule.

Table of Contents

NCIB Update

As at June 30, 2006, BCE Inc. had repurchased and cancelled a total of 36 million common shares, representing approximately 78% of the total common shares targeted for repurchase. The balance of the share repurchase program will be completed in the third quarter.

Transfer of Shares to Bell Canada Pension Fund

On July 28, 2006, the Bell Canada Pension Fund acquired from Bell Canada and certain of its subsidiaries, 25,000,000 Class A Subordinate Voting Shares (CGI Class A Shares) of CGI Group Inc., which had an aggregate market value of $168 million, and 14,899,948 common shares of Nortel Networks Corporation (Nortel), which had an aggregate market value of $33 million. As no consideration was paid on the acquisition, Bell Canada s 2006 pension plan cash contributions were reduced. This transaction reduces BCE s direct and indirect interest in CGI Class A Shares to 6,427,761 (or 2.11%) from 31,427,761 (or 10.31%). A similar transaction is being considered for the second half of 2006 for BCE s remaining CGI Class A Shares.

Quarterly Dividend

BCE s Board of Directors yesterday declared a quarterly dividend of $0.33 per Common Share, payable on October 15, 2006 to shareholders of record at the close of business on September 15, 2006.

Bell Canada Statutory Results

Bell Canada statutory results includes Bell Canada and Bell Canada s interests in Aliant, Bell ExpressVu (at 52%), and Bell s other Canadian telcos.

In the second quarter of 2006, Bell Canada s reported statutory revenue was $4.3 billion, up 0.9% compared to the same period last year. Year-to-date revenue was $8.6 billion, as compared to $8.5 billion for the same period last year. Net earnings applicable to common shares were $460 million in the second quarter of 2006, compared to net earnings of $580 million for the same period last year. Year-to-date net earnings applicable to common shares were $934 million, as compared to $1,108 million for the same period last year.

Outlook

Refer to the section entitled Caution Concerning Forward-Looking Statements later in this news release for a discussion concerning the material risk factors that could affect, and the material assumptions underlying, our 2006 guidance.

BCE confirmed the following 2006 financial guidance:

	Guidance 2006E(i)
Bell Canada	
Revenue growth	1% 3%
Cost savings (ii)	$700M $900M
EBITDA margin	Stable
Capital intensity (iii)	16% 17%
BCE Inc.	
EPS (iv)	$1.80 $1.90 (v)
Free Cash Flow (vi)	$700M $900M

5

Table of Contents

(i) 2006 figures reflect the disposition of our interest in CGI and the reduction of our interest in Bell Globemedia to 20%, BCE s intentions for the use of proceeds from these transactions and the creation of the Bell Aliant Regional Communications Income Fund.

(ii) Expected cost savings in 2006 assume that our various planned cost saving initiatives and productivity improvements will achieve their objectives in 2006.

(iii) Capital expenditures as a percentage of revenues.

(iv) Before restructuring and other items, net gains on investments and costs incurred to form the Bell Aliant Regional Communications Income Fund.

(v) BCE s earnings per share are

projected to be reduced in 2006 by $0.14 due to an increase in pension expense as a result of a change in discount rates. Discount rates are used to calculate long-term pension obligations for accounting purposes. In 2006, the rate has decreased to 5.2% from 6.2% in 2005. Rates are based on the average yields of long-term corporate bonds. The change in the discount rate and the ensuing increased pension expense are reflected in the company s EPS guidance outlined above.

(vi) Cash from operating activities less capital expenditures, total dividends and other investing activities. For 2006, we expect to generate approximately $700 million to $900 million in free cash flow, excluding the reduction in pension contributions from the acquisition of our Nortel and CGI shares by the Bell Canada pension fund. This amount reflects expected cash from operating activities of approximately $5.5 billion to $5.7 billion less capital expenditures, total dividends and other investing activities.

Notes

(1) The term EBITDA (earnings before interest, taxes, depreciation and amortization) does not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP). Please refer to the section of BCE Inc. s 2006 Second Quarter MD&A dated August 1, 2006, entitled Non-GAAP Financial Measures, included in this news release, for more details on EBITDA including a reconciliation of EBITDA to operating income.

(2) Net earnings and EPS before restructuring and other items, net gains on investments and costs incurred to form the Bell Aliant Regional Communications Income Fund do not have any standardized meaning prescribed by GAAP. Please refer to the section of BCE Inc. s 2006 Second Quarter MD&A dated August 1, 2006, entitled Non-GAAP Financial Measures, included in this news release, for more details on net earnings and EPS before restructuring and other items, net gains on investments and costs incurred to form the Bell Aliant Regional Communications Income Fund including a reconciliation to net earnings applicable to common shares on a total and per share basis.

(3) We define free cash flow as cash from operating activities after capital expenditures, total dividends and other investing activities. Free cash flow does not have any standardized meaning prescribed by GAAP. Please refer to the section of BCE Inc. s 2006 Second Quarter MD&A dated August 1, 2006, entitled Non-GAAP Financial Measures, included in this news release, for more details on free cash flow including a reconciliation of cash from operating activities to free cash flow.

Table of Contents

Call with Financial Analysts

BCE will hold a teleconference for financial analysts to discuss its second quarter results on **Wednesday, August 2, 2006 at 8:00 a.m**. (Eastern). *Media are welcome to participate on a listen only basis*.

To participate, please dial **416-641-6105** or **1-866-696-5895** shortly before the start of the call. A replay will be available for one week by dialing 416-695-5800 or 1-800-408-3053 (passcode 3182499#) This teleconference will also be Webcast live and archived for 90 days on BCE s website at www.bce.ca.

Call with the Media

BCE will hold a teleconference for media to discuss its second quarter results on **Wednesday, August 2, 2006 at 1:30 p.m.** (Eastern). Michael Sabia, President and CEO of BCE and CEO of Bell Canada and George Cope, President and COO of Bell Canada, will participate in the teleconference.

To participate, please dial **416-641-6111** or **1-866-542-4238** shortly before the start of the call. A replay will be available for one week by dialing 416-695-5800 or 1-800-408-3053 (passcode 3193584#) This teleconference will also be Webcast live and archived for 90 days on BCE s website at www.bce.ca.

Caution Concerning Forward-Looking Statements

Certain statements made in this news release, including, but not limited to, the statements appearing under the Outlook section, and other statements that are not historical facts, are forward-looking and are subject to important risks, uncertainties and assumptions. The results or events predicted in these forward-looking statements may differ materially from actual results or events. Except as otherwise indicated by BCE, these statements do not reflect the potential impact of any non-recurring or other special items or of any dispositions, monetizations, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date hereof.

For a description of material assumptions underlying forward-looking statements made in this news release and of material risk factors that could cause actual results or events to differ materially from current expectations please refer to the section entitled Assumptions Made In The Preparation Of Forward-Looking Statements And Risks That Could Affect Our Business and Results contained in BCE Inc. s MD&A (found on pages 42 to 56 of the Bell Canada Enterprises 2005 Annual Report) for the year ended December 31, 2005 dated March 1, 2006 filed by BCE Inc. with the Canadian securities commissions (available on BCE s website at www.bce.ca and on SEDAR at www.sedar.com), and with the U.S. Securities and Exchange Commission (SEC) under Form 40-F (available on EDGAR at www.sec.gov), as updated in BCE Inc. s 2006 First Quarter MD&A dated May 2, 2006, under the section entitled Assumptions Made In The Preparation Of Forward-Looking Statements and Risks That Could Affect Our Business And Results , filed by BCE Inc. with the Canadian Securities Commissions and with the SEC under Form 6-K (available on the same websites referred to above), and as further updated in BCE Inc. s 2006 Second Quarter MD&A dated August 1, 2006, included in this news release, under the section entitled Assumptions Made In The Preparation Of Forward-Looking Statements and Risks That Could Affect Our Business And Results .

The forward-looking statements contained in this news release represent our expectations as of August 2, 2006 and, accordingly, are subject to change after such date. However, we disclaim any intention and assume no obligation to update or revise any forward-looking statement, whether as a result of new information or otherwise.

Table of Contents

About BCE Inc.

BCE is Canada s largest communications company. Through its 28 million customer connections, BCE provides the most comprehensive and innovative suite of communication services to residential and business customers in Canada. Under the Bell brand, the Company s services include local, long distance and wireless phone services, high-speed and wireless Internet access, IP-broadband services, information and communications technology services (or value-added services) and direct-to-home satellite and VDSL television services. Other BCE businesses include Canada s premier media company, Bell Globemedia, and Telesat Canada, a pioneer and world leader in satellite operations and systems management. BCE shares are listed in Canada, the United States and Europe.

Table of Contents

p. 2 THE QUARTER AT A GLANCE

The Quarter at a Glance

This section provides a summary of the key measures we use to assess our performance and how our results in Q2 2006 compare to our results in Q2 2005.

In Q2 2006, we delivered financial and operating results in line with our plan for the year, even when compared with a strong second quarter last year, by continuing to focus on revenue quality and maintaining a disciplined approach towards subscriber growth as we continued to face vigorous competition across all our product lines. Double-digit revenue growth was achieved in most growth services, including wireless, video, high-speed Internet, and information and communication technology (ICT) solutions, while slowing the rate of revenue decline in our legacy wireline business. Our attention to profitable growth, coupled with further cost savings from various supply chain and process transformation initiatives, allowed us to maintain stable EBITDA[1] margins at Bell Canada year-over-year. In addition, we made steady progress in the area of customer service, where metrics continued to improve across the company, both in our call centres with better first call resolution rates and from enhanced high-speed Internet performance, resulting in greater customer satisfaction.

