

BCE INC
Form 6-K
May 04, 2005

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: **May 2005**

Commission File Number: **1-8481**

BCE Inc.

(Translation of Registrant's name into English)

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

News Release

For immediate release

(All figures are in Cdn\$, unless otherwise indicated)

BELL CANADA ENTERPRISES REPORTS FIRST QUARTER RESULTS

Solid revenue and EBITDA growth

Continuing operational improvements

Project Galileo delivers on service and savings

Montréal (Québec), May 4, 2005 For the first quarter of 2005, BCE Inc. (TSX, NYSE: BCE) reported revenues of \$4.9 billion, up 4.8% and EBITDA⁽¹⁾ of \$1.9 billion, up 5.1% when compared to the same period last year. Operating income increased by 5.4% year over year to reach \$1.1 billion. Earnings per share (EPS) were \$0.51, an increase of one cent over EPS before gains reported in the first quarter of 2004.⁽²⁾

This is a solid start to the year. Our revenue and EBITDA performance continued to improve reflecting progress on many fronts across the business, said Michael Sabia, President and CEO of Bell Canada Enterprises. Contributing to our financial results were cost savings of \$120 million realized from initiatives under Project Galileo and the benefits of last year's employee departure program. In addition, top line growth was driven by a 6.6% increase in our data revenues reflecting in part the good performance of our DSL service this quarter.

In December 2004, Bell Canada outlined three key priorities driving its strategy to deliver unrivaled communications to its customers while setting the standard in Internet Protocol (IP). During the first quarter the Company made progress in all three areas, for example:

Delivering an enhanced customer experience while significantly lowering our costs. We substantially reduced provisioning time for large Enterprise customers with the launch of a new standardized IP-Virtual Private Network (IP-VPN) solution. In the consumer segment, we made progress on initiatives to improve first call resolution – resolving a customer issue on the first contact. At the same time, we took initiatives to improve order resolution – ensuring that products and services are delivered as specified by the customer.

Delivering abundant, reliable and secure bandwidth that can provide all the services of the future. Fibre-to-the-node (FTTN) roll-out accelerated with the provisioning of 386 additional neighbourhood nodes, more than all of 2004, for a total of 762.

-2-

Providing next generation services that customers want. Bell Canada introduced several next generation services, including *Bell Digital Voice*, our feature-rich Voice over Internet Protocol (VoIP) product and *Bell 10-4*, a combined walkie talkie and cell phone service.

We continue to deliver on our plan to redefine Bell Canada, added Mr. Sabia. Despite some temporary softness in our Mobility unit during the first part of the quarter, the operational transformation of our business is very much on track.

Key operational achievements

High-speed Internet

Sympatico high-speed Internet additions of 128,000 in the first three months of the year represented the strongest quarterly increase in the last three years. The high-speed subscriber base increased to over 1.9 million by the end of the quarter, up by approximately 24% over the first quarter of last year. This increase was largely driven by our footprint expansion and focused marketing activities. Subscriptions to Value-Added Services (VAS) such as MSN Premium, Security Services and Home Networking grew by 142,000 more than double the number a year ago.

Sympatico.MSN continued to be the country's most popular online destination with 84% of all online Canadians visiting the site. Portal revenues increased by over 185% and VAS revenues by 121%, year over year.

Bell introduced services providing enhanced customer care, both online and in our call centres. The virtual Emily™ service, a user-friendly self-help tool, allows customers to resolve technical issues themselves, resulting in fewer calls to our customer care centres.

First call resolution rates continued to improve thanks to advanced applications that allow customer service representatives to remotely assess and resolve customer technical issues. New subscribers, especially those new to the Internet, appreciate this as Internet access installation, by its nature, prompts more customer queries than other services.

Video

ExpressVu net additions for the quarter were 29,000, representing an 81% increase, year over year. Total subscribers grew to reach more than 1.5 million, or a 9% increase over the first quarter of 2004. Our lower churn rate of 0.8% compared to 0.9% in the first quarter of last year was also a contributing factor to this solid growth.

