

BCE INC
Form 6-K
November 01, 2006

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**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: **November 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 Form 40-F

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

Yes No

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

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.

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SIGNATURE

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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: November 1, 2006

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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 THIRD QUARTER RESULTS

Delivered profitable growth and cost reduction improvements

Increased revenues per customer across the board in wireless, video and high-speed Internet

Improved Bell EBITDA margin, a key strategic objective

Increased free cash flow to \$449 million in the quarter

BELL PLANNED TRUST CONVERSION IMPACTED BY

PROPOSED CHANGE IN FEDERAL TAX POLICY

MONTRÉAL, (Québec), November 1, 2006 Bell Canada's focus on profitable growth and improved cost reductions produced a quarter of continuing progress as BCE Inc. (TSX, NYSE: BCE), Canada's largest communications company, today reported operating and financial results for the third quarter of 2006.

A focus on profitable growth combined with ongoing cost reductions are important building blocks of our strategy, said Michael Sabia, President and Chief Executive Officer of BCE and Chief Executive Officer of Bell Canada.

Improvement in Bell's EBITDA⁽¹⁾ and EBITDA margin, as well as a solid increase in free cash flow, reflects the progress being made in setting the foundation for 2007.

Bell Canada reported revenues of \$4,339 million in the third quarter, up 0.4% from the same quarter last year, driven by higher average revenues per user (ARPU) in residential growth services (wireless, video and high-speed Internet), as well as an expanding subscriber base in those services, improved revenue performance from the Bell Aliant Regional Communications Income Fund (Bell Aliant) and growth in revenues from wireless and Information, Communication and Technology (ICT) solutions in the Business segment. These results contributed to total BCE revenues of \$4,422 million for the quarter ended September 30, 2006, an increase of 0.3% over last year.

Bell Canada reported operating income of \$827 million in the quarter, which is \$78 million lower than the same quarter last year, mainly as a result of charges associated to previously announced workforce reductions and the related closure of real estate facilities and employee relocations as well as the formation of Bell Aliant. These same factors resulted in operating income of \$810 million for BCE in the third quarter, compared to \$909 million for the same period last year.

Bell Canada EBITDA of \$1,835 million is up 1.8% in the quarter, driven by higher ARPU in residential growth services, subscriber acquisitions and the achievement of efficiencies, such as lower total labour costs following workforce reductions, increased cost savings from supply chain and process-related efficiency initiatives and lower costs for wireless and video customer acquisitions. This contributed to BCE EBITDA of \$1,840 million, an increase of \$23 million over the same period last year. This represents the third quarter of sequential EBITDA growth.

Bell Canada EBITDA margin improved in the quarter to 42.3% from 41.7% in the third quarter of 2005. This is an important performance achievement for Bell in light of the continued transformation of its revenue mix in an open and competitive market.

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BCE cash from operating activities rose to \$1,602 million in the quarter compared to \$1,569 million for the same period last year. Combined with improved discipline in capital spending, this contributed to Free Cash Flow ⁽²⁾ of \$449 million in the quarter, an increase of \$207 million from the same period last year.

BCE earnings per share (EPS) were \$0.36 for the quarter, compared to \$0.48 for the same period last year, reflecting higher restructuring costs and other costs related mainly to the formation of Bell Aliant. EPS before restructuring and other items, net gains on investments and costs incurred to form Bell Aliant ⁽³⁾, which is the figure used for financial guidance purposes, reached \$0.48 in the quarter, compared to \$0.50 in the same period last year. Improved EBITDA performance helped offset the previously announced increase in pension cost, post-employment benefits cost and amortization expense, which was \$0.03 higher this quarter compared to the third quarter of 2005.

Progress was made on each of the fundamental drivers of our business strategy in the quarter, added Mr. Sabia. We are focused on customer service performance and continue to strengthen installation and repair services and provide specialized training to our customer-facing employees. Our strategy is to combine customer service improvements with leading-edge products running on the most advanced networks in the market to build a company that delivers a differentiated customer experience.

In terms of BCE's strategic agenda, the company completed the sale of the majority of its interest in Bell Globemedia and announced the filing by Telesat Holdings of a preliminary prospectus and registration statement for an initial public offering of non-voting shares of Telesat in Canada and the U.S.

Bell Canada Income Fund

On October 11, 2006, BCE Inc. announced its intention to convert Bell Canada into an income trust.

Yesterday the federal government announced proposed changes to Canada's taxation system, Finance Minister James Flaherty said the changes are designed to level the playing field between trusts and corporations, said Mr. Sabia. The Minister's announcement clearly has a significant impact on our proposed conversion and the immediate benefits such a conversion would have delivered to our shareholders. We will assess the proposed changes over the coming days and evaluate our options.

In any case, we will continue to build our business to create long-term, sustainable, shareholder value, added Mr. Sabia. We will proceed with plans to eliminate BCE's holding company operations.

THIRD QUARTER HIGHLIGHTS

The results for the quarter showed improved metrics, such as higher revenues per customer across all growth services as we continue our disciplined approach to profitable revenues, said George Cope, President and Chief Operating Officer of Bell Canada. Furthermore, a targeted customer retention and winback strategy, as well as focused regional marketing strategies allowed us to maximize the value of our traditional voice and data business.

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Residential Segment

The Residential Segment recorded across-the-board increases in average revenue per user (ARPU) in video, wireless and Internet while stabilizing the rate of decline of its traditional voice and data business.

Revenues for the third quarter were \$1,799 million, compared to \$1,770 million for the same period last year, a 1.6% increase.

Operating income of \$400 million for the quarter is down 7% over the same period last year, but in line with expectations due mainly to the increase in amortization and previously announced pension costs.

Bell's multi-product household strategy continued to drive increased penetration of households subscribing to three or more products reaching over 24% of Ontario and Québec households within the Bell footprint at the end of the third quarter, compared to 21% this time last year.

Business Segment

The Enterprise and Small and Medium-sized Business (SMB) units made significant progress in improving profitability during the quarter as a result of steady revenue growth in IP-based connectivity, ICT solutions and wireless services as well as cost reduction improvements.

Revenues for the third quarter were \$1,495 million, compared to \$1,473 million for the same period last year, up 1.5%.

Operating income in the quarter is up 9.9% to \$223 million for the quarter, due to a combination of lower costs and higher revenue levels.

SMB continued to gain traction in the market as the Virtual Chief Information Officer (VCIO) for small and medium-sized businesses in Canada, and posted strong results in traditional businesses to make a significant contribution to Business results in the quarter.

In Enterprise, demand for ICT services continued to grow as Bell secured new accounts and expanded existing relationships. For example, The Desjardins Group, the largest integrated cooperative financial group in Canada, signed a multi-year contract with Bell valued at approximately \$670 million, which:

- Builds on relationship in place since 2001;

- Delivers comprehensive outsourced IP-based communications; and

- Expands ICT solution portfolio of voice, data and image service convergence on a single platform.

Wireless

Wireless posted continued improvements in post-paid ARPU levels and lower cost of acquisition and churn levels as Bell continued executing on its strategy of shifting its customer base to higher value subscribers.

Revenue growth of 14.3% to \$912 million in the third quarter compared to \$798 million in the third quarter of 2005.

Post-paid ARPU reached \$66 per month, an increase of \$3 compared to the same quarter in 2005. This is primarily due to a shift in the subscriber acquisition mix towards postpaid customers that generate higher ARPU levels by making more use of data services, text messaging, mobile browsing and gaming, as well as the popularity of Fuel Me bundled data offers and the 10-4 push-to-talk service.

Wireless EBITDA in the third quarter is up 13.2% to \$411 million due to revenue growth and lower subscriber acquisition costs.

Wireless EBITDA margin is down modestly to 43.7%, attributable to higher handset upgrade and customer retention costs.

Bell added 114,000 new net wireless subscribers this quarter, of which 82%, or 94,000 were postpaid subscribers, up from only 50,000 post-paid subscribers in the same period last year.

The total subscriber base rose to 5,704,000 at the end of the third quarter.

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Our blended churn rate remained unchanged year over year at 1.5%, despite higher prepaid churn in the quarter which had a negative impact on total net activations.

Postpaid churn has improved to 1.1% in the third quarter from 1.5% in the same period last year.

Video

Bell remains Canada's leading digital TV provider as the video unit reported strong financial performance due to an important step up in ARPU and a consistently low churn rate.

Revenue growth of 15.1% in the third quarter

ARPU up \$3 year over year to \$54, reflecting the continued shift in product mix towards higher-priced programming packages, higher pay-per-view revenues, price increases implemented over the past year as well as set-top-box rental revenues.

EBITDA is up significantly in the quarter to \$42 million from \$12 million in the third quarter of 2005.

With 30,000 new subscribers added this quarter, the total number of subscribers is now at 1,788,000, up 6.6% year over year.

Churn remains low at 1% per month.

High-speed Internet

Bell remains Canada's leading Internet service provider and continued to post profit and revenue growth while operating in a highly competitive market.

ARPU improvements continue to reflect the company's strategy to attract customers to high-speed, premium-priced offers.