In our Residential segment, the financial performance of our video, wireless and Internet businesses showed an across-the-board increase in average revenue per user (ARPU) resulting in year-over-year revenue growth, which, in combination with ongoing cost control, helped to offset the impact of ongoing erosion of our high-margin local wireline and long distance business. Growth in customer connections in the quarter was affected by softer year-over-year activations stemming from a more competitive environment and our continued focus on improving profitability.

Our Business segment generated positive revenue growth as a result of higher wireless subscriptions and increased sales of IP-based connectivity and ICT solutions to our Enterprise and small and medium-sized business (SMB) customers. Cost savings related to our Galileo initiative helped to offset the negative impact on operating margins resulting from the continued shift in product mix from higher margin legacy services to lower margin IP-based services.

In the Aliant segment, revenue growth from continued expansion of the wireless and high-speed Internet subscriber bases, as well as higher telecommunications product and other equipment sales, more than offset legacy wireline erosion stemming mainly from the impacts of competition and technology substitution. Higher revenues, coupled with continued operating cost control, contributed to maintaining overall operating margins.

In the Other Bell Canada segment, operating income increased before restructuring and other items due to lower cost of goods sold despite lower revenues brought about by the competitive market conditions in our wholesale business.

Within the Other BCE segment, Telesat Canada s (Telesat) underlying operating performance remained solid in the quarter, although Q2 2005 was positively impacted by a one-time sale of services in the amount of $20 million for the installation and maintenance of an interactive distance learning network. Excluding this one-time sale, Telesat recorded positive revenue growth year-over-year. At Bell Globemedia Inc. (Bell Globemedia) revenue growth reflected higher television and print advertising sales and higher subscription revenues.

CUSTOMER CONNECTIONS

(in thousands)	Q2 2006 NET ACTIVATIONS	CONNECTIONS JUNE 30, 2006
NAS	**(134)**	**12,308**
High-Speed Internet	**47**	**2,313**
Wireless	**90**	**5,590**
Video	**19**	**1,758**

GROWTH IN THE END OF PERIOD CONNECTIONS

(% increase Q2 06 vs Q2 05)

Network Access Services (NAS) NAS in service declined by 134,000 this quarter. In the past twelve months, our customer base has decreased 3.3%, representing a slight 0.1 percentage point increase versus the previous quarter. The higher number of local access line losses was due primarily to the competitive entry in 2005 of cable operators in our Québec and Ontario markets with lower-priced cable telephony services. This decline was partly offset by higher demand for access lines from Shaw Communications (Shaw) to

(1) EBITDA, operating income before restructuring and other items, net earnings before restructuring and other items, net gains on investments and costs incurred to form the Bell Aliant Regional Communications Income Fund (Bell Aliant), and free cash flow do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and are therefore unlikely to be comparable to similar measures presented by other companies. For more details on these measures, including a reconciliation to the most comparable GAAP measure, please refer to

the section entitled Non-GAAP Financial Measures *contained in BCE Inc. s 2006 Second Quarter MD&A dated August 1, 2006.*

BCE INC. 2006 QUARTERLY REPORT

implement VoIP services in Western Canada, higher connection requests related to residential moves and customer winbacks.

High-Speed Internet We added 47,000 net new high-speed Internet customers this quarter, down from 92,000 net activations in Q2 2005, bringing our end of period customer base to 2,313,000 or 14.1% higher than last year. Although subscriber acquisition in the quarter was affected by the strong competitive environment, the year-over-year decline in new subscriber additions was partially expected as net activations in 2005 were stimulated by the introduction of our Basic Lite service in the Ontario market and by substantial footprint expansion.

Wireless We added 106,000 postpaid net additions this quarter reflecting a 0.3 percentage-point improvement in churn to 1.1%, while prepaid net additions were negative as a result of the deactivation of a larger number of inactive customers. Net new wireless subscribers this quarter were 90,000, down from 146,000 in Q2 2005, bringing our subscriber base as at the end of Q2 2006 to 5,590,000.

Video We activated 19,000 new net video subscribers in the quarter, down from 63,000 in Q2 2005, bringing our total subscriber base to 1,758,000 as of June 30, 2006 for a 10.2% increase over last year. The decline in new subscriber activations and a slight increase in the churn rate from 0.9% to 1.0% were due to vigorous price competition from the cable operators and fewer significant promotional offers in the market compared with the previous year.

OPERATING REVENUES

OPERATING REVENUES *(in $ millions)*

In Q2 2006, we generated revenues of $4,803 million at BCE, an increase of 1.0% compared with the same quarter in 2005, reflecting higher revenues in most Bell Canada segments as well as at Bell Globemedia. Revenues at Bell Canada grew by 0.9% to $4,296 million, driven primarily by Aliant where sound wireless and Internet results resulted in higher year-over-year revenues, and to a lesser extent by our Business segment where wireless and ICT revenue growth continued. In our Residential segment, the slight improvement in revenues was due to double-digit revenue growth in its video, wireless and Internet services, moderated mostly by revenue declines in its legacy wireline business. Bell Globemedia, also reported solid revenues, fuelled by higher advertising sales at its sports specialty channels and increased subscription revenues, which contributed to overall revenue growth at our Other BCE segment in the quarter.

OPERATING INCOME AND EBITDA(1)

OPERATING INCOME AND EBITDA *(in $ millions)*

Operating income at BCE for the quarter was $980 million, down from $1,087 million in Q2 2005, due largely to $50 million of restructuring and other items associated with restructuring costs for involuntary employee departures at Bell Canada, the relocation of employees and closing of real estate facilities related to a reduced workforce, as well as transaction costs related to the formation of Bell Aliant. Operating income before restructuring and other items(1) in Q2 2006 was $1,030 million, or $62 million lower than the same quarter in 2005. The decrease in operating income before restructuring and other items was entirely due to increased net benefit plans cost and higher amortization expense. As a result, EBITDA for BCE increased $1 million year-over-year to $1,973 million, due to an increase at Bell Canada which was offset almost entirely by weaker performance at Bell Globemedia and Telesat.

Similarly, Bell Canada s operating income in Q2 2006 was $894 million, or $87 million lower than Q2 2005, largely because of charges related to restructuring costs for the involuntary departure of employees and costs incurred to form Bell Aliant. Operating income before restructuring and other items was $942 million or $44 million lower than Q2 2005, due to higher net benefit plans cost and amortization

(1) EBITDA, operating income before restructuring and

other items, net earnings before restructuring and other items, net gains on investments and costs incurred to form the Bell Aliant Regional Communications Income Fund (Bell Aliant), and free cash flow do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and are therefore unlikely to be comparable to similar measures presented by other companies. For more details on these measures, including a reconciliation to the most comparable GAAP measure, please refer to the section entitled Non-GAAP Financial Measures *contained in BCE Inc. s 2006 Second Quarter MD&A dated August 1, 2006.*

Table of Contents

p. 4 THE QUARTER AT A GLANCE

expense, offset partly by higher EBITDA. Consequently, EBITDA at Bell Canada increased 1.0% to $1,857 million this quarter, reflecting higher revenues, reduced costs from supply chain initiatives and efficiency-related savings associated with our Galileo cost reduction program, lower salary expense from work-force reductions, and lower customer acquisition costs in our wireless and video units mainly from fewer new customer activations. These lower costs were offset in part by continued erosion of our NAS wireline customer base, higher wireless customer retention costs, higher operations costs associated with an increased volume of connection and service requests, and higher operating expenses from acquisitions made over the past year.

As a result of higher overall revenues and improved EBITDA performance, Bell Canada s EBITDA margin this quarter was stable at 43.2%.

NET EARNINGS / EARNINGS PER SHARE (EPS)

EPS

Net earnings applicable to common shares for Q2 2006 were $476 million, or $0.53 per common share, which represents a decrease of 15.5% compared with net earnings of $563 million, or $0.61 per common share for Q2 2005. EPS before restructuring and other items, net gains on investments and costs incurred to form Bell Aliant[(1)], which is used for financial guidance purposes, decreased to $0.54 per common share in Q2 2006 from $0.58 per common share in the same quarter last year. The year-over-year decrease resulted primarily from increased net benefit plans cost, consisting of pension and post-employment benefits expense, as well as slightly higher amortization expense.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES *(in $ millions)*

Capital expenditures for BCE were $875 million in Q2 2006, which was 3.3% lower than the same quarter last year. As a percentage of revenues, capital expenditures decreased this quarter to 18.2% from 19.0% in Q2 2005. Similarly, Bell Canada s capital expenditures decreased 9.4% this quarter to $767 million. As a result, Bell Canada s capital intensity in the quarter declined 2.0 percentage points, year-over-year, to 17.9%. In line with our objective to transform into an IP-based growth services company, the majority of capital spending in the quarter was focused on key strategic priorities within the growth areas of our business. The year-over-year decreases in spending at both BCE and Bell Canada reflected reduced expenditures on IT systems to support both our Galileo-related cost reduction initiatives, the timing of spending associated with various strategic initiatives such as our fibre-to-the-node (FTTN) footprint expansion, reduced spending on wireless expansion and capacity growth, and the completion in fourth quarter of 2005 of a next-generation broadband access network in Alberta (the Alberta SuperNet). The difference in capital expenditures between BCE and Bell Canada can be explained primarily by spending on satellite builds at Telesat.