Revenues increased by 7% year-over-year despite the absence of National Hockey League (NHL) programming. This impact was mitigated at the end of the quarter by a pricing increase which was communicated to customers in January and began to flow through in March.

Disciplined cost containment, including the negotiation of a favourable supply contract for set-top boxes, resulted in a lower cost of acquisition in the quarter and positive EBITDA for ExpressVu.

-3-

Wireless

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Wireless added 82,000 new subscribers to our customer base during the quarter compared to 92,000 in first quarter of last year.

Prepaid net activations were strong particularly in January and February with approximately 42,000 subscribers added during the quarter. Christmas promotions led to a high level of activations of new prepaid subscribers in January and the March launch of Virgin Mobile further contributed to the strong prepaid total for the quarter.

Postpaid net activations for the quarter totaled almost 40,000 with the majority of these coming in the second half of the quarter, as a result of promotions initiated in March. The launch of Bell's 10-4 walkie-talkie service in March contributed to the increasing momentum in postpaid activations, a trend which continued into April.

In the quarter, approximately 45,000 non-paying postpaid accounts were cancelled resulting in net additions of 37,000. Blended churn was 1.6% per month, up from 1.3% in the first quarter of last year, largely as a function of the cancellation of these non-paying postpaid accounts. Absent our decision to cancel these accounts, the underlying rate of churn would have continued at 1.2%.

Revenues grew by 9.5% year-over-year and were in line with subscriber growth of 10%. ARPU declined to approximately \$46 from \$47 in the first quarter of the previous year. EBITDA margin was again above 40% reflecting effective cost containment and lower cost of acquisition during the quarter.

Consumer segment highlights

Consumer segment revenues grew by 1.7%, year over year, to \$1.9 billion, with our strategy of simplification and cost management driving an increase in EBITDA for the quarter.

Bell introduced *Bell Digital Voice*, our feature-rich consumer VoIP service, in Québec City, Sherbrooke and Trois-Rivières. Customer reaction has been positive and we are satisfied with the early acquisition numbers and the insights gathered through our initial offering in this next generation services market.

In the first quarter, more than 107,000 customers signed on to the *Digital Bundle*. Furthermore, 46% of our customers added at least one new service, deepening their relationship with Bell. We now have over 554,000 bundle customers who have taken advantage of the offer since the launch of the program. Also, by the end of the quarter, over 820,000 customers had chosen Bell's *One Bill* for their wireline, Internet and video services.

Business segment highlights

Revenue growth during the first quarter in the business segment was the strongest since the creation in 2003 of two distinct business units to serve this market. Business segment revenues were \$1,478 million this quarter or 3% higher compared to the first quarter of 2004. But most importantly, increases in data, wireless and terminal sales and other revenues more than offset declines in long distance and local and access revenues.

-4-

In our small and medium-sized business unit (SMB), performance was driven by our Virtual Chief Information Officer (VCIO) strategy and in Enterprise, by Internet Protocol (IP) and other advanced solutions.

Small and Medium Business

Sales of bundled services were ahead of expectations while Value Added Services (VAS) revenues grew at 38% for the quarter and showed continuing signs of acceleration.

Bell completed the acquisition of Nexxlink Technologies Inc. and announced that we would combine it with Charon Systems Inc., which was acquired in 2004, into a new wholly-owned subsidiary to be named Bell Business Solutions. With 1,100 IT professionals and offices in major centres across the country, we have bolstered our ability to act as a technology advisor to small and medium businesses.

Bell completed customer trials and in April launched PC Care and Network Care which provide technical support for critical needs including connectivity, software and hardware, as well as for networking. This unique service offers live telephone or online assistance as well as onsite support from a technical expert, 24 hours a day, 7 days a week, further strengthening our position as the VCIO for the SMB market.