Total subscribers ended the quarter up 12.6% year over year to reach 2,403,000.

Net additions of 90,000 reflect the success of a targeted marketing campaign in the Québec market.

Although down from last year, these results are in line with expectations as net activation in the third quarter of 2005 were driven by the introduction of Basic Lite service in the Ontario market.

Executing on key elements of business plan

Bell made progress on all of the key elements of its business plan in the third quarter of 2006.

Growth services: Revenues from growth services (comprised of wireless, video, high-speed Internet and other next-generation services such as ICT solutions) generated 48% of total revenues at Bell Canada by the end of the third quarter, compared with 44% one year earlier.

Broadband: Fibre to the node (FTTN) was extended to 418 neighbourhood nodes in the third quarter of 2006. Bell also launched Sympatico Optimax, which leverages the latest in fibre optic technology for customers in Montreal and Toronto and provides an Internet connection with consistently fast maximum speeds of 10 to 16 megabits per second (Mbps).

Customer service: With 5.9 million customers now on One Bill, Bell has delivered enhanced service to customers as well as significant cost reductions. In addition, key metrics such as the adoption of online bill management tools by Enterprise customers, the continued reduction of missed appointments and the important DSL Hardening Program gains demonstrate measurable progress at enhancing Bell's customer service performance.

Cost reductions of \$204 million in the quarter, for a total of \$501 million in savings on a year-to-date basis, contributed to EBITDA margin improvement.

NCIB Update

During the third quarter, BCE purchased, under its Normal Course Issuer Bid program, an additional 4.4 million common shares at a cost of \$114 million, for a total of 40 million shares purchased at a cost of approximately \$1,108 million. This represented approximately 90% of the shares targeted for repurchase.

Table of Contents**Bell Aliant Regional Communications**

Bell Aliant's revenues were \$841 million, up 1.8% over the previous year, due to growth in data and terminal sales and other revenues. Operating income was \$204 million, up 5.2% over the previous year, driven by higher EBITDA and lower amortization expense.

Telesat

Telesat's revenues increased 0.9% in the third quarter of 2006 to \$113 million, due to higher broadcast revenues, and increased revenue from Telesat's two-way broadband service. Operating income decreased 26% to \$32 million, due mainly to one time special compensation costs related to senior executive changes made in September 2006 and higher amortization expense stemming from the launch of its Anik F1R satellite.

Bell Canada Statutory Results

Bell Canada's statutory results includes Bell Canada and Bell Canada's interests in Bell Aliant (at 37.8%), Bell ExpressVu (at 52%), and Bell's other Canadian telcos.

In the third quarter of 2006, Bell Canada's reported statutory revenue was \$4.3 billion, up 0.4% compared to the same period last year. Year-to-date revenue was \$12.9 billion, as compared to \$12.8 billion for the same period last year. Net earnings applicable to common shares were \$355 million in the third quarter of 2006, compared to net earnings of \$488 million for the same period last year. Year-to-date net earnings applicable to common shares were \$1,289 million, as compared to \$1,596 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	\$700M - \$900M
EBITDA margin (ii)	Stable
Capital intensity (iii)	16% - 17%
BCE Inc.	
EPS (iv)	\$1.80 - \$1.90
Free Cash Flow (v)	\$700M - \$900M

- (i) All figures for 2006 are without giving effect to the proposed income trust conversion and related transactions which are expected to close in the first quarter of 2007. 2006 figures reflect the disposition of our interest in CGI

and the reduction
of our interest in
Bell Globemedia
to 15%, BCE's
intentions for the
use of proceeds
from these
transactions and
the formation of
the Bell Aliant
Regional
Communications
Income Fund.

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- (ii) EBITDA margin is EBITDA as a percentage of revenues.
- (iii) Capital intensity is 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) 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 funding of 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 Third Quarter MD&A dated October 31, 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) 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 Canadian GAAP. Please refer to the section of BCE Inc. s 2006 Third Quarter MD&A dated October 31, 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.
- (3) 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 Canadian GAAP. Please refer to the section of BCE Inc. s 2006 Third Quarter MD&A dated October 31, 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.

Call with Financial Analysts

BCE will hold a teleconference for financial analysts to discuss its third quarter results on **Wednesday, November 1, 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 and entering passcode: 3182500#. This teleconference will also be Webcast live and archived for 90 days on BCE s website at <http://www.bce.ca/en/investors/investorevents/quarterlyresults/index.php>.

Caution Concerning Forward-Looking Statements

Certain statements made in this news release, including, but not limited to, the statements appearing under the Outlook section, statements relating to Bell Canada s proposed income trust conversion, 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.

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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 and Second Quarter MD&As dated May 2, 2006 and August 1, 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 Third Quarter MD&A dated October 31, 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 November 1, 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.

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 holdings include Telesat Canada, a pioneer and world leader in satellite operations and systems management, and an interest in Bell Globemedia, Canada s premier media company. BCE shares are listed in Canada, the United States and Europe.

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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 Q3 2006 compare to our results in Q3 2005.

On October 11, 2006, we announced our intention to wind down BCE Inc.'s holding company structure and convert Bell Canada into an income trust to be known as the Bell Canada Income Fund. The elimination of BCE Inc. is a further step in our plan to focus on Bell Canada and our core communications operations.

Overall performance for Q3 2006 showed ongoing progress in our focus on execution as underlying operating trends continued to improve. The results for the quarter showed higher average revenue per user (ARPU) across all growth services, a significant increase in free cash flow and control over the pace of erosion in our legacy business.

Revenue growth at Bell Canada in Q3 2006 was 0.4%, while EBITDA⁽¹⁾ improved in line with our expectations for the quarter at 1.8%, reflecting a continued focus on revenue quality, a disciplined approach towards subscriber acquisition, and the achievement of greater cost efficiencies. Our attention to profitable growth, along with our ongoing efforts to transform our overall cost structure and improve upon overall operational execution, has set a solid foundation for future growth. In addition, the sound financial performance of our growth services (comprised of wireless, video, high-speed Internet, and information and communications technology (ICT) solutions) and capital spending efficiency helped to drive a significant improvement in free cash flow in the third quarter. At the same time, although local access line losses increased year-over-year, the rate of erosion in our traditional voice business has stabilized since the beginning of 2006, as new competition starts to mature and as our customer winback initiatives gain momentum.

In our Residential segment, the financial performance of our video, wireless and Internet businesses, driven by strong increases in ARPU and cost control, helped to offset the impact of ongoing erosion of our high-margin local wireline and long distance business and price reductions mandated by certain regulatory decisions. Growth in customer connections across all our growth services was affected by a lower number of net activations stemming from continued competitive intensity and our focus on balancing growth with profitability of our growth services.

Our Business segment made significant progress in improving profitability during the quarter, as a result of solid cost control, steady revenue growth and the shift away from less profitable contracts. This was achieved despite the negative impact on operating margins from the continuing evolution in product mix from higher margin legacy services to Internet Protocol (IP) based services. Higher revenues reflected increased sales of IP-based connectivity and ICT solutions to our Enterprise and small and medium-sized business (SMB) customers, as well as higher wireless subscriptions.

In the Bell Aliant⁽²⁾ segment, growth in revenues from Internet, data and information technology (IT) services more than offset declining revenues from traditional wireline services attributable to expansion by competitors, technology substitution and regulatory constraints. Higher revenues, in combination with ongoing expense management driven by productivity initiatives, resulted in improved operating margins and profitability this quarter.

In the Other Bell Canada segment, lower revenues resulted directly from the ongoing competitive market conditions in our wholesale business and sales of fibre and access capacity in Q3 2005, while operating income was negatively affected by restructuring charges related to the formation of Bell Aliant and costs associated with our 2006 workforce reduction program.

Within the Other BCE segment, Telesat Canada (Telesat) announced that a preliminary prospectus was filed for an initial public offering of non-voting shares. Telesat reported a slightly improved level of revenues for the quarter generated by increased sales of its broadcast and two-way broadband services. Operating income was impacted by special compensation costs related to Telesat's senior executive changes made during the quarter.

CUSTOMER CONNECTIONS

	Q3 2006	CONNECTIONS SEPTEMBER
	NET	30,
<i>(in thousands)</i>	ACTIVATIONS	2006

NAS	(71)	12,237
High-Speed Internet	90	2,403
Wireless	114	5,704
Video	30	1,788

(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 Third
Quarter MD&A
dated
October 31,
2006.*

- (2) *The Bell Aliant
segment is
comprised of the
former Bell
Canada regional
wireline
operations in
Ontario and
Québec, the
former Aliant
wireline and
related
operations in
Atlantic Canada,
and Bell
Canada s former
63.4% interest in
NorthernTel
Limited
Partnership and
Telebec Limited
Partnership held
indirectly
through Bell
NordiQ Group
Inc.*

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Network Access Services (NAS) NAS in service declined by 71,000 this quarter. In the past twelve months, our local access customer base has decreased 3.7%, representing a 0.4 percentage point increase, compared with the year-over-year erosion rate in 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 increased customer winbacks and higher demand for access lines from a wholesale customer in Western Canada offering VoIP services.