(1) EBITDA, operating income before restructuring and other items, net earnings before restructuring and other items, net gains on investments and costs incurred to form the Bell Aliant Regional Communications

Income Fund (Bell Aliant), and free cash flow do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and are therefore unlikely to be comparable to similar measures presented by other companies. For more details on these measures, including a reconciliation to the most comparable GAAP measure, please refer to the section entitled Non-GAAP Financial Measures *contained in BCE Inc. s 2006 Second Quarter MD&A dated August 1, 2006.*

BCE INC. 2006 QUARTERLY REPORT

CASH FROM OPERATING ACTIVITIES AND FREE CASH FLOW[(1)]
CASH FROM OPERATING ACTIVITIES *(in $ millions)*

FREE CASH FLOW *(in $ millions)*

In Q2 2006, cash from operating activities decreased 5.1% to $1,332 million from $1,403 million in Q2 2005, due mainly to a decrease in receipts from our accounts receivable securitization programs, partly offset by improvements in working capital.

We generated $64 million of free cash flow in Q2 2006, which was in line with our expectations for the quarter but lower than the $101 million of free cash flow in Q2 2005. As a result, free cash flow improved to $16 million in the first half of 2006 from negative $71 million in 2005, reflecting EBITDA performance in accordance with our expectations, reduced capital spending and improvements in working capital, offset mainly by a decrease in accounts receivable securitization receipts.

(1) EBITDA, operating income before restructuring and other items, net earnings before restructuring and other items, net gains on investments and costs incurred to form the Bell Aliant Regional Communications Income Fund (Bell Aliant), and free cash flow do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and are therefore unlikely to be comparable to similar measures presented by other companies. For more details

on these measures, including a reconciliation to the most comparable GAAP measure, please refer to the section entitled Non-GAAP Financial Measures *contained in BCE Inc. s 2006 Second Quarter MD&A dated August 1, 2006.*

Table of Contents

p. 6 MANAGEMENT S DISCUSSION AND ANALYSIS

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 second quarter of 2006 when reading this MD&A. We also encourage you to read BCE Inc. s MD&A for the year ended December 31, 2005 dated March 1, 2006 (BCE 2005 MD&A).

You will find more information about BCE, including BCE Inc. s annual information form for the year ended December 31, 2005 dated March 1, 2006 (BCE 2005 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, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target* and *will.*

This management s discussion and analysis of financial condition and results of operations (MD&A) comments on BCE s operations, performance and financial condition for the three months (Q2) and six months (YTD) ended June 30, 2006 and 2005.

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.

Unless otherwise mentioned in this MD&A, or in BCE Inc. s 2006 first quarter MD&A dated May 2, 2006, the outlooks provided in the BCE 2005 MD&A dated March 1, 2006 remain substantially unchanged.

This MD&A contains forward-looking statements about BCE s objectives, plans, 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. All such forward-looking statements are made pursuant to the safe harbor provisions of the *United States Private Securities Litigation Reform Act of 1995* and of any applicable Canadian securities legislation, including the *Securities Act of Ontario.* It is important to know that:

unless otherwise indicated, forward-looking statements in this MD&A describe our expectations at August 1, 2006

our actual results could differ materially 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.

except as otherwise indicated by BCE, 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. Such statements do not, unless otherwise specified by BCE, reflect the impact of dispositions, 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. The financial impact of these transactions and nonrecurring and other special items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business.

we disclaim any intention and assume no obligation to update or revise any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

A number of assumptions were made by BCE in making forward-looking statements in the BCE 2005 MD&A and in this MD&A, such as certain Canadian economic assumptions, market assumptions, operational and financial assumptions, and assumptions about transactions. Certain factors that could cause results or events to differ materially from our current expectations include, among others, our ability to implement our strategies and plans, the intensity of competitive activity and the ability to achieve customer service improvement while reducing costs in accordance with our expectations. Assumptions made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed throughout this MD&A and, in particular, in *Assumptions Made in the Preparation of Forward-Looking Statements and Risks that Could Affect Our Business and Results.*

ABOUT OUR BUSINESS

A detailed description of our products and services and our objectives and strategy is provided in the BCE 2005 MD&A.

STRATEGIC PRIORITIES

Our strategy is to deliver unrivalled integrated communication services to customers efficiently and cost effectively, and to take a leadership position in setting the standard in Internet Protocol (IP). We continue to build on three key pillars that support this strategy: *Customer Experience, Bandwidth* and *Next-Generation Services.* Taken together, these pillars will deliver simplicity to our customers and durable value creation for our shareholders. Advancing this strategy requires us to transform our cost structure and the way that we serve customers.

During the quarter, we made significant progress on each of our three key priorities and on transforming our cost structure.

1) Enhancing customer experience by providing superior products and service experiences that build loyalty

At the end of Q2 2006, five million Residential customers were enjoying the benefits of a single bill for their wireline, Internet, video and wireless services (our One Bill program), representing more than a fivefold increase over the past year

Table of Contents

We improved our first call resolution rate by 2.2 percentage points in our Residential segment since the beginning of the year

As a result of our DSL Hardening Program, which has improved the performance of the network as a result of new software upgrades and installation of new hardware, we have reduced major outages of our high-speed Internet service by 25% on a year-to-date basis over the same period last year

We delivered improved service commitments and service levels in the quarter by significantly reducing the number of missed appointments for fixed wireline installations and repairs by approximately 11 percentage points and by shortening the average high-speed Internet service repair time by more than half since the beginning of the year

Sympatico, our Internet service provider to Residential and SMB customers, launched new desktop tools in June that enable customers to diagnose and correct configuration settings on their own or remotely through a call centre agent. These new tools are intended to drive self-service, reduce the average handling time of calls in our contact centres and further improve first call resolution.

As at the end of the quarter, 84% of our Enterprise customers adopted our online bill manager tool, a service that provides self-serve capabilities for business customers, enabling them to view, track and pay invoices online and to produce customized reports

By the end of the quarter, in conjunction with our new Service Accreditation Program, we had trained 33% of our customer-facing employees in the Residential and Business segments on consistent service standards. Our objective is to train approximately 14,000 employees by the end of the year.

Our multi-product household strategy continued to drive increased penetration of households subscribing to three or more products (a combination of local wire-line, Internet, video, wireless and long distance services), reaching close to 24% of total households in our Ontario and Québec footprint at the end of Q2 2006, up from 20% one year earlier.

2) Deliver abundant and reliable bandwidth to enable next-generation services

We continued our rollout of fibre-to-the-node (FTTN) by deploying another 565 neighbourhood nodes in Q2 2006, raising the total number of nodes served to 2,892

In the quarter, Bell Mobility Inc. (Bell Mobility) expanded the footprint of its Evolution, Data Optimized (EVDO) wireless data network to Hamilton, Burlington, Oakville, Ottawa and to the Muskoka cottage region, which complements existing coverage in the major urban centres of Vancouver, Calgary, Edmonton, Toronto, Montréal and Québec City. Our EVDO technology delivers average data download speeds of 400 to 700 kilobits per second (Kbps) with peaks of up to 2.4 megabits per second (Mbps)

On July 5, 2006, we announced the introduction of Sympatico Optimax, a high-speed Internet service that leverages the latest in fibre optic technology. The service offers an Internet connection that consistently delivers maximum speeds of 10 to 16 Mbps. The service is currently available in certain areas of Montréal and is expected to be deployed across significant portions of Toronto s and Montréal s territory by year-end.

3) Create next-generation services to drive profitable future growth

Revenues from growth services (comprised of wireless, video, high-speed Internet and other next-generation services such as information communications technology (ICT) solutions) accounted for 48% of total revenues at Bell Canada by the end of Q2 2006, compared with 44% one year earlier.

Bell Mobility launched two new made-for-mobile video news services for CTV News and Report on Business Television (ROBTv). Unique to Bell Mobility customers, CTV News three-minute branded newscast and ROBTv s packaged business news wrap are updated hourly throughout the day. These new services complement other Bell Mobility streaming and downloadable video clip services, including NHL highlights, news, weather, sports and entertainment content.

Bell Mobility partnered with General Motors of Canada Ltd. to offer seamless overlapping mobile telephone coverage and OnStar emergency services. Active OnStar subscribers will be able to use their postpaid Bell Mobility rate plan minutes for their OnStar hands-free calling.

In July 2006, Sympatico, our Internet service provider to Residential and SMB customers, introduced Canada s first subscription-based fraud protection service. The new technology guards consumers against online attacks by blocking access to known fraudulent sites.

Sympatico also recently launched an enhanced version of the Sympatico MSN Music Store, offering users safe and secure pay-per-download of high-quality music tracks via credit card payment

Our Enterprise unit also sold 365,000 IP-enabled lines on customer premises equipment by the end of the quarter, almost double the number sold one year earlier.

Transforming our cost structure

Overall, our various cost-reduction initiatives resulted in savings of $172 million in the second quarter of 2006, bringing total savings on a year-to-date basis to $297 million. These cost savings were realized primarily through process improvements from local business unit initiatives and our supply chain transformation program, which helped to maintain Bell Canada s EBITDA margin stable year-over-year. We expect cost savings to ramp up in the second half of 2006 as end-to-end process changes are implemented and headcount reductions continue.

Cost reductions from efficiency-related process improvements amounted to $77 million in the quarter and $147 million year-to-date. These savings were due primarily to:

- continued rollout of our initiative to reduce the number of invoices printed and mailed to Residential customers through our One Bill program
- improved scheduling of customer appointments and repair times, which enhanced our ability to fix customer problems right the first time (our One and Done program)
- contact centre efficiencies and changes to certain processes at our in-bound call centres, resulting in lower call volumes
- workforce reductions resulting from One and Done and other operational efficiency initiatives.