Enterprise

Enterprise added 13,000 IP-enabled voice lines on customer premises equipment during the quarter for a total of 158,000. Sales of Value Added Solutions (VAS), including security, contact centre management and other solutions, increased by 47% year over year.

The migration of Bell customers to IP continued throughout the quarter with close to 100 customers, including leading organizations such as the Jean Coutu Group, adopting our technology. An innovation centre affiliated with the University of Toronto which connects scientists with the business community, also adopted our IP solution during the quarter.

The VAS growth strategy is showing strong momentum. Enterprise announced a four-year, \$17.3 million contract with the National Bank of Canada to provide integrated call centre solutions and telephony. In addition, The Institutional Trade Management Solution (ITMS) which enables near realtime trading was implemented for Desjardins Securities and several other leading financial institutions.

In February, Bell Canada launched Bell Security Solutions Inc. (BSSI), which provides network and information security solutions to government and the private sector. Enterprise customers can now benefit from end-to-end IP security solutions with access to more than 200 security professionals coast-to-coast through a single point of contact.

Telesat Canada

Telesat's revenues grew by approximately 29% to \$108 million. This growth was due in part to its acquisition of The SpaceConnection, Inc., a provider of satellite transmission services to major television networks and cable programmers in the U.S. It also stemmed from revenues from Anik F2, the world's first satellite to commercialize the Ka-band, and from ExpressVu's use of the Nimiq 3 satellite.

The Anik F3 satellite program is proceeding well, with launch scheduled for the second half of 2006. The Anik F1R satellite is now in the final stages of system testing, with launch scheduled for mid-summer. Anik F1R should be ready for service in the fourth quarter of 2005.

Bell Globemedia

Bell Globemedia's revenues for the first quarter increased by 4.1% over the same period last year to reach \$356 million. Improved profitability both at CTV and *The Globe and Mail* delivered an impressive 60% increase in operating income over the same period last year.

CTV's strong schedule continued to lead the way in Canada with 18 of the top 20 regularly scheduled programs among all viewers in the September 2004 to March 2005 time period. This was a major factor driving an increase of 5.7% in television advertising revenues compared to the first quarter of last year.

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Strong growth in advertising revenues in conventional and specialty television helped offset the loss of advertising on hockey broadcasts on the sports specialty channels TSN and RDS.

Bell Globemedia subscriber revenues grew by 4.1% this quarter reflecting specialty channel growth and online subscription growth at *The Globe and Mail*. According to the latest NADBank and PMB statistics, *The Globe and Mail* continues to lead its national competitor in readership by 60% on weekdays and 78% on Saturdays.

BCE Financial Performance

Revenues for the quarter were \$4,859 million compared to \$4,638 million for the first quarter of last year, representing a 4.8% increase. Operating income for this quarter was \$1,066 million, up 5.4% from last year's \$1,011 million first quarter result.

EBITDA was \$1,938 million, an increase of 5.1% from \$1,844 million last year while EBITDA margin increased to 39.9% from 39.8% last year. Net earnings applicable to common shares for the first quarter were \$474 million (\$0.51 per common share), slightly above net earnings of \$470 million (also \$0.51 per common share) last year. Net earnings in the first quarter of 2004 included a gain of \$7 million related to the disposition of the e-health operations of BCE Emergis.

Cash from operating activities was \$939 million during the quarter. Free cash flow⁽³⁾ was negative \$162 million, down from \$256 million in the first quarter of 2004. This was due to a number of anticipated impacts including cash taxes paid and higher pension and other benefit plan payments which more than offset EBITDA growth and lower interest payments. With first quarter free cash flow results in-line with our plan, BCE expects to achieve its free cash flow target of \$700 to \$900 million for 2005.