High-Speed Internet We added 90,000 net new high-speed Internet customers this quarter, compared to 106,000 net activations in Q3 2005, bringing our end of period customer base to 2,403,000 or 12.6% higher than last year. The year-over-year decline in new subscriber additions was expected as net activations in Q3 2005 were fuelled by the growth of our Basic Lite products and by extensive footprint expansion.

Wireless We added 114,000 new net wireless subscribers this quarter, compared to 123,000 in Q3 2005, bringing our subscriber base at the end of Q3 2006 to 5,704,000. Higher revenue-generating postpaid subscribers accounted for 82%, or 94,000, of total net activations in the quarter, up from 41% last year, as a result of significantly improved customer retention efforts. Our overall churn rate remained unchanged year-over-year at 1.5%, despite higher prepaid churn in the quarter which had a negative impact on total net activations.

Video We activated 30,000 new net video subscribers in the quarter, compared to 82,000 in Q3 2005, bringing our total subscriber base to 1,788,000 as of September 30, 2006 for a 6.6% increase over last year. The relatively fewer number of new subscriber activations in Q3 2006 compared with the previous year reflected reduced market growth, accelerated analog to digital migrations by cable operators, decreased sales in our retail channels and the acquisition of Cable VDN Inc. (Cable VDN) in Q3 2005, which added an incremental 12,500 new net customers to our subscriber base. Churn in the third quarter remained unchanged, year-over-year, at 1.0%.

OPERATING REVENUES

In Q3 2006, we generated revenues of \$4,422 million at BCE, an increase of 0.3% compared with the same quarter in 2005, reflecting higher revenues in most Bell Canada segments as well as at Telesat. Revenues at Bell Canada grew by 0.4% to \$4,339 million, driven primarily by higher ARPU and an increase in the number of subscribers in all our growth services, steady revenue growth at Bell Aliant, and continued solid wireless and ICT revenue growth in our Business segment. Telesat also reported slightly improved performance largely as a result of higher broadcast revenues. The results for Q3 2005 included revenues from the sales of customer contracts in our Business segment and fibre and access capacity in our wholesale unit, which affected our revenue growth rates in 2006.

OPERATING INCOME AND EBITDA

Operating income at BCE for the quarter was \$810 million, down from \$909 million in Q3 2005, due largely to \$126 million of restructuring and other items associated with restructuring costs for employee departures initiated 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 Q3 2006 was \$936 million or \$4 million lower than the same quarter in 2005. Increased net benefit plans cost and higher amortization expense more than offset an improvement in EBITDA. EBITDA for BCE increased \$23 million, or 1.3% year-over-year, to \$1,840 million, due to an increase of 1.8% at Bell Canada.

Similarly, Bell Canada's operating income in Q3 2006 was \$827 million, or \$78 million lower than Q3 2005, mainly because of restructuring costs related to both our workforce reduction initiative and the formation of Bell Aliant. Operating income before restructuring and other items was \$938 million or \$3 million higher than Q3 2005, due to higher EBITDA offset largely by higher net benefit plans cost and amortization expense. EBITDA at Bell Canada increased 1.8% to \$1,835 million this quarter, reflecting higher revenues and a reduction in total operating expenses. Operating expenses decreased due primarily to lower labour costs from workforce reductions, increased cost savings from supply chain initiatives and process improvement initiatives, lower wireless and video customer acquisition costs, as well as lower expenses as a result of costs incurred in 2005 as we recovered from a labour dispute. These lower costs were offset in part by continued erosion of our NAS wireline customer base, higher wireless customer retention costs, higher capital taxes, 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 increased to 42.3% in Q3 2006 from 41.7% in Q3 2005.

(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 Third
Quarter MD&A
dated
October 31,
2006.*

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*THE QUARTER AT A GLANCE***NET EARNINGS / EARNINGS PER SHARE (EPS)**

Net earnings applicable to common shares for Q3 2006 were \$285 million, or \$0.36 per common share, which represents a decrease compared with net earnings of \$441 million, or \$0.48 per common share for Q3 2005. Net earnings in the quarter were negatively impacted by higher restructuring and other costs related mainly to the formation of Bell Aliant. EPS before restructuring and other items, net gains on investments, and costs incurred to form Bell Aliant⁽¹⁾, which is the figure used for financial guidance purposes, reached \$0.48 per common share in Q3 2006 compared to \$0.50 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 higher amortization expense, offset partly by improved EBITDA performance.

CAPITAL EXPENDITURES

Capital expenditures for BCE were \$760 million in Q3 2006, which was 21% lower than the same quarter last year. As a percentage of revenues, capital expenditures decreased this quarter to 17.2% from 21.7% in Q3 2005. Similarly, Bell Canada's capital expenditures decreased 18.1% this quarter to \$715 million. As a result, Bell Canada's capital intensity in the quarter declined 3.7 percentage points, year-over-year, to 16.5%. 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 infrastructure and systems to support both our cost reduction program initiatives as well as customer contracts in the Business segment, the timing of spending associated with various strategic initiatives, reduced spending at Bell Aliant, lower expenditures related to wireless growth and capacity expansion, and the completion in the fourth quarter of 2005 of the Alberta SuperNet. The difference in capital expenditures between BCE and Bell Canada reflects spending on satellite builds at Telesat.

CASH FROM OPERATING ACTIVITIES AND FREE CASH FLOW⁽¹⁾

In Q3 2006, cash from operating activities increased 2.1% to \$1,602 million from \$1,569 million in Q3 2005, due mainly to improvements in working capital, partly offset by payments related to a pay equity settlement announced in Q2 2006 and an increase in income taxes paid.

We generated \$449 million of free cash flow in Q3 2006, representing an improvement of \$207 million over free cash flow of \$242 million reported in Q3 2005. As a result, free cash flow improved to \$502 million in the first nine months of 2006 from \$120 million in 2005, reflecting reduced capital spending and an improvement in cash from operating activities, offset mainly by an increase in dividends paid to BCE Inc. common shareholders.

(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 Third Quarter MD&A dated October 31, 2006.

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In this MD&A, *we, us, our* and *BCE* mean BCE Inc., its subsidiaries and joint ventures. References to Bell Aliant include matters relating to, and actions taken by, both Aliant Inc. (Aliant) prior to July 7, 2006, and Bell Aliant Regional Communications Income Fund on and after such date.

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 third 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.

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 (Q3) and nine months (YTD) ended September 30, 2006 and 2005.

ABOUT FORWARD-LOOKING STATEMENTS

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*.

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 or second quarter MD&A dated May 2, 2006 or August 1, 2006 (BCE 2006 First and Second Quarter MD&As), respectively, 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 October 31, 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 non-recurring 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 the section entitled *Assumptions Made in the Preparation of Forward-Looking Statements and Risks that Could Affect our Business and Results*.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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 providing Internet Protocol (IP) services. We continue to build on three key pillars that support this strategy: *Customer Experience*, *Band-width* and *Next-Generation Services*. Taken together, these pillars are designed to 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 progress on each of our three key priorities and on transforming our cost structure.

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

At the end of Q3 2006, 5.9 million clients were enjoying the benefits of a single bill for their wireline, Internet, video and/or wireless services (our One Bill program), representing a 4.5 million increase over the past year.

We delivered improved service commitments and service levels in the quarter by reducing the number of missed appointments for fixed wireline installations and repairs by approximately 20% compared with the same period last 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 20% on a year-to-date basis over the same period last year.

As at the end of the quarter, 91% 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 72% of our customer-facing employees in the Residential and Business segments on consistent service standards.

Our multi-product household strategy continued to drive increased penetration of households subscribing to three or more products (a combination of local wireline, Internet, video, wireless and long distance services), reaching over 24% of total households in our Ontario and Québec footprint at the end of Q3 2006, up from 21% one year earlier.

Since the beginning of the year, our first call resolution rate in the Residential segment decreased 0.8 percentage points due mainly to seasonality and reflecting an increase in the volume of work orders associated with both the residential move and the back-to-school periods.

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

We continued our rollout of fibre-to-the-node (FTTN) by deploying another 418 neighbourhood nodes in Q3 2006, raising the total number of nodes deployed to 3,310.

Bell Mobility Inc. (Bell Mobility) expanded the core footprint of its Evolution, Data Optimized (EVDO) wireless data network to include London and Québec City, increasing coverage to 52% of the Canadian population.

In August, we launched Sympatico Optimax, a high-speed Internet service that leverages the latest in fibre optic technology, in parts of Toronto. The service offers an Internet connection that delivers consistently fast Internet service, with maximum speeds of 10 to 16 megabits per second (Mbps). The service is also currently available in certain areas of Montreal and is expected to be deployed progressively across significant portions of Toronto and Montreal 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 and communications technology (ICT) solutions) accounted for 48% of total revenues at Bell Canada by the end of Q3 2006, compared with 44% one year earlier. Mainly as a result of the lower than expected revenue decline in our legacy wireline business since the beginning of the year, we now expect that growth services will represent over 50% of total Bell Canada revenues by the end of the year rather than 55% as previously anticipated.