Supply transformation savings of $95 million in the quarter and $150 million year-to-date were realized from:

- increased controls over discretionary spending, resulting in reduced costs
- reduced spending on IT services
- lower-cost outsourcing of contact centre call volumes
- renegotiated supply contracts resulting in vendor rebates for wireless handsets, wireline data and voice equipment, and Internet portal services that we re-sell to our customers.

We also made further progress on our plan to reduce headcount by 3,000 to 4,000 positions in 2006. In the second quarter, an additional 443 employees departed, bringing the total number of employee departures associated with our 2006 workforce reduction program to 1,871.

OTHER CORPORATE DEVELOPMENTS

Bell Aliant Regional Communications Income Fund (Bell Aliant)

The income trust transaction announced by BCE Inc. and Aliant Inc. (Aliant) on March 7, 2006 to form Bell Aliant closed on July 7, 2006. Bell Aliant, which is North America s second largest regional telecommunications service provider and the largest business trust in Canada, combines Bell Canada s regional wireline operations in Ontario and Québec with Aliant s wireline operations in Atlantic Canada and also includes Bell Canada s 63.4% interest in NorthernTel Limited Partnership (NorthernTel) and Télébec Limited Partnership (Télébec) held indirectly through Bell Nordiq Group Inc., an indirect wholly-owned subsidiary of Bell Canada. Upon closing of the transaction BCE held a 73.5% indirect interest in Bell Aliant, which it subsequently reduced to 44.7% through a distribution of trust units by way of a return of capital to holders of BCE Inc. common shares on July 10, 2006. In conjunction with this, BCE Inc. reduced its outstanding common shares by 75.8 million. Bell Aliant began trading on the Toronto Stock Exchange on July 10, 2006 under the symbol BA.UN . The financial results of Bell Aliant will continue to be consolidated by BCE.

Labour Settlement

On May 15, 2006, we reached an agreement with the Communications, Energy and Paperworkers Union of Canada (CEP) on pay equity that will benefit approximately 4,800 current and former Bell Canada employees. The settlement covers Bell Canada employees represented by the CEP in positions occupied primarily by women. The settlement is for approximately $100 million. The full amount of the cash portion of the settlement was accrued in previous years.

Normal Course Issuer Bid

During the quarter, BCE Inc. continued to purchase common shares under its Normal Course Issuer Bid (NCIB) program. The company repurchased a total of 14.9 million common shares for cancellation in the second quarter for a total cost of $407 million. BCE Inc. commenced the NCIB program on February 1, 2006 with the intention to purchase and cancel approximately 5% of its outstanding common shares over a twelve-month period. As at June 30, 2006, BCE Inc. had repurchased and cancelled a total of 36 million common shares, representing approximately 78% of the total common shares targeted for repurchase, for a total cash outlay of $994 million. The total number of common shares targeted for repurchase will be adjusted to approximately 45 million from 46 million as a result of the July 10, 2006 BCE Inc. Plan of Arrangement.

Status of Bell Globemedia Inc. (Bell Globemedia) Reorganization

On December 2, 2005, BCE and The Woodbridge Company Limited (Woodbridge) announced a proposed reorganization of the ownership of Bell Globemedia the result of which will be, upon receipt of required approvals, to reduce BCE s interest in Bell Globemedia from 68.5% to 20%, to increase Woodbridge s interest in Bell Globemedia from 31.5% to 40%, and to introduce two new investors, Ontario Teachers Pension Plan Board (OTPPB) and Torstar Corporation (Torstar), each of which will acquire a 20% interest in Bell Globemedia, (BCE, Woodbridge, the OTPPB and Torstar are collectively referred to as the Bell Globemedia Reorganization Shareholders). The proposed reorganization was approved by the Canadian Radio-television and Telecommunications Commission (CRTC) on July 21, 2006. It remains subject to the receipt of regulatory

Table of Contents

Non-GAAP Financial Measures

This section describes the non-GAAP financial measures we use in the MD&A to explain our financial results. It also provides reconciliations of the non-GAAP financial measures to the most comparable Canadian GAAP financial measures.

EBITDA

We define EBITDA (earnings before interest, taxes, depreciation and amortization) as operating revenues less operating expenses, meaning it represents operating income before amortization expense, net benefit plan cost, and restructuring and other items.

approvals from the Commissioner of Competition (Canada) and other customary approvals. The proposed reorganization is expected to close in Q3 2006.

Bell Globemedia Offer to Purchase CHUM Ltd.

On July 12, 2006, Bell Globemedia and CHUM Limited (CHUM) announced that Bell Globemedia, through a corporation indirectly owned by the Bell Globemedia Reorganization Shareholders (in the same proportions as that contemplated under the proposed reorganization of Bell Globemedia), agreed to make an offer to acquire all of the issued and outstanding common shares and any and all non-voting Class B shares of CHUM. The offer is subject to various conditions, including, among other things, there having been validly deposited at least $66^2/_3$% of the outstanding common shares. Any common shares taken up under the offer will be placed in trust pursuant to a voting trust agreement pending receipt of regulatory approvals.

NON-GAAP FINANCIAL MEASURES

EBITDA

The term EBITDA does not have any standardized meaning according to 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 these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance. We exclude amortization expense and net benefit plans cost because they largely depend 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. Excluding restructuring and other items does not imply they are necessarily non-recurring.

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 measurement to value companies in the telecommunications industry.

The most comparable Canadian GAAP financial measure is operating income. The following tables are reconciliations of operating income to EBITDA on a consolidated basis for BCE and Bell Canada.

BCE	**Q2 2006**	Q2 2005	**YTD 2006**	YTD 2005
Operating income	**980**	1,087	**1,887**	2,130
Amortization expense	**802**	776	**1,568**	1,537
Net benefit plans cost	**141**	104	**283**	207
Restructuring and other items	**50**	5	**138**	1
EBITDA	**1,973**	1,972	**3,876**	3,875

			YTD	YTD

BELL CANADA	Q2 2006	Q2 2005	2006	2005
Operating income	**894**	981	**1,744**	1,963
Amortization expense	**778**	746	**1,517**	1,478
Net benefit plans cost	**137**	107	**279**	213
Restructuring and other items	**48**	5	**135**	
EBITDA	**1,857**	1,839	**3,675**	3,654

OPERATING INCOME BEFORE RESTRUCTURING AND OTHER ITEMS

The term operating income before restructuring and other items does not have any standardized meaning according to Canadian GAAP. It is therefore unlikely to be comparable to similar measures presented by other companies.

We use operating income before restructuring and other items, among other measures, to assess the operating performance of our ongoing businesses without the effects of restructuring and other items. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance. Excluding these items does not imply they are necessarily non-recurring.

The most comparable Canadian GAAP financial measure is operating income. The following tables are reconciliations of operating income to operating income before restructuring and other items on a consolidated basis for BCE and Bell Canada.

BCE	Q2 2006	Q2 2005	YTD 2006	YTD 2005
Operating income	**980**	1,087	**1,887**	2,130
Restructuring and other items	**50**	5	**138**	1
Operating income before restructuring and other items	**1,030**	1,092	**2,025**	2,131

BELL CANADA	Q2 2006	Q2 2005	YTD 2006	YTD 2005
Operating income	**894**	981	**1,744**	1,963
Restructuring and other items	**48**	5	**135**	
Operating income before restructuring and other items	**942**	986	**1,879**	1,963

Table of Contents

p. 10 MANAGEMENT S DISCUSSION AND ANALYSIS

Free Cash Flow

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

NET EARNINGS BEFORE RESTRUCTURING AND OTHER ITEMS, NET GAINS ON INVESTMENTS, AND COSTS INCURRED TO FORM BELL ALIANT

The term net earnings before restructuring and other items, net gains on investments and costs incurred to form Bell Aliant does not have any standardized meaning according to Canadian GAAP. It is therefore unlikely to be comparable to similar measures presented by other companies.

We use net earnings before restructuring and other items, net gains on investments, and costs incurred to form Bell Aliant, among other measures, to assess the operating performance of our ongoing businesses without the effects of after-tax restructuring and other items, net gains on investments, and costs incurred to form Bell Aliant. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance. Excluding these items does not imply they are necessarily non-recurring.

The most comparable Canadian GAAP financial measure is net earnings applicable to common shares.

The following table is a reconciliation of net earnings applicable to common shares to net earnings before restructuring and other items, net gains on investments and costs incurred to form Bell Aliant on a consolidated basis and per BCE Inc. common share.

	Q2 2006		Q2 2005		**YTD 2006**		YTD 2005	
	TOTAL	**PER SHARE**	TOTAL	PER SHARE	**TOTAL**	**PER SHARE**	TOTAL	PER SHARE
Net earnings applicable to common shares	**476**	**0.53**	563	0.61	**953**	**1.05**	1,037	1.12
Restructuring and other items(1)	**27**	**0.03**	3		**85**	**0.09**	1	
Net gains on investments	**(35)**	**(0.04)**	(28)	(0.03)	**(116)**	**(0.13)**	(28)	(0.03)
Other costs incurred to form Bell Aliant(2)	**14**	**0.02**			**14**	**0.02**		
Net earnings before restructuring and other items, net gains on investments, and costs incurred to form Bell Aliant	**482**	**0.54**	538	0.58	**936**	**1.03**	1,010	1.09

(1) Includes transactions costs associated with the formation of Bell Aliant. These costs relate mainly to investment banking, professional and consulting fees. In Q2 2006, we incurred $13 million ($6 million after tax and non-controlling interest) of transaction costs, and $43 million ($26 million after tax and non-controlling interest) in the first six months of 2006. Additional costs of approximately $85 million will be incurred in the third quarter of 2006.