-6-

Bell Canada Statutory Results

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

In the first quarter of 2005, Bell Canada's reported statutory revenue was \$4.2 billion, up 2.5% compared to the same period last year. Net earnings applicable to common shares were \$528 million in the first quarter of 2005, compared to net earnings applicable to common shares of \$548 million for the same period last year, a decrease of 3.6%.

Outlook

BCE Inc. confirmed its annual full year 2005 guidance, as previously issued:

| | Guidance 2005E |
|--|---------------------------|
| Revenue Growth | ≤ GDP |
| Galileo Savings | \$500-600M |
| EPS ^(a) | Single digit growth |
| Free Cash Flow ^(b) | \$700 - \$900M |
| Bell Canada Capital Intensity ^(c) | 18% - 19% |
| Cellular and PCS Subscriber Growth | 10-15% |
| High Speed Internet Subscriber Growth | 15%-20% |
| Video Subscriber Growth | 10%-15% |

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- (a) Before net investment gains/losses, or impairment or restructuring charges.
- (b) Cash from operating activities less capital expenditures, total dividends and other investing activities (please see note 2 for additional details).
- (c) Capital expenditures as a percentage of revenues.

About BCE

BCE is Canada's largest communications company. Through its 27 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, value-added business solutions and direct-to-home satellite and VDSL television services. Other BCE businesses include Canada's premier media company, Bell Globemedia, and Telesat Canada, a pioneer and world leader in satellite operations and systems management. BCE shares are listed in Canada, the United States and Europe.

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 2005 First Quarter MD&A, dated May 3, 2005, entitled *Non-GAAP Financial Measures* included in this news release for more details on EBITDA including a reconciliation of EBITDA to operating income.

(2) Net earnings and EPS before restructuring and other items and net gains on investments do not have any standardized meaning prescribed by GAAP. Please refer to the section of BCE Inc.'s 2005 First Quarter MD&A, dated May 3, 2005, entitled *Non-GAAP Financial Measures* included in this news release for more details on net earnings and EPS before restructuring and other items and net gains on investments including a reconciliation to net

-7-

earnings applicable to common shares on a total and per share basis.

(3) We define free cash flow as cash from operating activities after capital expenditures, total dividends and other investing activities. Free cash flow does not have any standardized meaning prescribed by GAAP. Please refer to the section of BCE Inc.'s 2005 First Quarter MD&A, dated May 3, 2005, entitled *Non-GAAP Financial Measures* included in this news release for more details on free cash flow including a reconciliation of free cash flow to cash from operating activities. For 2005, we expect to generate approximately \$700 million to \$900 million in free cash flow. This amount reflects expected cash from operating activities of approximately \$5.9 billion to \$6.1 billion less capital expenditures, total dividends and other investing activities.

BCE 2005 First Quarter Financial Information

BCE's 2005 First Quarter Shareholder Report (which contains BCE's 2005 first quarter MD&A and unaudited consolidated financial statements) and other relevant financial materials are available at www.bce.ca/en/investors, under Investor Briefcase. BCE's 2005 First Quarter Shareholder Report is also available on the Web site maintained by the Canadian securities regulators at www.sedar.com. It is also available upon request from BCE's Investor Relations Department (e-mail: investor_relations@bce.ca tel.: 1 800 339-6353; fax: (514) 786-3970).

BCE's 2005 First Quarter Shareholder Report will be sent to BCE's shareholders who have requested to receive it, on or about May 11, 2005.

Call with Financial Analysts

BCE will hold a teleconference for financial analysts to discuss its first quarter results on **Wednesday, May 4, 2005 at 8:00 a.m. (Eastern)**. *Media are welcome to participate on a listen only basis.* Michael Sabia, President and Chief Executive Officer, and Siim Vanaselja, Chief Financial Officer, will be present for this teleconference.

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To participate, please dial (416) 405-9328 or 1-877-387-6216 shortly before the start of the call. This teleconference will also be Webcast live (audio only) on our Web site at www.bce.ca. An archive will be available for 90 days.