Bell Mobility launched a music video ringtones service. The service, which is the first of its kind in Canada, allows clients to listen to and/or watch digital music videos directly on their wireless phone when it rings.

Sympatico introduced Personal Vault for Residential and small and medium-sized business (SMB) customers on October 16, 2006, a comprehensive new online storage solution that is available exclusively from Bell Canada to back-up, access and share content including digital photos, financial records, music and video files.

We opened a new testing lab in Montreal to accelerate testing of new services based on Internet telephony and multimedia standards with the objective of bringing superior products and services to market with maximum speed and simplicity and with less risk.

Transforming our cost structure

Overall, our various cost-reduction initiatives resulted in savings of \$204 million in the third quarter of 2006, bringing total savings on a year-to-date basis to \$501 million. These cost savings were realized primarily through process improvements in our business units and our supply chain transformation program, contributing to an improvement in Bell Canada's EBITDA margin year-over-year.

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Cost reductions from efficiency-related process improvements amounted to \$96 million in the quarter and \$243 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 solve customer problems with just one visit (our One and Done program)

- contact centre efficiencies and changes to certain processes at our call centres, resulting in lower call volumes
- workforce reductions resulting from One and Done and other operational efficiency initiatives.

Supply transformation savings of \$108 million in the quarter and \$258 million year-to-date were realized from:

- increased controls over discretionary spending

- reduced spending on information technology (IT) services

- outsourcing of selected contact centre call volumes

- renegotiated contracts resulting in vendor rebates for wireless handsets, wireline data and voice equipment, and Internet portal services that we resell to our customers.

In the third quarter, an additional 793 employees departed, bringing the total number of employee departures associated with our 2006 workforce reduction program to 2,664. Our initial plan for 2006, called for a total headcount reduction this year of 3,000 to 4,000 positions. Due to a fewer number of attrition-related departures than originally expected and our decision to retain a greater mix of internal direct sales agents in support of our revenue growth initiatives, we do not expect headcount reductions in 2006 to exceed 3,000. However, our operating cost savings target for 2006 remains on track due to higher savings from decreased use of contractors and consultants in line with our objective to lower total overall labour costs.

CORPORATE DEVELOPMENTS*Wind down of BCE Inc. and the formation of the Bell Canada Income Fund*

On October 11, 2006, BCE Inc. announced that it intends to eliminate its holding company structure and convert Bell Canada into an income trust to be known as the Bell Canada Income Fund. In addition, BCE Inc. and Bell Canada intend to amalgamate together with certain other subsidiaries to form a new company to be known as Bell Canada. The conversion to an income trust is timely for the company as its tax losses and deferred tax deductions would be substantially utilized in 2007, resulting in a large increase in cash taxes payable beginning in 2008.

The conversion of Bell Canada into an income trust, and related transactions, will be carried out pursuant to a Plan of Arrangement (the Arrangement) under the *Canada Business Corporations Act*. Under the Arrangement, each of the outstanding common shares of BCE Inc. will be exchanged for units in the Bell Canada Income Fund on a one-for-one basis.

BCE Inc. and Bell Canada expect to mail an information circular and other applicable materials with respect to the Arrangement in December 2006. BCE Inc. and Bell Canada currently expect to hold a meeting of their common and preferred shareholders to consider the Arrangement in January 2007.

The transaction is subject to the receipt of all necessary security holder, regulatory and stock exchange approvals and other consents. Provided that all necessary conditions to the Arrangement are satisfied, the transaction is expected to be completed and the Bell Canada Income Fund units to begin trading in the first quarter of 2007.

Bell Aliant

The income trust transaction announced by BCE Inc. and Aliant on March 7, 2006 to form Bell Aliant closed on July 7, 2006. Bell Aliant combines Bell Canada's former regional wireline operations in rural Ontario and Québec with Aliant's former wireline, information technology and related operations in Atlantic Canada, and also includes Bell Canada's former 63.4% interest in NorthernTel Limited Partnership (NorthernTel) and Telebec Limited Partnership (Telebec) held indirectly through Bell Nordiq Group Inc. (Bell Nordiq). 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 continue to be consolidated by BCE.

Subsequent to the end of the third quarter, Bell Aliant made a proposal to take Bell Nordiq Income Fund private.

Completion of Bell Globemedia Reorganization

Following the receipt of regulatory approval, the transaction involving the reorganization of the ownership of Bell Globemedia announced on December 2, 2005 was completed on August 30, 2006. As part of the transaction, which reduced BCE's interest in Bell Globemedia from 68.5% to 20%, BCE retains certain important rights and has entered into a commercial agreement with Bell Globemedia to have access to existing and future content. Subsequent to the conclusion of this transaction, Bell Globemedia completed its takeover bid of CHUM Limited, resulting in a further reduction of BCE's ownership in Bell Globemedia from 20% to 15%.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Telesat Initial Public Offering

On September 18, 2006, Telesat Holding Inc. filed a preliminary prospectus and a registration statement for an initial public offering (IPO) of non-voting shares both in Canada and the United States. Prior to completion of the offering, Telesat intends to undergo a debt recapitalization the net proceeds of which, together with the net proceeds of the offering, will be distributed to BCE. Upon closing of the offering, Telesat Holding Inc. will be the parent company of Telesat Canada.

Normal Course Issuer Bid

During the quarter, BCE Inc. purchased an additional 4.4 million common shares for a total cost of \$114 million under its Normal Course Issuer Bid (NCIB) program. This brought the total number of common shares repurchased and cancelled as at September 30, 2006 to 40 million, representing approximately 90% of the total common shares targeted for repurchase, for a total cash outlay of \$1,108 million. BCE Inc. commenced the NCIB program on February 1, 2006 with the intention to purchase and cancel approximately 5%, or 45 million, of its outstanding common shares over a twelve-month period.

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 plans cost, and restructuring and other items.

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	Q3 2006	Q3 2005	YTD 2006	YTD 2005
Operating income	810	909	2,572	2,879
Amortization expense	786	774	2,332	2,285
Net benefit plans cost	118	103	388	300
Restructuring and other items	126	31	264	31
EBITDA	1,840	1,817	5,556	5,495

BELL CANADA	Q3 2006	Q3 2005	YTD 2006	YTD 2005
Operating income	827	905	2,571	2,868
Amortization expense	772	756	2,289	2,233
Net benefit plans cost	125	111	404	324
Restructuring and other items	111	30	246	30
EBITDA	1,835	1,802	5,510	5,455

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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 restructuring and other 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.

	Q3	Q3	YTD	YTD
BCE	2006	2005	2006	2005
Operating income	810	909	2,572	2,879
Restructuring and other items	126	31	264	31
Operating income before restructuring and other items	936	940	2,836	2,910
	Q3	Q3	YTD	YTD
BELL CANADA	2006	2005	2006	2005
Operating income	827	905	2,571	2,868
Restructuring and other items	111	30	246	30
Operating income before restructuring and other items	938	935	2,817	2,898

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.

	Q3 2006		Q3 2005		YTD 2006		YTD 2005	
	PER		PER		PER		PER	
TOTAL	SHARE	TOTAL	SHARE	TOTAL	SHARE	TOTAL	SHARE	

Net earnings applicable to common shares	285	0.36	441	0.48	1,238	1.41	1,478	1.60
Restructuring and other items ⁽¹⁾	71	0.09	21	0.02	156	0.18	21	0.02
Net (loss) gains on investments	3				(113)	(0.13)	(27)	(0.03)
Other costs incurred to form Bell Aliant ⁽²⁾	28	0.03			42	0.05		
Net earnings before restructuring and other items, net gains on investments, and costs incurred to form Bell Aliant	387	0.48	462	0.50	1,323	1.51	1,472	1.59

(1) *Includes transactions costs associated with the formation of Bell Aliant. These costs relate mainly to investment banking, professional and consulting fees. In Q3 2006 we incurred \$95 million (\$51 million after tax and non-controlling interest) of transaction costs, and \$138 million (\$77 million after tax and non-controlling interest) in the first nine months of 2006.*

(2) *Includes premium costs incurred by Bell Aliant on early*

redemption of long-term debt as a result of the formation of Bell Aliant. In Q3 2006 we incurred \$82 million (\$28 million after tax and non-controlling interest) and \$122 million (\$42 million after tax and non-controlling interest) in the first nine months of 2006,

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*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.

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.