(2) Includes premium cost incurred by Aliant on early redemption of long-term debt as a result of the formation of Bell Aliant. In Q2 2006 and on a year-to-date basis, we incurred $40 million ($14 million after tax and non-controlling interest).

FREE CASH FLOW

The term free cash flow does not have any standardized meaning according to 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 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 Canadian GAAP financial measure is cash from operating activities. The following table is a reconciliation of cash from operating activities to free cash flow on a consolidated basis.

	Q2 2006	Q2 2005	**YTD 2006**	YTD 2005
Cash from operating activities	**1,332**	1,403	**2,272**	2,319
Capital expenditures	**(875)**	(905)	**(1,468)**	(1,629)
Total dividends paid	**(378)**	(387)	**(765)**	(736)
Other investing activities	**(15)**	(10)	**(23)**	(25)
Free cash flow	**64**	101	**16**	(71)

Financial Results Analysis

This section provides detailed information and analysis about our performance in Q2 2006 and YTD 2006 compared with Q2 2005 and YTD 2005. It focuses on our consolidated operating results and provides financial information for each of our operating segments.

QUARTERLY FINANCIAL INFORMATION

The following table shows selected consolidated financial data for the eight most recently completed quarters. This information has been prepared on the same basis as the annual consolidated financial statements, but is unaudited.

	2006		2005				2004	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Operating revenues	**4,803**	4,734	4,986	4,732	4,757	4,630	4,769	4,556
EBITDA	**1,973**	1,903	1,858	1,864	1,972	1,903	1,794	1,901
Amortization expense	**(802)**	(766)	(791)	(786)	(776)	(761)	(787)	(754)
Net benefit plans cost	**(141)**	(142)	(65)	(108)	(104)	(103)	(67)	(61)
Restructuring and other items	**(50)**	(88)	(23)	(31)	(5)	4	(126)	(1,081)
Operating income	**980**	907	979	939	1,087	1,043	814	5
Earnings from continuing operations	**459**	413	418	448	570	479	354	90
Discontinued operations	**35**	81	12	11	11	12	11	10
Extraordinary gain							69	
Net earnings	**494**	494	430	459	581	491	434	100
Net earnings applicable to common shares	**476**	477	413	441	563	474	417	82
Included in net earnings:								
Net gains on investments								
Continuing operations		1			28	1	64	325
Discontinued operations	**35**	80				(1)	(2)	(2)
Restructuring and other items	**(27)**	(58)	(16)	(21)	(3)	2	(62)	(725)
Costs incurred to form Bell Aliant	**(14)**							
Net earnings per common share								
Continuing operations basic	**0.49**	0.43	0.43	0.46	0.60	0.50	0.37	0.08
Continuing operations diluted	**0.49**	0.43	0.43	0.46	0.60	0.50	0.37	0.08
Net earnings basic	**0.53**	0.52	0.44	0.48	0.61	0.51	0.45	0.09
Net earnings diluted	**0.53**	0.52	0.44	0.48	0.61	0.51	0.45	0.09
Average number of common shares outstanding (millions)	**896.4**	920.5	927.3	927.0	926.6	926.2	925.3	924.6

FINANCIAL RESULTS ANALYSIS

CONSOLIDATED ANALYSIS

	Q2 2006	Q2 2005	% CHANGE	**YTD 2006**	YTD 2005	% CHANGE

Operating revenues	**4,803**	4,757	1.0%	**9,537**	9,387	1.6%
Operating expenses	**(2,830)**	(2,785)	(1.6%)	**(5,661)**	(5,512)	(2.7%)
EBITDA	**1,973**	1,972	0.1%	**3,876**	3,875	
Amortization expense	**(802)**	(776)	(3.4%)	**(1,568)**	(1,537)	(2.0%)
Net benefit plans cost	**(141)**	(104)	(35.6%)	**(283)**	(207)	(36.7%)
Restructuring and other items	**(50)**	(5)	n.m.	**(138)**	(1)	n.m.
Operating income	**980**	1,087	(9.8%)	**1,887**	2,130	(11.4%)
Other income (expense)	**(32)**	19	n.m.	**(39)**	27	n.m.
Interest expense	**(253)**	(245)	(3.3%)	**(504)**	(490)	(2.9%)
Pre-tax earnings from continuing operations	**695**	861	(19.3%)	**1,344**	1,667	(19.4%)
Income taxes	**(184)**	(218)	15.6%	**(367)**	(482)	23.9%
Non-controlling interest	**(52)**	(73)	28.8%	**(105)**	(136)	22.8%
Earnings from continuing operations	**459**	570	(19.5%)	**872**	1,049	(16.9%)
Discontinued operations	**35**	11	n.m.	**116**	23	n.m.
Net earnings	**494**	581	(15.0%)	**988**	1,072	(7.8%)
Dividends on preferred shares	**(18)**	(18)		**(35)**	(35)	
Net earnings applicable to common shares	**476**	563	(15.5%)	**953**	1,037	(8.1%)
EPS	**0.53**	0.61	(13.1%)	**1.05**	1.12	(6.3%)

n.m.: not meaningful

Operating Revenues

Our total operating revenues increased 1.0% to $4,803 million in Q2 2006 and 1.6% to $9,537 million year-to-date, reflecting improved performance across most of our Bell Canada segments and at Bell Globemedia. At Bell Canada, revenues grew 0.9% and 1.2% in the second quarter and first six months of 2006, respectively, driven primarily by Aliant where solid wireless and Internet results generated higher year-over-year revenues, and to a lesser extent by our Business segment where wireless subscriber and average revenue per user (ARPU) growth and increased ICT revenues, predominantly from acquisitions made over the past year, contributed to our top-line results. Our Residential segment recorded a small improvement in revenues mainly as a result of ARPU growth in its Video, Wireless and Internet units, despite ongoing erosion of its legacy voice and data business. Improved performance at our Other BCE segment resulted from solid revenue growth at Bell Globemedia, which was fuelled by strong advertising sales at its sports specialty channels and increased subscription revenues. The year-over-year improvements in operating revenues were partly offset by a decrease at our Other Bell Canada segment, due primarily to our wholesale operations where competitive pressures in the long distance market and weaker data revenues negatively impacted results.

See *Segmented Analysis* for a discussion of operating revenues on a segmented basis, and *Product Line Analysis* for a discussion of operating revenues on a product line basis.

Operating Income

CONSOLIDATED OPERATING INCOME *(in $ millions)*

Operating income at BCE in the second quarter of 2006 was $980 million, down 9.8% from $1,087 million in the same quarter last year while, on a year-to-date basis, operating income decreased 11.4% to $1,887 million from $2,130 million in 2005. Similarly, Bell Canada s operating income declined by 8.9% and 11.2% to $894 million and $1,744 million for the same respective periods. The year-over-year decreases were due largely to restructuring and other items of $50 million in Q2 2006 and $138 million in the first six months of 2006 for restructuring costs for involuntary employee departures at Bell Canada, the relocation of employees and closing of real estate facilities related to a reduced workforce, as well as costs incurred to form Bell Aliant.

Operating income before restructuring and other items in Q2 2006 was $1,030 million or 5.7% lower than the same quarter in 2005 at BCE, and was $942 million or 4.5% lower at Bell Canada. Similarly, on a year-to-date basis, operating income before restructuring and other items was $2,025 million, or 5.0%, lower than the first six months of 2005 at BCE, and was $1,879 million or 4.3% lower at Bell Canada.

The decreases in operating income before restructuring and other items at both BCE and Bell Canada this quarter, compared with the second quarter of 2005, resulted primarily from:

- continued erosion of our high-margin residential network access services (NAS) wireline customer base
- continued pressure on operating margins from the ongoing transformation of our product mix towards growth services
- higher wireless customer retention costs
- higher operating expenses from acquisitions made over the past year principally within our Business segment
- the impact of higher net benefit plans cost and amortization expense
- an increased volume of work orders associated with provisioning and service assurance.

These impacts were offset partly by:

- higher overall revenues
- reduced costs from supply chain and efficiency-related initiatives associated with our Galileo cost reduction program
- lower salary expense from employee workforce reductions
- lower customer acquisition costs in our Wireless and Video units, mainly as a result of lower activations
- the resolution in Q3 2005 of a labour dispute with technicians in Ontario, which increased operations costs in Q2 2005.

On a year-to-date basis, the decreases in operating income before restructuring and other items also were impacted by higher wireless customer acquisition costs in Q1 2006 as a result of higher gross activations and higher costs from our ongoing investment in service improvement, offset partly by lower wireless bad debt expense.

See *Segmented Analysis* for a discussion of operating income on a segmented basis.

EBITDA

EBITDA for BCE remained virtually unchanged this quarter and year-to-date at $1,973 million and $3,876 million, compared with $1,972 million and $3,875 million in the same periods in 2005. These results reflected improved year-over-year operating performance at Bell Canada in both the second quarter and first half of the year, offset by lower EBITDA at Bell Globemedia mainly as a result of higher programming and rights costs. A modest decrease in EBITDA at Telesat Canada (Telesat) in the quarter was due largely to a one-time sale of network services in Q2 2005.

At Bell Canada, EBITDA was $1,857 million this quarter and $3,675 million year-to-date, representing slight increases of 1.0% and 0.6%, respectively, over the previous year. The year-to-date results for 2006 reflect improved performance at our Aliant and Other Bell Canada segments, offset mostly by lower margins at our Residential and Business segments. In the quarter, our Business segment contributed positively to EBITDA due to savings from headcount reductions and other efficiency-related initiatives.