Call with the Media

BCE will hold a teleconference for media to discuss its first quarter results on **Wednesday, May 4, 2005 at 1:30 p.m. (Eastern)**. Michael Sabia, President and Chief Executive Officer, will be present for this teleconference.

To participate, please dial (416) 405-9310 or 1-877-211-7911 shortly before 1:30 p.m. This teleconference will also be Webcast live (audio only) on our Web site at www.bce.ca. An archive will be available for 90 days.

Caution Concerning Forward-Looking Statements

Certain statements made in this news release, including, but not limited to, the statements appearing under the Outlook section, and other statements that are not historical facts, are forward-looking and are subject to important risks, uncertainties and assumptions. The results or events predicted in these forward-looking statements may differ materially from actual results or events. These statements do not reflect the potential impact of any non-recurring or

-8-

other special items or of any dispositions, monetizations, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date hereof. For a description of risks that could cause actual results or events to differ materially from current expectations please refer to the section entitled Risks That Could Affect Our Business contained in BCE Inc.'s Annual Information Form for the year ended December 31, 2004 filed by BCE Inc. with the Canadian securities commissions (available at www.bce.ca or on SEDAR at www.sedar.com) and with the U.S. Securities and Exchange Commission under Form 40-F (available on EDGAR at www.sec.gov) as updated in BCE Inc.'s 2005 First Quarter MD&A dated May 3, 2005, included in this news release, under the section entitled Risks That Could Affect Our Business. The forward-looking statements contained in this news release represent our expectations as of May 4, 2005 and, accordingly, are subject to change after such date. However, we disclaim any intention or obligation to update any forward-looking statements, whether as a result of new information or otherwise.

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The Quarter at a Glance

The Quarter at a Glance (1)

This section reviews the key measures we use to assess our performance and how our results in Q1 2005 compare to our results in Q1 2004.

This quarter, we continued to make significant progress on our strategic initiatives and on growing our business profitably. Our revenues grew by 4.8% at BCE and by 2.5% at Bell Canada. Driven by revenue growth and our focus on cost reduction, our operating income grew 5.4% at BCE and by 2.3% at Bell Canada.

Our Consumer segment continued to grow revenues, but at a slower pace, as strong growth in Internet access was tempered by a slower rate of growth in wireless.

Our Business segment continued to grow revenues at a faster pace, driven by our Virtual Chief Information Officer (VCIO) strategy in our small and medium-sized businesses (SMB) unit and by focusing on value-added services (VAS) and Internet Protocol (IP) based connectivity in our Enterprise unit.

Bell Globemedia continued to demonstrate strong financial performance, driven by higher advertising revenue reflecting strong television ratings as CTV Television held 18 of the top 20 regularly scheduled programs from September 2004 to March 2005.

Telesat also had a strong quarter, reflecting revenue gains from Ka-band revenues on its Anik F2 satellite, growth in Interactive Distance Learning services and its investment in a provider of programming-related satellite transmission services to major U.S. television networks and cable programmers.

Customer Connections

| CONNECTIONS (IN THOUSANDS) | Q1 2005 NET ACTIVATIONS | 31-MAR-05 CONNEC- TIONS |
|-------------------------------|-------------------------------|-------------------------------|
| Wireless | 37* | 4,962 |
| DSL | 128 | 1,936 |
| ExpressVu | 29 | 1,532 |
| NAS | (60) | 12,845 |

*82,000 before cancellation of 45,000 non-paying customer accounts.

- **Wireless** We added 37,000 net subscribers to our customer base during the quarter, compared with 92,000 in Q1 2004. The net subscriber additions in the quarter reflect the cancellation of 45,000 non-paying customer accounts. Before the cancellation of these customer accounts, we added 82,000 new subscribers. As a result, blended churn for the first quarter increased, year-over-year, from 1.3% to 1.6% per month.
- **High-Speed Internet** Our high-speed Internet business added 128,000 customers this quarter, growing our subscriber base by 23.5% over last year to 1,936,000. Subscriptions to Sympatico's value-added solutions more than doubled compared with Q1 2004, to reach an end of period count of 766,000.
- **Video** We activated 29,000 new subscribers on a net basis in our video business, representing an increase of 81% over the 16,000 net activations we achieved in Q1 2004.