	Q3 2006	Q3 2005	YTD 2006	YTD 2005
Cash from operating activities	1,602	1,569	3,862	3,778
Capital expenditures	(760)	(958)	(2,198)	(2,565)
Total dividends paid	(390)	(373)	(1,148)	(1,096)
Other investing activities	(3)	4	(14)	3
Free cash flow	449	242	502	120

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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Operating revenues	4,422	4,388	4,356	4,539	4,408	4,368	4,290	4,379
EBITDA	1,840	1,875	1,841	1,736	1,817	1,857	1,821	1,670
Amortization expense	(786)	(790)	(756)	(776)	(774)	(763)	(748)	(772)
Net benefit plans cost	(118)	(134)	(136)	(59)	(103)	(99)	(98)	(63)
Restructuring and other items	(126)	(50)	(88)	(24)	(31)	(5)	5	(124)
Operating income	810	901	861	877	909	990	980	711
Earnings from continuing operations	324	444	406	387	444	541	459	339
Discontinued operations	(22)	50	88	43	15	40	32	26
Extraordinary gain								69
Net earnings	302	494	494	430	459	581	491	434
	285	476	477	413	441	563	474	417

Net earnings applicable to common shares								
Included in net earnings:								
Net gains on investments								
Continuing operations	8		1			33		85
Discontinued operations	(11)	35	80			(5)	(1)	(24)
Restructuring and other items	(71)	(27)	(58)	(16)	(21)	(3)	3	(61)
Costs incurred to form Bell Aliant	(28)	(14)						
Net earnings per common share								
Continuing operations basic	0.39	0.47	0.42	0.39	0.46	0.57	0.48	0.35
Continuing operations diluted	0.39	0.47	0.42	0.39	0.46	0.57	0.48	0.35
Net earnings basic	0.36	0.53	0.52	0.44	0.48	0.61	0.51	0.45
Net earnings diluted	0.36	0.53	0.52	0.44	0.48	0.61	0.51	0.45
Average number of common shares outstanding (millions)	818.8	896.4	920.5	927.3	927.0	926.6	926.2	925.3

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FINANCIAL RESULTS ANALYSIS

This section provides detailed information and analysis about our performance in Q3 2006 and YTD 2006 compared with Q3 2005 and YTD 2005. It focuses on our consolidated operating results and provides financial information for each of our operating segments.

CONSOLIDATED ANALYSIS

	Q3 2006	Q3 2005	% CHANGE	YTD 2006	YTD 2005	% CHANGE
Operating revenues	4,422	4,408	0.3%	13,166	13,066	0.8%
Operating expenses	(2,582)	(2,591)	0.3%	(7,610)	(7,571)	(0.5%)
EBITDA	1,840	1,817	1.3%	5,556	5,495	1.1%
Amortization expense	(786)	(774)	(1.6%)	(2,332)	(2,285)	(2.1%)
Net benefit plans cost	(118)	(103)	(14.6%)	(388)	(300)	(29.3%)
Restructuring and other items	(126)	(31)	n.m.	(264)	(31)	n.m.
Operating income	810	909	(10.9%)	2,572	2,879	(10.7%)
Other (expense) income	(113)	1	n.m.	(149)	31	n.m.
Interest expense	(247)	(238)	(3.8%)	(713)	(710)	(0.4%)
Pre-tax earnings from continuing operations	450	672	(33.0%)	1,710	2,200	(22.3%)
Income taxes	(85)	(179)	52.5%	(412)	(607)	32.1%
Non-controlling interest	(41)	(49)	16.3%	(124)	(149)	16.8%
Earnings from continuing operations	324	444	(27.0%)	1,174	1,444	(18.7%)
Discontinued operations	(22)	15	n.m.	116	87	33.3%
Net earnings	302	459	(34.2%)	1,290	1,531	(15.7%)
Dividends on preferred shares	(17)	(18)	5.6%	(52)	(53)	1.9%
Net earnings applicable to common shares	285	441	(35.4%)	1,238	1,478	(16.2%)
EPS	0.36	0.48	(25.0%)	1.41	1.60	(11.9%)

n.m.: not meaningful

Operating Revenues

Total operating revenues at BCE grew 0.3% to \$4,422 million in Q3 2006 and 0.8% to \$13,166 million year-to-date, reflecting improved performance at Bell Canada, offset partially by lower revenues in our Other BCE segment. At Bell Canada, revenues increased 0.4% and 0.9% in the third quarter and first nine months of 2006 to \$4,339 million and \$12,897 million, respectively. The year-over-year improvements were driven primarily by: higher average revenue per user (ARPU) and subscriber base growth in our Residential segment's Wireless, Internet and Video units;

Internet, data and IT services revenue growth at Bell Aliant; and higher wireless subscriptions and sales of IP-based connectivity and ICT solutions to our Business segment customers. In each case, the positive contribution to our top-line results more than compensated for the ongoing erosion of our traditional legacy services and the impact of regulatory decisions. Higher operating revenues at our Residential, Business and Bell Aliant segments in 2006 were partially offset by year-over-year decreases at our Other Bell Canada segment, due primarily to our wholesale operations where competitive pressures in the long distance market and lower data revenues from the sales of fibre and access capacity last year negatively impacted results.

Total operating revenues in the third quarter reflected a negative net impact from regulatory decisions amounting to approximately \$13 million year-over-year. The Canadian Radio-television and Telecommunications Commission's (CRTC) rulings included a reduction in local rates associated with the Price Caps deferral account, a reduction in rates we charge for switching and aggregation services to long distance service providers and an adjustment to the fees we charge to competitive local service providers for co-location in Bell Canada's switching offices. The CRTC's decision in 2005 regarding Competitor Digital Network Services (CDN Decision) partially offsets the adverse regulatory impact on operating revenues this year.

In addition, the results for Q3 2005 included the positive impact on revenues generated from the sale of customer contracts in our Enterprise unit related to legacy point-of-sale systems, fibre and access capacity sales in our Wholesale unit, and the sale of U.S. conferencing solutions.

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.

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*MANAGEMENT'S DISCUSSION AND ANALYSIS***Operating Income**

Operating income at BCE in the third quarter of 2006 was \$810 million, down 10.9% from \$909 million in the same quarter last year, while on a year-to-date basis operating income decreased 10.7% to \$2,572 million from \$2,879 million in 2005. Similarly, Bell Canada's operating income declined by 8.6% and 10.4% to \$827 million and \$2,571 million for the same respective periods. The year-over-year decreases were due largely to restructuring and other items related to 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 Q3 2006 was \$936 million or 0.4% lower than the same quarter in 2005 at BCE, and was \$938 million or 0.3% higher at Bell Canada. Similarly, on a year-to-date basis, operating income before restructuring and other items at BCE was \$2,836 million, or 2.5%, lower than the first nine months of 2005 and was \$2,817 million or 2.8% 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 third quarter of 2005, resulted primarily from continued erosion of our high-margin residential network access services (NAS) wireline customer base, continued operating margin pressure from the transformation of our product mix towards growth services, higher wireless customer retention costs, higher operating expenses from business acquisitions made over the past year, higher capital taxes resulting mainly from the creation of Bell Aliant, as well as increased net benefit plans cost and amortization expense. These negative impacts were partially offset by incremental savings stemming from our various supply and process transformation cost-reduction initiatives, lower customer acquisition costs in our wireless and video units, lower labour costs resulting mainly from employee workforce reductions, lower expenses as a result of costs incurred in Q3 2005 as we recovered from a labour dispute with our technicians in Ontario, as well as higher operating revenues at Bell Canada. 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 the first quarter of 2006 due to increased gross activations and higher year-over-year costs from our ongoing investment in service improvement.

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

EBITDA

EBITDA for BCE increased this quarter and year-to-date by 1.3% and 1.1%, respectively, to \$1,840 million and \$5,556 million from \$1,817 million and \$5,495 million in the same periods last year. These results reflected improved year-over-year operating performance at Bell Canada in both the third quarter and first nine months of the year, offset by lower EBITDA at Telesat due largely to special compensation costs in Q3 2006 as a result of executive changes and non-recurring revenues this year from the sale of network services that occurred in the second and third quarters of 2005.

At Bell Canada, EBITDA was \$1,835 million this quarter and \$5,510 million year-to-date, representing increases of 1.8% and 1.0%, respectively, over the previous year. The results for 2006 reflect improved performance at our Business, Bell Aliant, and Other Bell Canada segments offset mostly by a slight decrease at our Residential segment. On a year-to-date basis, however, our Other Bell Canada segment contributed positively to EBITDA due principally to lower operating expenses, while our Residential segment's EBITDA remained virtually unchanged.

EBITDA margin for BCE and Bell Canada in Q3 2006 improved 0.4 and 0.6 percentage points, respectively, compared with the same quarter last year, to 41.6% and 42.3%. In the first nine months of the year, EBITDA margin increased slightly at BCE to 42.2% from 42.1%, while Bell Canada's EBITDA margin remained unchanged at 42.7%, compared with the same period in 2005. The relative stability in margins year-over-year reflected a significant step-up in savings from our cost reduction program and stabilizing levels of erosion in our traditional voice and data services. Lower labour costs achieved through workforce reductions and other productivity initiatives such as outsourcing of call centre activities, resolution of residual service issues from a labour dispute with our technicians that created operating expense pressures in 2005, as well as lower customer acquisition costs, due primarily to lower wireless,

video and high-speed Internet activations collectively, also contributed towards maintaining steady EBITDA margins. These favourable impacts were offset in part by a number of operating cost pressures, which included continued loss of high-margin legacy voice and data revenues across all our segments, higher operating costs in wireless mainly from increased customer retention activity, higher capital taxes, as well as higher operating expenses from acquisitions made over the past year.