EBITDA margin for BCE in Q2 2006 decreased 0.4 percentage points compared with the same quarter last year to 41.1%, while Bell Canada s EBITDA margin was unchanged at 43.2%. In the first half of the year, EBITDA margin was 40.6% at BCE and 42.9% at Bell Canada, down 0.7 and 0.3 percentage points, respectively, compared with the same six-month period in 2005. The slight year-over-year declines reflected a number of operating cost pressures, which included higher operating costs in wireless mainly from increased customer retention activity, continued erosion of high-margin legacy voice and data services in all our segments, higher operating expenses from business acquisitions, increased volume of work orders associated with provisioning and service assurance, as well as ongoing pressure on operating margins from the continuing transformation of our product mix towards growth services. The savings in operating costs achieved through various headcount reduction and supply transformation initiatives, as well as lower customer acquisition costs in our Growth services (wireless, video and Internet) due primarily to lower activations, largely offset the impact of these cost pressures on EBITDA margin.

Wireless EBITDA increased by 10.2% to $367 million in Q2 2006 from $333 million in Q2 2005, due mainly to wireless revenue growth of 11.2% and lower subscriber acquisition costs as a result of lower gross subscriber additions in the second quarter of this year. Nevertheless, wireless EBITDA margin decreased 0.6 percentage points to 41.8% in Q2 2006 from 42.4% in the same quarter last year. This reflected higher handset upgrade and customer retention costs, as well as the recognition in Q2 2005 of a portion of deferred revenues related to prepaid minutes that would go unused.

On a year-to-date basis, wireless EBITDA improved 14.1% to $722 million from $633 million in 2005, reflecting revenue growth of 11.9%, reduced customer contact centre costs and lower bad debt expense. These factors contributed to wireless EBITDA margin of 42.4% year-to-date, representing a 0.5 percentage point improvement in margin compared with the first six months of 2005 when customer service issues related to our billing system conversion had a negative impact on our financial results particularly during the first three months of the year. The year-over-year EBITDA margin improvement was offset partly by both higher subscriber acquisition expense and higher retention costs associated with our customer lifecycle management initiatives.

Wireless COA increased 4.5% to $419 per gross activation in Q2 2006 from $401 per gross activation for the same quarter in 2005. Higher COA was driven primarily by an increase in handset subsidies on premium-priced handsets with greater functionality and features used to attract higher ARPU, longer-term contract customers, increased advertising expenses associated with our Frank & Gordon campaign, and higher sales commissions from a shift towards sales channels that sign-up higher-value subscribers. The increase in COA also was impacted negatively by a lower number of gross activations year-over-year. Similarly, on a year-to-date basis, COA increased 4.6% to $407 per gross activation in 2006 from $389 per gross activation for the comparable period last year, despite the mitigating impact of a larger number of gross subscriber activations.

Video EBITDA increased significantly both on a quarterly and year-to-date basis to $66 million and $113 million, respectively, compared with $6 million and $10 million for the same periods in 2005. The year-over-year improvements reflected strong revenue growth from the combined impact of a $4 increase in monthly ARPU and a 10.2% expansion of the customer base, significantly lower subscriber acquisition expense due to the combined impact of lower gross activations and the large number of customers choosing set-top box (STB) rentals, as well as efficiency-related operating cost savings from programming and our call centres.

Amortization Expense

Amortization expense of $802 million in Q2 2006 and $1,568 million on a year-to-date basis in 2006 represent increases of 3.4% and 2.0%, respectively, compared to the same periods last year. This was a result of an increase in our capital asset base from higher investment in the growth areas of the business, as well as capital spending that continues to be higher than asset retirements.

Net Benefit Plans Cost

The net benefit plans cost of $141 million in Q2 2006 and $283 million on a year-to-date basis in 2006 represent increases of 35.6% and 36.7%, respectively, compared to the same periods last year. The increases resulted mainly from a reduction in the discount rate from 6.2% to 5.2%, which increased the cost of our pension plan liabilities and, therefore, net benefit plans cost.

(New actuarial valuations were completed in June 2006 for our defined benefit pension plans. For further information, please see Liquidity within our Financial and Capital Management section.)

Restructuring and Other Items

We recorded restructuring charges and other items of $50 million in Q2 2006 and $138 million on a year-to-date basis in 2006. These included:

charges of $29 million in the second quarter of 2006 and $74 million on a year-to-date basis related to new restructuring costs for the involuntary departure of approximately 330 employees in the second quarter and 1,230 employees on a year-to-date basis

charges of $11 million in the second quarter of 2006 and $24 million on a year-to-date basis for relocating employees and closing real estate facilities that are no longer needed because of the reduction in the workforce from our restructuring costs

transaction costs of $13 million in the second quarter of 2006 and $43 million on a year-to-date basis related to the formation of Bell Aliant announced on March 7, 2006. These transaction costs related mainly to investment banking, professional and consulting fees. Additional costs of approximately $85 million associated with the formation of Bell Aliant are expected to be incurred in Q3 2006.

Net Earnings and Earnings per Share (EPS)

Net earnings applicable to common shares for Q2 2006 were $476 million, or $0.53 per common share, which represents a decrease of 15.5% compared with net earnings of $563 million, or $0.61 per common share for the same period last year. Included in net earnings in Q2 2006 was a $14 million premium cost for Aliant s early redemption of long-term debt. We recorded net gains on investments in Q2 2005 of $32 million which included a $39 million dilution gain in our interest in TerreStar Networks Inc. (TerreStar), a mobile satellite services company, offset by a $7 million write-down of Bell Globemedia s investment in TQS Inc. (TQS). Net earnings were further impacted in the second quarter of 2006 by restructuring and other items of $27 million, offset by net gains from discontinued operations of $35 million, which included a gain of $52 million on the return of capital from Bell Canada International Inc. (BCI) offset by a write-down of $17 million on our remaining investment in CGI Group Inc. (CGI). Excluding the impact of these items, net earnings of $482 million, or $0.54 per common share, decreased by $56 million, or $0.04 per common share over Q2 2005.

On a year-to-date basis, net earnings applicable to common shares were $953 million, or $1.05 per common share, 8.1% lower than $1,037 million, or $1.12 per common share, for the same period last year. Year-to-date earnings were further impacted by $116 million of net gains from discontinued operations, which related mainly to the gain on sale of most of our interest in CGI in the first quarter of 2006, and restructuring and other items of $85 million for charges associated with our new employee workforce reduction initiatives, the related relocation of employees and closing of real estate facilities, and the transaction costs related to the formation of Bell Aliant. Excluding the impact of these items, net earnings of $936 million, or $1.03 per common share, decreased by $74 million, or $0.06 per common share.

On both a quarterly and year-to-date basis, the relatively stable year-over-year EBITDA performance was more than offset by higher amortization expense and higher net benefit plans cost. Income taxes decreased on both a quarterly and year-to-date basis due to lower pre-tax earnings and income tax adjustments resulting from the decrease in corporate federal income tax rates and the elimination of the large corporation tax stemming from the 2006 federal budget. This was offset mainly by $60 million of savings in Q2 2005 resulting from the loss monetization program between Bell Canada and BCI. The year-to-date decrease in income taxes was further impacted by favourable audit settlements in the first quarter of 2006.

SEGMENTED ANALYSIS

OPERATING REVENUES	**Q2 2006**	Q2 2005	% CHANGE	**YTD 2006**	YTD 2005	% CHANGE
Residential	**1,900**	1,890	0.5%	**3,769**	3,746	0.6%
Business	**1,530**	1,499	2.1%	**3,039**	2,977	2.1%
Aliant	**534**	518	3.1%	**1,079**	1,042	3.6%
Other Bell Canada	**460**	485	(5.2%)	**934**	964	(3.1%)
Inter-segment eliminations	**(128)**	(134)	4.5%	**(255)**	(262)	2.7%
Bell Canada	**4,296**	4,258	0.9%	**8,566**	8,467	1.2%
Other BCE	**569**	560	1.6%	**1,093**	1,035	5.6%
Inter-segment eliminations	**(62)**	(61)	(1.6%)	**(122)**	(115)	(6.1%)
Total operating revenues	**4,803**	4,757	1.0%	**9,537**	9,387	1.6%

OPERATING INCOME	**Q2 2006**	Q2 2005	% CHANGE	**YTD 2006**	YTD 2005	% CHANGE
Residential	**510**	552	(7.6%)	**1,013**	1,078	(6.0%)
Business	**199**	221	(10.0%)	**404**	461	(12.4%)
Aliant	**102**	99	3.0%	**196**	186	5.4%
Other Bell Canada	**83**	109	(23.9%)	**131**	238	(45.0%)
Bell Canada	**894**	981	(8.9%)	**1,744**	1,963	(11.2%)
Other BCE	**86**	106	(18.9%)	**143**	167	(14.4%)
Total operating income	**980**	1,087	(9.8%)	**1,887**	2,130	(11.4%)

Residential Segment
RESIDENTIAL REVENUES *(in $ millions)*

Residential revenues increased 0.5% in the second quarter of 2006 and 0.6% in the first half of 2006, year-over-year, to reach $1,900 million and $3,769 million, respectively. Video, wireless and data revenues contributed 2.5%, 1.1% and 1.5%, respectively, to overall Residential revenue growth in Q2 2006, offset largely by negative contributions of 3.0% from local and access services and 1.6% from long distance. Similarly, in the first half of the year, video, wireless and data revenues contributed 2.8%, 1.8% and 1.3%, respectively, to overall Residential revenue growth in 2006, offset largely by negative contributions of 2.8% from local and access services, 2.2% from long distance, and 0.3% from terminal sales and other revenues. Both the quarterly and year-to-date increases were the result of continued expansion of our wireless, video and high-speed Internet subscriber bases and significantly improved video, wireless and high-speed Internet ARPUs, offset almost entirely by lower wireline (local and access and long distance) revenues brought about mainly by an ongoing increase in NAS losses, continued wireless long distance and VoIP substitution, the impact of regulatory decisions, as well as ongoing aggressive price competition. Although overall Residential revenue growth slowed somewhat compared with previous quarters, this result was anticipated given the adverse effect on wireline revenues from increased cable telephony competition and from the CRTC mandated local rate reductions, which lowered the recurring amount in the deferral account.