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- (1) Certain statements made in this Quarter at a Glance including, but not limited to, our 2005 free cash flow target, and other statements that are not historical facts, are forward-looking statements and are subject to important risks, uncertainties and assumptions. Forward-looking statements may include words such as *anticipate, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target* and *will*. Forward-looking statements in this Quarter at a Glance describe our expectations at May 3, 2005. The results or events predicted in the forward-looking statements contained in this Quarter at a Glance may differ materially from actual results or events. For additional information on forward-looking statements and on factors that could cause actual results or events to differ materially from our current expectations, please refer to the sections entitled *About Forward-Looking Statements* and *Risks That Could Affect Our Business* contained in BCE Inc.'s 2005 First Quarter MD&A dated May 3, 2005.
- (2) EBITDA, free cash flow and net earnings excluding the impact of restructuring and other items and net gains on investments 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 2005 First Quarter MD&A dated May 3, 2005.

2 Bell Canada Enterprises 2005 Quarterly Report

- Network Access Services (NAS) Our NAS in service declined by 60,000 this quarter and by 1.3% compared with Q1 2004, reflecting a slight increase in the rate of decline compared with previous quarters.

Operating Revenues

Our revenues this quarter were \$4,859 million, or 4.8% higher than the same period last year. This growth reflected higher revenue performance at Bell Canada driven by increases in the Business segment, particularly in data and wireless, and by growth in the Consumer and Aliant segments. Focused execution of our VCIO, VAS and IP strategies, including recent acquisitions, contributed to this growth. Double digit revenue growth at CGI and Telesat and single digit growth at Bell Globemedia also increased revenue performance.

Operating Income and EBITDA⁽²⁾

Operating income this quarter was \$1,066 million, up \$55 million or 5.4% compared with the same period last year. Higher revenues and cost savings from our Galileo program more than offset higher net benefit plans cost and amortization expenses.

Our EBITDA for the quarter was \$1,938 million, an increase of \$94 million or 5.1% compared with last year, reflecting increases in all segments. Bell Canada's EBITDA this quarter was \$1,815 million, or 3.4% higher than

last year.

Our EBITDA margin of 39.9% in the quarter was up 0.1 percentage points compared with Q1 2004. Bell Canada's EBITDA margin of 43.1% reflects an increase of 0.4 percentage points over the same period last year.

Net Earnings / Earnings Per Share

Net earnings applicable to common shares for Q1 2005 were \$474 million, or \$0.51 per common share, similar to net earnings of \$470 million for the same period last year. Included in the first quarter earnings this year were \$2 million of net gains on investments and restructuring and other items compared with \$6 million in Q1 2004. Excluding the impact of these items, net earnings of \$472 million, or \$0.51 per common share, were up \$8 million or \$0.01 per share representing an increase of 2.0% over last year.⁽²⁾ This improvement stemmed mainly from growth in operations and lower interest expense which was partly offset by the significant increase in net benefit plans cost, higher amortization expense and lower foreign exchange gains realized this quarter.

- (2) EBITDA, free cash flow and net earnings excluding the impact of restructuring and other items and net gains on investments 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 2005 First Quarter MD&A dated May 3, 2005.

The Quarter at a Glance

Capital Expenditures

Capital expenditures totalled \$737 million in the first quarter. As a percentage of revenues, capital expenditures increased to 15.2% from 14.7% in Q1 of last year. The year-over-year increase in spending relates to an increased investment in next generation service platforms including investments in the expansion of our fiber-to-the-node footprint, IPTV, and the acquisition of spectrum licences.