Wireless EBITDA increased by 13.2% to \$411 million in Q3 2006 from \$363 million in Q3 2005, driven primarily by wireless revenue growth of 14.3% and lower customer acquisition costs despite higher gross subscriber additions in the third quarter of this year. Nevertheless, wireless EBITDA margin decreased 0.3 percentage points to 43.7% in Q3 2006 from 44.0% in the same quarter last year, due in large part to higher handset upgrade and customer retention costs.

On a year-to-date basis, wireless EBITDA improved 13.8% to \$1,133 million from \$996 million in 2005, reflecting revenue growth of 12.7%, reduced customer contact centre costs and lower bad debt expense. These factors contributed to wireless EBITDA margin of 42.9% year-to-date, representing a 0.2 percentage point improvement in margin compared with the first nine 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 increased retention costs associated with our customer lifecycle management initiatives, as well as the recognition in Q2 2005 of a portion of deferred revenues related to unused prepaid minutes.

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Wireless cost of acquisition (COA) improved 3.9% to \$415 per gross activation in Q3 2006 from \$432 per gross activation for the same quarter in 2005. Lower COA resulted from a decrease in handset subsidies due to volume rebates received from handset manufacturers, the exercise of pricing discipline despite intense competition, and a higher number of prepaid gross activations year-over-year. These decreases were partly offset by higher marketing expenses associated with our Frank & Gordon campaign and the marketing of Solo Mobile, as well as higher sales commissions from a focus on acquiring higher-value subscribers. On a year-to-date basis, despite the mitigating impact of a larger number of gross subscriber activations year-over-year, COA increased 1.2% to \$410 per gross activation in 2006 from \$405 per gross activation in the previous year, mainly as a result of higher handset subsidies earlier in the year on premium-priced handsets used to attract high-ARPU, longer-term contract customers, increased advertising costs, promotional initiatives, and higher sales commissions.

Video EBITDA increased significantly both on a quarterly and year-to-date basis to \$42 million and \$155 million, respectively, compared with \$12 million and \$22 million for the same periods in 2005. The year-over-year improvements reflected strong double-digit revenue growth brought about by the combined impact of higher ARPU and a 6.6% increase in the number of customers, as well as significantly lower subscriber acquisition costs due to fewer gross activations and the favourable impact from a higher number of set-top box (STB) rentals. Lower call centre expenses stemming from reduced average call handling times and outsourcing also contributed to the improvement in EBITDA.

Amortization Expense

Amortization expense of \$786 million in Q3 2006 and \$2,332 million on a year-to-date basis in 2006 represent increases of 1.6% and 2.1%, 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 partly offset by a slight increase in the average life of capital assets.

Net Benefit Plans Cost

The net benefit plans cost of \$118 million in Q3 2006 and \$388 million on a year-to-date basis in 2006 represent increases of 14.6% and 29%, respectively, compared to the same periods last year. The increases resulted mainly from a reduction in the discount rate, which increased the cost of our pension plan liabilities and, therefore, net benefit plans cost.

On December 31, 2005, the discount rate was reduced from 6.2% to 5.2%. On July 7, 2006, following the formation of Bell Aliant, the discount rate was increased to 5.6% to reflect changes in long-term market interest rates. The increase in discount rate will result in a reduction in net benefit plans cost of approximately \$30 million for the second half of 2006 compared to the first six months of 2006.

(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 \$126 million in Q3 2006 and \$264 million on a year-to-date basis in 2006. These included:

- charges of \$11 million in the third quarter of 2006 and \$85 million on a year-to-date basis related to new restructuring costs for the involuntary departure of approximately 200 employees in the third quarter and 1,430 employees on a year-to-date basis

- charges of \$20 million in the third quarter of 2006 and \$44 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 \$95 million in the third quarter of 2006 and \$138 million on a year-to-date basis related to the formation of Bell Aliant. These transaction costs related mainly to investment banking, professional and consulting fees.

Net Earnings and Earnings per Share (EPS)

Net earnings applicable to common shares for Q3 2006 were \$285 million, or \$0.36 per common share, which represents a decrease of 35% compared with net earnings of \$441 million, or \$0.48 per common share for the same period last year. Included in net earnings in Q3 2006 was a net charge of \$71 million from restructuring and other items, a net charge of \$28 million relating to a premium cost incurred by Bell Aliant on early redemption of long-term debt as a result of the formation of Bell Aliant and net gains on investments of \$8 million mainly attributable to a \$9 million gain on the acquisition by the Bell Canada pension fund of our Nortel Networks Corporation (Nortel) investment. Net earnings were further impacted in the third quarter of 2006 by net losses from discontinued operations of \$11 million which included a net loss of \$4 million on the sale of most of our interest in Bell Globemedia Inc. (Bell Globemedia) and an \$8 million write-down of our CGI Group Inc. (CGI) investment as a result of the acquisition by the Bell Canada pension fund of 25 million of our CGI shares. In the third quarter of 2005, net earnings included a net charge of \$21 million from restructuring and other items. Excluding the impact of these items, net earnings of \$387 million, or \$0.48 per common share, decreased by \$75 million, or \$0.02 per common share over Q3 2005.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

On a quarterly basis, improved EBITDA performance was more than offset by higher amortization expense and higher net benefit plans cost. There was minimal impact on EPS as a result of the formation of Bell Aliant as the favourable impact from the decrease in tax expense resulting from the non-taxable portion of Bell Aliant's income and the reduction in outstanding common shares of BCE Inc. in conjunction with the formation of Bell Aliant was offset by an increase in non controlling interest. Income taxes further decreased due mainly to lower pre-tax earnings in Q3 2006 and other adjustments to our estimated future tax liability partly offset by \$39 million of savings in Q3 2005 resulting from the loss monetization program between Bell Canada and Bell Canada International Inc. (BCI).

On a year-to-date basis, net earnings applicable to common shares were \$1,238 million, or \$1.41 per common share, 16.2% lower than \$1,478 million, or \$1.60 per common share, for the same period last year. Year-to-date earnings were further impacted by a net charge of \$85 million from restructuring and other items 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. Net earnings was also impacted by a net charge of \$14 million incurred by Bell Aliant on early redemption of long-term debt as a result of the formation of Bell Aliant offset mainly 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 a gain of \$52 million on the return of capital from BCI offset by a write-down of \$17 million on our remaining investment in CGI.

The year-to-date decrease was further impacted by net gains on investments in 2005 of \$27 million which included a \$39 million dilution gain in our interest in TerreStar Networks Inc. (TerreStar), a mobile satellite services company partly offset by a \$7 million write-down of Bell Globemedia's investment in TQS Inc. which was included in discontinued operations. Excluding the impact of these items, net earnings of \$1,323 million, or \$1.51 per common share, decreased by \$149 million, or \$0.08 per common share over last year.

On a year-to-date basis, income tax expense was further impacted by the decrease in corporate federal income tax rates, the elimination of the large corporation tax stemming from the 2006 federal budget and favourable audit settlements in the first quarter of 2006. Savings in Q2 2005 of \$60 million resulting from the loss monetization program between Bell Canada and BCI partially offset the year-to-date decrease.

SEGMENTED ANALYSIS

Starting in the third quarter of 2006, our segment reporting reflects the formation of Bell Aliant and it is reported as a separate segment. Since Bell Aliant includes the operation of Bell Canada's former regional wireline operations and Bell Nordiq, the results of our other segments have been restated to reflect the sale of these operations.

	Q3		%			%
OPERATING REVENUES	2006	Q3 2005	CHANGE	YTD 2006	YTD 2005	CHANGE
Residential	1,799	1,770	1.6%	5,288	5,229	1.1%
Business	1,495	1,473	1.5%	4,466	4,375	2.1%
Bell Aliant	841	826	1.8%	2,506	2,483	0.9%
Other Bell Canada	393	436	(9.9%)	1,190	1,229	(3.2%)
Inter-segment eliminations	(189)	(183)	(3.3%)	(553)	(533)	(3.8%)
Bell Canada	4,339	4,322	0.4%	12,897	12,783	0.9%
Other BCE	125	127	(1.6%)	393	407	(3.4%)
Inter-segment eliminations	(42)	(41)	(2.4%)	(124)	(124)	
Total operating revenues	4,422	4,408	0.3%	13,166	13,066	0.8%

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OPERATING REVENUES	Q3 2006	Q3 2005	<i>%</i> CHANGE	YTD 2006	YTD 2005	<i>%</i> CHANGE
Residential	400	430	(7.0%)	1,307	1,379	(5.2%)
Business	223	203	9.9%	576	641	(10.1%)
Bell Aliant	204	194	5.2%	572	573	(0.2%)
Other Bell Canada		78	n.m.	116	275	(57.8%)
Bell Canada	827	905	(8.6%)	2,571	2,868	(10.4%)
Other BCE	(17)	4	n.m.	1	11	(90.9%)
Total operating income	810	909	(10.9%)	2,572	2,879	(10.7%)

n.m.: not meaningful

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Residential Segment

Residential revenues increased 1.6% in the third quarter of 2006 and 1.1% in the first nine months of 2006, compared with the same periods last year, to reach \$1,799 million and \$5,288 million, respectively. Wireless, video, and data revenues contributed 4.0%, 2.1% and 1.6%, respectively, to overall Residential revenue growth in Q3 2006, while terminal sales and other revenues added a further 0.3%. The revenue performance of our growth engines in the quarter was offset largely by negative contributions of 4.7% from local and access services and 1.7% from long distance. On a year-to-date basis, wireless, video, and data revenues contributed 3.0%, 2.7% and 1.3%, respectively, to overall Residential revenue growth in 2006, which was offset largely by negative contributions of 3.6% from local and access services, 2.0% from long distance, and 0.3% from terminal sales and other revenues. Both the quarterly and year-to-date increases were the result of significantly higher video, wireless and high-speed Internet ARPU subscribers. The year-over-year improvements were adversely affected by lower wireline revenues stemming from increased NAS losses due mainly to increased cable telephony competition, continued wireless long distance and VoIP substitution, the impact of CRTC-mandated local rate reductions, as well as ongoing aggressive price competition.