Wireline

Local and access, which represents the largest proportion of our Residential segment revenues, declined this quarter and year-to-date, compared with the same periods in 2005, due mainly to NAS erosion and the CRTC-required price reductions, which resulted in lower basic service and related Smart-Touch feature revenues. This was offset partly by an increase in wireline maintenance plan revenues, reflecting price increases implemented in the third quarter of 2005. NAS decreased this quarter primarily as a result of losses to competitive local exchange carriers (CLECs) and cable companies, wireline to wireless substitution, as well as continued pressure from growth in high-speed Internet access which reduces the need for second telephone lines. The rate of year-over-year NAS erosion increased in Q2 2006 as the major cable companies operating in our Ontario and Québec markets continued to expand their service footprints and to vigorously market low-priced cable telephony offerings through bundled offers with their other services. The CRTC s Deferral Account decision, which required local rate reductions effective June 1, 2006, is expected to have an adverse impact of approximately $50 million on local and access revenues in 2006.

In line with NAS erosion, long distance revenues were lower both this quarter and year-to-date, compared with the same periods last year, reflecting lower average revenue per minute (ARPM), a decrease in the overall volume of conversation minutes, and lower prepaid calling card sales. However, mainly as a result of an increase in the network charge from $2.95 per month to $4.50 per month, which became effective

Table of Contents

on April 15, 2006, as well as higher overseas and calling card per-minute rates, total long distance revenues in the quarter increased over Q1 2006 and the year-over-year rate of decline slowed compared with previous quarters. Lower ARPM reflected ongoing competition from non-traditional long distance providers, increased adoption of our Block-of-Time (BOT) minute plans, the continued impact of our $5 Long Distance Bundle (which was discontinued in Q3 2005), and a lower volume of higher-priced overseas minutes. Overall minutes also declined year-over-year, as usage gains stemming from our BOT and bundle products were more than offset by the impact from increased NAS erosion and losses of domestic and overseas minutes to alternative, non-traditional long distance service providers.

(For further information about our wireline business, please see Local and access and Long distance within our Product Line Analysis.)

Wireless

Residential wireless revenues increased year-over-year both this quarter and year-to-date, mainly as a result of a higher average number of customers, a shift in subscriber acquisition mix towards higher-value rate plans, the growing impact of higher-than-average ARPU prepaid customers from Solo and Virgin Mobile, price increases in the third quarter of 2005 for certain services and features, and the continued popularity of our 10-4 push-to-talk service. Higher data usage stemming from increased adoption of Fuel Me bundles, text messaging, mobile browsing and gaming, which has been facilitated by the availability of new handsets with enhanced MP3 download and video streaming capabilities, also contributed to the improvement in revenues.

(For further information about our wireless business, please see Wireless within our Product Line Analysis.)

Data

Higher residential data revenues for both the quarter and first half of the year were driven by high-speed Internet subscriber base growth of 13% and higher ARPU resulting from a shift in subscribers towards higher-speed, premium-priced products, the implementation of a $5 price increase in Q4 2005 for new customers and in Q2 2006 for existing customers on our Basic high-speed service for customers in Ontario, a reduction in customer credits, as well as a 32% increase in combined revenues from our Sympatico.MSN.ca web portal and other value-added services such as MSN Premium, Security Services, Games Mania and Home Networking. The number of customers subscribing to Sympatico value-added services surpassed the one million mark during the second quarter, representing an approximate 20% increase over the past year. The portal currently averages over 18 million unique visitors per month, or approximately 86% of online Canadians. The year-over-year improvements in residential data revenues were tempered by promotional offers on our Basic and High Speed Edition products in Québec.

(For further information about our data business, please see Data within our Product Line Analysis.)

Video

VIDEO REVENUES *(in $ millions)*

VIDEO SUBSCRIBERS *(in $ thousands)*

Our Video unit continued to report strong financial performance for the year, growing its revenues by 21% this quarter and 23% year-to-date to $286 million and $563 million, respectively, compared with the same periods in 2005. These improvements were driven by year-over-year subscriber base growth of 10.2% and a $4 increase in monthly ARPU, which reflect the impact of price increases implemented over the past year, the success of our strategy to upsell customers to higher priced programming packages, continued traction of our STB rental program and higher pay-per-view subscriptions.

We added 19,000 new net video subscribers in Q2 2006 and 31,000 year-to-date, compared with 63,000 and 92,000 for the same periods in 2005. These decreases can be attributed to more aggressive price competition in our markets from the cable operators, while we maintained pricing discipline and had fewer promotional offers in the retail marketplace compared with the same time last year. At the beginning of Q3 2006, Bell ExpressVu (Bell Canada s video services provider) launched its All in One plan, a new marketing strategy that combines hardware and programming into one package. This new program is being introduced to stimulate further the adoption of digital television by Canadian consumers.

Higher year-over-year churn also contributed to softer net activations. However, our video churn rate increased by just 0.1 percentage point, year-over-year, in both the second quarter and first half of 2006 to 1.0% despite several price increases introduced over the past year and a lower proportion of our subscribers on long-term contracts, reflecting success of our customer retention activities and the challenging competitive environment which included the impact from cable operators strategy of bundling cable service with other products at discounted rates.

Our total video customer base reached 1,758,000 at June 30, 2006, representing an increase of 10.2% compared with the previous year.

Video ARPU increased notably to $54 per month in Q2 2006 from $50 per month in Q2 2005. The 8.0% improvement was primarily the result of a shift in product mix towards higher-priced programming packages and higher pay-per-view revenues, and to a lesser degree to price increases implemented during 2005. Customer credits and retention discounts partly offset this $4 year-over-year increase in ARPU. During 2005, we applied a $3 rate increase to our existing subscriber base beginning in March and on October 1st we brought into effect $2 and $3 increases, respectively, on our basic and theme packages for all new customers. In 2006, we continued to exercise pricing discipline by implementing a $2 rate increase on our standard digital programming package for all existing customers without a contract at the beginning of the year and increasing the system access fee by $3 per month for all our legacy subscribers starting in May. Similarly, on a year-to-date basis, video ARPU increased by $4 to $53 per month from $49 per month in 2005.

Residential Operating Income

RESIDENTIAL OPERATING INCOME *(in $ millions)*

Our Residential segment reported operating income of $510 million this quarter and $1,013 million year-to-date, down 7.6% and 6.0%, respectively, from the comparable periods in 2005. In each case, the decrease was due to a higher rate of decline in our high-margin residential NAS wireline customer base, higher operating costs in wireless from increased customer retention activity and our advertising campaigns, as well as increased amortization expense and net benefit plans cost. These factors were mitigated in part by higher revenues across all our growth services, a decrease in total subscriber acquisition expenses in wireless and video due mainly to lower gross activations, lower contact centre costs driven by an improvement in the first-call resolution rate, reduced handle times and outsourcing of call volumes, as well as savings from other cost-reduction initiatives which includes the ongoing implementation of our One Bill initiative.

Business Segment

BUSINESS REVENUES *(in $ millions)*

Business segment revenues for the three and six months ended June 30, 2006 were $1,530 million and $3,039 million, respectively, representing increases of 2.1% over the same periods in 2005. Our SMB, Enterprise and Bell West units accounted for 1.5%, 0.3% and 0.3% of the total growth in Business segment revenues in Q2 2006 respectively. Similarly, on a year-to-date basis, our SMB, Enterprise and Bell West all contributed to the increase in Business segment revenues, accounting for 1.5%, 0.1% and 0.5% of the growth respectively. Increases in ICT and wireless revenues from Enterprise and SMB customers were partly offset by further declines in legacy wireline voice and data revenues as intense competitive pricing pressures continue and as customers migrate their voice and data traffic to our IP-based systems.

Enterprise

Revenues generated by our Enterprise unit increased slightly both this quarter and on a year-to-date basis, compared with the same periods in 2005, due primarily to the strength of our wireless business, which has been fuelled by solid subscriber growth and improved ARPU, and higher penetration of ICT products and services. However, a decline in long distance and legacy data services revenues partially offset the year-over-year increases in Enterprise revenues, due to the combined impact from price changes necessitated by competitive market conditions and the ongoing migration of our customers voice and data traffic to IP-based systems.

Data revenues decreased in the quarter and first half of the year, mainly as a result of price changes on customer contracts for legacy data services necessitated by competitive market conditions and higher revenues generated in Q2 2005 from the timing of sales for systems and storage solutions, which tempered IP-based connectivity and ICT revenue growth year-over-year. ICT revenues grew by 8% this quarter and 11% in the first half of 2006, reflecting increased sales from acquisitions and new contract wins primarily in the areas of security solutions, wireless data and contact centre management.