Free cash flow⁽²⁾

Our free cash flow this quarter was negative \$162 million, down from free cash flow of \$256 million in the first quarter of last year, due to a number of anticipated impacts, which more than offset our growth in EBITDA and lower interest payments. These impacts were:

- an increase in income taxes paid, primarily related to the final installment for 2004;
- higher pension and other benefit plan payments, stemming primarily from a voluntary contribution by Aliant;
- restructuring payments related to employee departure programs announced last year at Bell Canada and Aliant;
- higher capital expenditures;
- the proceeds of Telesat insurance claims in Q1 2004 which did not recur this year.

With first quarter free cash flow results in line with our plan, we expect to achieve our free cash flow target for 2005.

- (2) EBITDA, free cash flow and net earnings excluding the impact of restructuring and other items and net gains on investments 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 2005 First Quarter MD&A dated May 3, 2005.

Management's Discussion and Analysis

In this MD&A, *we, us, our* and *BCE* mean BCE Inc., its subsidiaries and joint ventures.

All amounts in this MD&A are in millions of Canadian dollars, except where otherwise noted.

Please refer to the unaudited consolidated financial statements for the first quarter of 2005 when reading this

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 (Q1) ended March 31, 2005 and 2004.

About Forward-Looking Statements

Securities laws encourage companies to disclose forward-looking information so that investors can get a better understanding of the company's future prospects and make informed investment decisions.

Unless otherwise mentioned in this MD&A, the outlooks provided in the BCE 2004 MD&A dated March 2, 2005 remain unchanged.

This MD&A contains forward-looking statements about BCE's objectives, 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. It is important to know that:

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MD&A. We also encourage you to read BCE Inc.'s MD&A for the year ended December 31, 2004 dated March 2, 2005 (BCE 2004 MD&A).

You will find more information about BCE, including BCE Inc.'s annual information form for the year ended December 31, 2004 (BCE 2004 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.

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, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target* and *will*.

Non-GAAP Financial Measures

This section describes the non-GAAP financial measures we used 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, which means it represents

- forward-looking statements in this MD&A describe our expectations at May 3, 2005
- our actual results could be materially different 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.
- 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. For example, they do not include the effect 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 such transactions and non-recurring and other special items can be complex and necessarily depends on the facts particular to each of them. Accordingly, the expected impact cannot be meaningfully described in the abstract or presented in the same manner as known risks affecting our business.
- we disclaim any intention and assume no obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

Risks that could cause our actual results to materially differ from our current expectations are discussed throughout this MD&A and, in particular, in *Risks That Could Affect Our Business*.

Non-GAAP Financial Measures

EBITDA

The term EBITDA does not have any standardized meaning prescribed by 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 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. We exclude restructuring and other items because they are transitional in nature.

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 valuation measurement in the telecommunications industry.

operating income before
amortization expense, net
benefit plans cost, and
restructuring and other
items.

5 Bell Canada Enterprises 2005 Quarterly Report

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

| BCE | Q1 2005 | Q1 2004 |
|-------------------------------|--------------|---------|
| EBITDA | 1,938 | 1,844 |
| Amortization expense | (773) | (767) |
| Net benefit plans cost | (103) | (63) |
| Restructuring and other items | 4 | (3) |
| Operating income | 1,066 | 1,011 |
| <hr/> | | |
| BELL CANADA | Q1 2005 | Q1 2004 |
| EBITDA | 1,815 | 1,755 |
| Amortization expense | (732) | (732) |
| Net benefit plans cost | (106) | (60) |
| Restructuring and other items | 5 | (3) |
| Operating income | 982 | 960 |

Operating Income Before Restructuring and Other Items

The term operating income before restructuring and other items does not have any standardized meaning prescribed by 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. The exclusion of these items does not imply they are non-recurring.