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 CRTC-required price reductions for basic service and related SmartTouch features. NAS decreased this quarter primarily as a result of losses to cable companies and competitive local exchange carriers (CLECs), 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 Q3 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 other services. The CRTC's Deferral Account decision, which required local rate reductions effective June 1, 2006, reduced local and access revenues by approximately \$17 million in the quarter and \$21 million year-to-date.

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 on April 15, 2006, as well as higher overseas and calling card per-minute rates, total long distance revenues remained relatively unchanged compared with the first two quarters of 2006, while 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, 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

Third-quarter and year-to-date Residential wireless revenues increased year-over-year, mainly as a result of a higher average number of customers, a shift in new subscribers towards higher-value rate plans, the growing impact of higher-than-average ARPU prepaid customers from Solo and Virgin Mobile, price increases over the past year for certain services and features, and the continued popularity of our 10-4 push-to-talk service. Higher data usage stemming from our extended EVDO network, increased adoption of Fuel Me bundles, text messaging, mobile browsing and gaming, all of which have been facilitated by the availability of new handsets with enhanced MP3 download and video streaming capabilities, also contributed to the year-over-year improvement in Residential wireless 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 nine months of the year were driven by high-speed Internet subscriber base growth of 12.6% and higher ARPU. The improvement in ARPU has been driven by:

the implementation of several price increases over the past year, including:

a \$5 increase in Q4 2005 for new customers in Ontario subscribing to DSL Basic or Lite service

a \$5 increase in Q2 2006 for existing customers in Ontario either on DSL Basic or Lite service

a \$2 increase in Q2 2006 for new customers in Ontario subscribing to High-Speed Edition

a \$2 increase in Q3 2006 for existing customers in Ontario on High-Speed Edition

a reduction in customer credits

a 34% 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.

Sympatico customers generated 58.4 million video streams in the quarter, nearly a six-fold increase compared with Q3 2005. The portal, which reaches approximately 87% of online Canadians, currently averages 19.1 million unique visitors per month, reflecting an increase of 17% over the past year. The year-over-year improvements in Residential data revenues were moderated 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.)

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*MANAGEMENT'S DISCUSSION AND ANALYSIS**Video*

Our Video unit reported strong revenue growth of 15.1 % and 20% for the three and nine months ended September 30, 2006, respectively, to \$289 million and \$852 million compared with the same periods in 2005. The year-over-year improvements were driven by subscriber growth, higher ARPU reflecting the impact of price increases implemented over the past year, continued up-selling of customers to enhanced programming packages, further growth of set-top box (STB) rentals and higher pay-per-view take rates.

Our video subscriber base has grown by 6.6% over the past twelve months to reach 1,788,000 as at September 30, 2006. In Q3 2006, we added 30,000 new net video subscribers, bringing the total number of new customers activated since the beginning of the year to 61,000. These results compare with new net video subscriber additions of 82,000 and 174,000 for the same comparable periods in 2005. The year-over-year decreases can be attributed to fewer sales in our retail channels, aggressive analog to digital conversions by cable operators, and our acquisition of Cable VDN Inc. (Cable VDN) in Q3 2005 which contributed 12,500 new net subscribers. In addition, total market growth was higher in 2005. The impact of card swaps undertaken by Bell ExpressVu and other direct-to-home (DTH) satellite television providers may have been a contributor to higher growth last year. Despite lower than expected sales in our retail channels in Q3 2006, subscriber acquisition improved throughout the quarter as a result of the launch of our

All-in-One Plans, which combine programming, equipment, installation and warranty into simple packages.

Our video churn rate in the quarter remained unchanged, year-over-year, at 1.0%, reflecting the success of our customer retention activities. On a year-to-date basis, churn increased by just 0.1 percentage point to 1.0%, despite several price increases introduced over the past year, a lower proportion of our subscribers on long-term contracts, and the challenging competitive environment such as aggressive offers on hardware.

Video ARPU increased to \$54 per month in Q3 2006 from \$51 per month in Q3 2005. The \$3 improvement was due mainly to the shift in product mix towards higher-priced programming packages and to higher pay-per-view revenues, and to a lesser extent to price increases on service offerings implemented since the fourth quarter of 2005. During 2005, we applied rate increases of \$2 and \$3, respectively, on our basic and theme packages for all new customers effective October. In 2006, we continued to exercise pricing discipline by implementing a \$2 rate increase at the beginning of the year on our standard digital programming package for all existing customers without a contract and we increased the system access fee by \$3 per month for all our legacy subscribers in May. Customer credits on STB rentals and programming as well as retention discounts partly offset the year-over-year increase in third quarter ARPU. Similarly, on a year-to-date basis, video ARPU increased to \$53 per month, reflecting a \$4 improvement compared with the same period in 2005.

Residential Operating Income

Our Residential segment reported operating income of \$400 million this quarter and \$1,307 million year-to-date, down 7.0% and 5.2%, 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, increased customer retention costs and advertising expenses in our wireless unit, 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, lower contact centre costs driven by reduced handle times and outsourcing of call volumes, as well as savings from other cost-reduction initiatives which included the ongoing implementation of our One Bill initiative and improved scheduling of customer appointments and repair times.

Business Segment

Business segment revenues for the three and nine months ended September 30, 2006 were \$1,495 million and \$4,466 million, respectively, representing increases of 1.5% and 2.1% over the same periods in 2005. The results for Q3 2005 were impacted positively by the sale of customer contracts related to legacy point-of-sale systems and our U.S. conferencing solutions. Our SMB and Bell West units accounted for 0.8% and 2.0% of the total growth in Business segment revenues in Q3 2006, partly offset by a negative contribution of 1.3% from our Enterprise unit. Similarly, on a year-to-date basis, SMB and Bell West both contributed to the increase in Business segment revenues,

accounting for 0.8% and 2.1% of the total respectively, while Enterprise partly offset this growth with a negative contribution of 0.8%.

Both in the quarter and year-to-date, increases in ICT and wireless revenues from SMB and Enterprise customers were partly offset by further declines in long distance and legacy data revenues as a result of continued intense competitive pricing pressures and ongoing migration of customers' voice and data traffic to our IP-based systems. In addition, wireline access revenues increased in Q3 2006, reflecting stabilization in the rate of erosion in legacy wireline connectivity services and the impact of pricing initiatives implemented by our Enterprise and SMB units.

Enterprise

Revenues generated by our Enterprise unit decreased both this quarter and on a year-to-date basis, compared with the same periods in 2005, due primarily to a decline in long distance and legacy data services revenues stemming from competitive price reductions and the ongoing migration of our customers' voice and data traffic to IP-based systems. Higher wireless revenues fuelled by continued solid subscriber growth and increased ARPU, as well as improved penetration of ICT products and services and higher IP connectivity revenues, mitigated the year-over-year decreases in total Enterprise revenues.

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Data revenues decreased in the quarter and first nine months of the year, mainly as a result of competitive price reductions on customer contracts for legacy data services and the positive impact on revenues in Q3 2005 from the sale of customer contracts related to legacy point-of-sales systems, which tempered IP-based connectivity and ICT revenue growth year over year. ICT revenues grew by 5% this quarter and 9% in the first nine months of 2006, reflecting increased sales from companies acquired over the past year to enhance the breadth of our service offerings and new contract wins primarily in the areas of security solutions and wireless data.

Our Enterprise unit continued to experience an increase in demand for IP-based network solutions, particularly for IP virtual private network services. During the third quarter, our Enterprise unit renewed its service agreement with Desjardins Group, the largest integrated cooperative financial group in Canada. Under this eight-year contract valued at approximately \$670 million, Bell will provide Desjardins with IP-based communications, payment and call centre services, a technological evolution plan to convert its approximate 1,500 retail branch offices, and an annual ICT services development plan.