During the quarter, our Enterprise unit continued to experience a healthy demand for IP-based network solutions, particularly for IP virtual private network services, as large Enterprise customers chose Bell Canada for their ICT needs. In this regard, our Enterprise unit secured a multi-year contract with RBC Financial Group (RBC) for an IP communications solution that will convert RBC s 1,300 branch offices from a legacy frame relay data network to a consolidated IP-based Multi Protocol Label Switching (IP MPLS) network.

SMB

Our SMB unit contributed significantly to the financial performance of our Business segment in 2006. Revenues generated from SMB customers increased this quarter and year-to-date as higher data and wireless revenues more than compensated for lower long distance, local and access and other revenues. Data revenue growth was fuelled by strong demand for high-speed Internet access service connections and continued solid growth in ICT sales driven mainly by higher VAS sales and cross-selling opportunities with companies acquired to enhance our virtual chief information officer (VCIO) strategy, despite softness in gateway equipment sales mainly reflecting the timing of customer deals. Despite intensifying competition, total VCIO revenues increased by 16% this quarter and by 25% year-to-date. Although long distance revenues continued to decrease year-over-year, largely as a result of lower minute volumes, competitive pricing pressures and a weakening of our pay-phone business brought about by increasing wireless and Internet substitution, the quarterly rate of decline slowed this quarter reflecting the impact of strategic product pricing. Similarly, local and access revenues also decreased marginally in the quarter due to our declining pay-phone business and market share gains by alternative telephony providers. However, the rate of decline slowed in Q2 2006 compared with the past several quarters because of stabilization in local line losses from improved customer retention and the favourable impact of recent price increases for basic local fixed-line access. Moreover, local and access revenues in Q2 2005 were impacted negatively by lower wireline access installation fees due to a labour dispute with field technicians in Ontario. Lower other revenues can be attributed primarily to the sale of our U.S. conferencing solutions operations in the second half of 2005.

Bell West

Bell West continued to grow its business this quarter as data, local and access and long distance revenues increased year-over-year, due primarily to the launch of services on the Alberta SuperNet (a next-generation broadband access network), higher wholesale service revenues stemming from higher demand for local access lines to support Shaw Communications Digital Phone service, as well as continued growth in Bell West s Enterprise and SMB customer bases. In Q2 2006, demand for wholesale NAS from Shaw Communications increased 40% compared with the previous quarter. Total NAS in service for Shaw reached 189,000 at the end of the quarter, representing more than a six-fold increase since the end of Q2 2005.

Business Operating Income

BUSINESS OPERATING INCOME *(in $ millions)*

Business segment operating income for the second quarter and first half of 2006 decreased 10.0% and 12.4%, respectively, to $199 million and $404 million, as a result of higher amortization expense and net benefits plans cost, as well as the negative margin impact from the ongoing shift of voice and data traffic to IP-based growth services and the loss of higher-margin legacy voice and data business due to competitive pricing pressures. Higher revenues and operating cost improvements from headcount reductions and other efficiency-related initiatives partially offset the negative impacts on operating income year-over-year.

In our Enterprise unit, operating income decreased in the quarter and year-to-date, reflecting lower revenues due to price changes necessitated by competitive market conditions, margin erosion from the shift in product mix towards IP-based services, as well as higher net benefits plans cost and amortization expense.

Our SMB unit reported strong operating income growth in the second quarter and first half of 2006, driven primarily by solid year-over-year revenue growth, cost savings from sales force realignment and other Galileo-related efficiency initiatives which mitigated the margin erosion associated with the shift in sales towards VCIO solutions and away from legacy wireline services. These year-over-year increases in operating income were offset partly by higher operating expenses from recent business acquisitions, as well as higher net benefit plans cost and amortization expense.

Bell West recorded lower operating income both this quarter and in the first six months of 2006, due primarily to higher amortization expense now that the Alberta SuperNet is in service, offset partially by improved gross margins from revenue growth and cost containment initiatives. Our Bell West unit reached a milestone in Q2 2006 as EBITDA was positive for the first time in its operating history.

Table of Contents

Aliant

ALIANT REVENUES *(in $ millions)*

Aliant revenues were $534 million in the second quarter and $1,079 million year-to-date, reflecting increases of 3.1% and 3.6%, respectively, compared with the same periods last year. Continued strong growth in wireless and Internet services and other telecommunications product sales offset declines in other areas due to impacts of competition, wireless and Internet substitution, and regulatory restrictions.

Local and access revenues increased this quarter and were flat year-to-date, compared with the same periods in 2005. This resulted mainly from a one-time reclassification of revenues in Q2 2006 to reflect their appropriate nature. Offsetting this reclassification of revenues was a 1.7% decline in the NAS customer base since the end of the second quarter of 2005, reflecting competitive losses, the reduction in demand for primary lines due to increased customer adoption of wireless and VoIP technologies, ongoing pressure from growth in high-speed Internet access that reduces the need for second telephone lines, and limitations created by the CRTC s restrictions on bundling and winback promotions.

Long distance revenues declined in the second quarter and first six months of the year over the comparable periods in 2005, due mainly to lower per-minute prices for residential customers despite an increase in minutes of use, as the adoption rate of value packages with unlimited long distance plans increased. Per-minute pricing and minutes of use in the business market continued to decline, as a result of competitive pricing pressures and increased use of contact centre management tools (such as integrated voice response systems) that reduce the length of calls.

Wireless revenues increased both in the second quarter and first half of 2006, driven by a 13.6% year-over-year increase in the wireless customer base and higher ARPU. Gross wireless activations in the quarter were up 4.8%, while churn improved 0.4 percentage points to 1.0% per month, reflecting Aliant s expanded service area coverage and digital wireless network, an enhanced dealer network that improved market penetration, broader product selection, as well as the growing number of customers subscribing to value packages, business bundles and longer term contracts. In addition, ARPU increased in the quarter, due to an increase in average minutes of use, higher data usage driven by text messaging, Web browsing, an increased number of Blackberry users and premium content downloads, and higher penetration of value-added services.

Data revenues for the second quarter and first half of 2006 increased year-over-year, due mainly to a significant increase in Internet revenues. The growth in Internet revenues was attributable to year-over-year subscriber growth of 9.1%. The expansion of the subscriber base in the first half of 2006 was the result of competitive marketing offers, proactive management of dial-up customer migration to high-speed products, expansion of the service area, the launch of a new home business Internet service and continued success of the personal computer (PC) purchase program.

Terminal sales and other revenues decreased in the second quarter and remained relatively unchanged year-to-date, due to the previously mentioned reclassification of revenues, offset partly by higher IT product and equipment sales associated mainly with Aliant s PC purchase program.

Aliant Operating Income

ALIANT OPERATING INCOME *(in $ millions)*

Operating income at Aliant was $102 million in the second quarter and $196 million in the first six months of 2006, reflecting increases of 3.0% and 5.4%, respectively, compared with the same periods in 2005. Operating expense increases in the second quarter of 2006 were driven by the costs to support wireless and Internet business growth and higher expenses related to improved product sales, contractual wage increases and the launch of a new core advertising program. In addition, restructuring and other charges of $15 million included transaction costs of $6 million associated with the formation of Bell Aliant. This was partially offset by lower amortization expense, due largely to an increase in the estimated useful life of internally developed software from three to five years. On a year-to-date basis for 2006 overall margins improved due to sound operating cost management.

Table of Contents

Other Bell Canada Segment

OTHER BELL CANADA REVENUES *(in $ millions)*

Other Bell Canada segment revenues of $460 million in Q2 2006 and $934 million in the first six months of 2006, represented decreases of 5.2% and 3.1%, respectively, compared with the same three and six-month periods in 2005. The year-over-year declines were due mainly to lower revenues in our Wholesale unit, resulting from:

- continued pressure on long distance revenues as a result of competitive pricing
- the unfavourable impact on data revenues from customers migrating services onto their own network facilities
- the one-time favourable impact in the second quarter of 2005 from the early termination of a cross-border facilities contract.

The year-over-year declines in Other Bell Canada revenues were partly offset by an increase in switched minute volumes and strong demand for local loops and access capacity. On a year-to-date basis, revenue from a contract to help restore telecommunications service to the areas affected in the United States in September 2005 by Hurricane Katrina also helped to mitigate the year-over-year decrease in revenues.

Other Bell Canada Operating Income

OTHER BELL CANADA OPERATING INCOME *(in $ millions)*

Operating income for the Other Bell Canada segment decreased 23.9% to $83 million this quarter and 45% to $131 million year-to-date, due mainly to restructuring and other charges related to restructuring costs for the involuntary departure of employees and the associated relocation of employees and closing of real estate facilities no longer required as a result of the workforce reduction. Excluding restructuring and other items, operating income increased by 7.0% and 7.6% in the second quarter and first six months of 2006 to $122 million and $257 million, respectively, reflecting lower cost of goods sold due to lower domestic and international long distance traffic, a decreased volume of termination minutes stemming from reduced southbound traffic to the United States, an improvement in bad debt expense, and other cost reductions stemming from our Galileo initiatives. Lower revenues and higher operating expenses from contractual wage increases, as a result of renegotiated labour agreements signed in the second half of 2005 with our technicians in Ontario and Québec, partly offset the positive year-over-year impacts on operating income.

Other BCE Segment

	Q2 2006	Q2 2005	% CHANGE	**YTD 2006**	YTD 2005	% CHANGE
Bell Globemedia	**431**	399	8.0%	**825**	755	9.3%
Telesat	**120**	137	(12.4%)	**238**	245	(2.9%)
Other	**18**	24	(25.0%)	**30**	35	(14.3%)
Other BCE revenues	**569**	560	1.6%	**1,093**	1,035	5.6%

OTHER BCE REVENUES *(in $ millions)*