SMB

Revenues generated from SMB customers increased this quarter and year-to-date as higher data, wireless and local and access revenues more than compensated for lower long distance and other revenues. Double-digit data revenue growth was fuelled by continued demand for high-speed Internet access service connections and strong growth in ICT sales driven mainly by higher value-added services (VAS) sales and cross-selling opportunities with companies acquired to enhance our virtual chief information officer (VCIO) strategy, while equipment sales remained relatively flat year-over-year. Despite intensifying competition, total VAS/VCIO revenues increased by 24% this quarter and by 27% 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 has stabilized reflecting the impact of strategic product pricing. Local and access revenues increased in the quarter and were stable on a year-to-date basis, reflecting a slower decline in local line losses to alternative telephony providers as a result of our customer retention activities, and the favourable impact of recent price increases for basic local access. Lower other revenues can be attributed primarily to the sale of our U.S. conferencing solutions in the third quarter of 2005 and to a decrease in legacy voice equipment sales.

Bell West

Bell West continued to grow its business this quarter as data revenues increased year-over-year, due primarily to the launch of services on the Alberta SuperNet (a next-generation broadband access network), higher data equipment sales and continued growth in Bell West's Enterprise and SMB customer bases. As a result of an internal reorganization completed during the third quarter of 2006, wholesale service revenues associated with demand for local access lines to support Shaw Communications' (Shaw) Digital Phone service are now reflected in the results of our Other Bell Canada segment.

Business Operating Income

Business segment operating income in the third quarter of 2006 increased by 9.9% year-over-year to \$223 million, mainly as a result of higher revenues, cost reductions and a shift away from less profitable hardware equipment contracts. Higher amortization expense and net benefits plans cost partly offset this increase. In addition, 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 reduced operating income. However, on a year-to-date basis, operating income decreased by 10.1% to \$576 million compared to the same period last year, due to lower gross profit as a result of the relatively greater loss of higher-margin legacy wireline business to IP substitution or the competition, relatively higher operating expenses, and increased amortization expense and net benefits plans cost.

In our Enterprise unit, operating income decreased in the quarter and year-to-date, reflecting lower revenues due to competitive pricing pressures in long distance and legacy data, margin erosion from the shift in product mix towards IP-based services, the impact of customer contracts sales related to legacy point-of-sales systems in Q3 2005, as well

as higher net benefits plans cost. This was offset partly by lower selling, general and administration expenses, and a decrease in labour costs driven primarily by workforce reductions.

Our SMB unit reported solid operating income growth in the third quarter and first nine months of 2006. Year-over-year revenue growth and cost savings from sales force realignment, employee headcount reductions and other process transformation efficiency-related initiatives mitigated the margin erosion associated with the shift in sales from legacy wireline services to VAS/VCIO solutions. These year-over-year increases in the third quarter and year-to-date operating income were offset partly by higher operating expenses from recent business acquisitions, as well as higher net benefit plans cost.

Bell West recorded higher operating income in both this quarter and the first nine months of 2006, due primarily to improved gross margins from revenue growth and lower operating expenses, offset partially by higher amortization expense now that the Alberta SuperNet is in service.

Bell Aliant

Bell Aliant revenues were \$841 million in the quarter and \$2,506 million year-to-date, reflecting increases of 1.8% and 0.9% respectively compared with the same periods last year, as growth in data and terminal sales and other revenues more than offset declining revenues from local and access and long distance services.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Local and access services revenue decreased on a year-over-year basis both in the quarter and year-to-date. This resulted mainly from a 1.2% decline in the NAS customer base, reflecting competitive losses, the reduction in second lines as dial-up Internet customers continued to migrate to high-speed services, and the reduction in primary lines as customers adopt wireless and VoIP technologies. Long distance revenues also decreased year-over-year, due primarily to lower per-minute toll prices in the residential market, and lower overall minutes of usage.

Double-digit data revenue growth in both the third quarter and first nine months of 2006 can be attributed mainly to a significant increase in high-speed Internet revenue resulting from year-over-year subscriber growth of 26%. Subscriber growth in the quarter resulted from competitive marketing offers, proactive management of dial-up customer migration, expansion of our service area, success in marketing our new home business Internet service and the continued popularity of the PC purchase program.

Terminal sales and other revenue increased in the three and nine months ended September 30, 2006, compared with the same periods last year. The growth was attributable to sizeable new contracts for systems integration, application services and managed outsourcing, as well as to expansion of existing contracts resulting from our focus on key industry verticals in the enterprise market.

Bell Aliant Operating Income

Operating income at our Bell Aliant segment increased by 5.2% in Q3 2006 to \$204 million from \$194 million in the same quarter last year, due mainly to higher EBITDA and lower amortization expense. Higher restructuring and other costs, due mainly to the formation of Bell Aliant, partially offset the year-over-year increase. On a year-to-date basis, Bell Aliant operating income remained virtually unchanged at \$572 million, compared with \$573 million in 2005.

Other Bell Canada Segment

Other Bell Canada segment revenues of \$393 million in Q3 2006 and \$1,190 million in the first nine months of 2006, represented decreases of 9.9% and 3.2%, respectively, compared with the same three and nine-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 ongoing unfavourable impact on data revenues from customers migrating services onto their own network facilities, as well as a number of favourable impacts in 2005 which included:

- fibre and access capacity sales in Q3 2005, and
- the early termination of a cross-border facilities contract in Q2 2005.

There was no negative year-over-year net impact on Other Bell Canada revenues in 2006 as the impact in 2005 from the CRTC's decision regarding Competitor Digital Network Services was greater than the impact from regulatory decisions rendered by the CRTC this year, which included a ruling with respect to rates we charge for switching and aggregation services to long distance service providers and a ruling related to the fees we charge to competitive local service providers for co-location in Bell Canada's switching offices.

The year-over-year declines in Other Bell Canada revenues were partly offset by an increase in demand for 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

Operating income for the Other Bell Canada segment was nil this quarter and \$116 million year-to-date, compared with \$78 million and \$275 million in the same respective periods last year. The decreases were 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, as well as to transaction and other operational realignment costs associated with the formation of Bell Aliant. Excluding restructuring and other items, operating income decreased by 2.3% in Q3 2006 to \$106 million, mainly reflecting lower revenues primarily as a result of certain sales that occurred in Q3 2005. Lower cost of goods sold due to lower domestic and international long distance traffic and a decreased volume of termination minutes

stemming from reduced southbound traffic to the United States, as well as other cost reductions stemming from decreased headcount and our ongoing process and supply transformation initiatives partly offset the negative impacts on operating income. On a year-to-date basis, operating income excluding restructuring and other items increased by 13.0%, mainly as a result of reduced direct operating expenses as explained previously.

Other BCE Segment

	Q3	Q3	%	YTD	YTD	%
	2006	2005	CHANGE	2006	2005	CHANGE
Telesat	113	112	0.9%	351	357	(1.7%)
Other	12	15	(20.0%)	42	50	(16.0%)
Other BCE revenues	125	127	(1.6%)	393	407	(3.4%)

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Other BCE segment revenues decreased 1.6% to \$125 million in Q3 2006 and 3.4% to \$393 million on a year-to-date basis, compared with the same periods in 2005.

As of August 31, 2006 we have accounted for Bell Globemedia as a discontinued operation and no longer consolidate its financial results. Our remaining investment is accounted for at cost. Bell Globemedia was previously presented in the Other BCE segment.

Telesat's revenues increased 0.9% to \$113 million this quarter, due primarily to higher broadcast revenues, and increased revenue from Telesat's two-way broadband service, offset largely by non-recurring revenue on a sale in 2005 related to the installation and maintenance of an interactive distance learning network and by reduced business activity in South America. In the first nine months of 2006, Telesat's revenues decreased 1.7% to \$351 million, due mainly to the sale of services in 2005 generated from its interactive distance learning network as well as to lower South American revenues.

On September 18, 2006, Telesat announced that a preliminary prospectus and registration statement had been filed for an initial public offering of non-voting shares of Telesat Holding Inc. in Canada and the United States. Upon closing of the offering, Telesat Holding Inc. will be the parent company of Telesat Canada.

In addition, during the third quarter of 2006, Bell Aliant collaborated with Telesat to launch a two-way broadband satellite service, offering download speeds ranging from 512 Kbps to 2 Mbps.

Other BCE Operating Income

Operating income for the Other BCE segment declined to negative \$17 million in Q3 2006 and \$1 million year-to-date from \$4 million and \$11 million in the same respective periods last year. The year-over-year decreases in both the third quarter and first nine months of 2006 were mainly the result of lower operating income at Telesat.

Telesat's operating income decreased 26% to \$32 million in Q3 2006 and 10.6% to \$110 million year-to-date, due mainly to one-time special compensation costs related to senior executive changes made in September 2006 and higher amortization expense stemming from the launch of its Anik FIR satellite, which was placed into service during Q4 2005. These decreases were offset partly by lower operating expenses.

Product Line Analysis

	Q3	Q3	%	YTD	YTD	%
REVENUES	2006	2005	CHANGE	2006	2005	CHANGE
Local and access	1,292	1,371	(5.8%)	3,924	4,117	(4.7%)
Long distance	458	513	(10.7%)			