The most comparable Canadian GAAP financial measure is operating income. The table below is a reconciliation of operating income to operating income before restructuring and other items on a consolidated basis.

Q1 2005

Q1 2004

| | | |
|--|--------------|-------|
| Operating income | 1,066 | 1,011 |
| Restructuring and other items | (4) | 3 |
| <hr/> | | |
| Operating income before restructuring and other items | 1,062 | 1,014 |
| <hr/> | | |

Net Earnings Before Restructuring and Other Items and Net Gains on Investments

The term net earnings before restructuring and other items and net gains on investments does not have any standardized meaning prescribed by 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 and net gains on investments, among other measures, to assess the operating performance of our ongoing business without the effects of after-tax restructuring and other items and net gains on investments.

We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance. The exclusion of these items does not imply they are non-recurring.

The most comparable Canadian GAAP financial measure is net earnings applicable to common shares. The table below is a reconciliation of net earnings applicable to common shares to net earnings before restructuring and other items and net gains on investments on a consolidated basis and per common share.

Free Cash Flow

The term free cash flow does not have any standardized meaning prescribed by 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.

| | Q1 2005 | | Q1 2004 | |
|---|------------|-------------|---------|-----------|
| | TOTAL | PER SHARE | TOTAL | PER SHARE |
| Net earnings applicable to common shares | 474 | 0.51 | 470 | 0.51 |
| Restructuring and other items | (2) | | 1 | |
| Net gains on investments | | | (7) | (0.01) |
| <hr/> | | | | |
| Net earnings before restructuring and other items and net gains on investments | 472 | 0.51 | 464 | 0.50 |
| <hr/> | | | | |

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 to reinvest in our company. We believe that certain investors and analysts use free cash flow when valuing a business and its underlying assets.

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The most comparable Canadian GAAP financial measure is cash from operating activities. The table below is a reconciliation of free cash flow to cash from operating activities on a consolidated basis.

| | Q1 2005 | Q1 2004 |
|---------------------------------------|--------------|---------|
| Cash from operating activities | 939 | 1,260 |
| Capital expenditures | (737) | (681) |
| Total dividends paid | (349) | (342) |
| Other investing activities | (15) | 19 |
| Free cash flow | (162) | 256 |

About Our Business

An overview of our products and services and our objectives and strategy are described in the BCE 2004 MD&A.

Strategic Priorities

We have three key priorities supporting our strategy to deliver unrivalled integrated communications to customers, while taking a leadership position in setting the standard in IP. During the quarter, we made significant progress on each of these priorities.

1) Delivering an enhanced customer experience while significantly lowering costs (our Galileo program)

In our Consumer segment:

- We gained 107,000 subscriptions to the Bell Bundle (a combination of wireless, Internet and video services in one offer) this quarter. During the quarter, almost half of bundle activations included the sale of at least one new service. At the end of the quarter, we had 554,000 subscribers with bundles.
- The \$5 long distance bundle introduced last June gained 90,000 customers this quarter, bringing total sales since launch to 319,000
- At the end of the quarter, we had over 820,000 customers enjoying the benefits of a single bill for their wireline, Internet, and video services. We have also made solid progress toward our plan to include wireless services on our single bill and to introduce a new simplified single bill and plan to implement these changes this year.
- We introduced 'Online Emily', an online, interactive, virtual customer service agent, and 'Internet Care', an online and phone support service on popular Internet-related products, to provide an enhanced customer support experience for Sympatico Internet customers
- Virgin Mobile, our joint venture with the Virgin Group, was launched, offering wireless services to the key youth market under the dynamic Virgin brand
- We increased our ownership of Entourage Technology Solutions Inc. (Entourage) from 33% to 100%. Entourage provides installation and repair services to major communities across Ontario and Québec. This acquisition will enable us to further simplify the customer experience with an end-to-end service strategy.

Management's Discussion and Analysis

In our Business segment:

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- We made significant progress on our key objective of having 100% of our core traffic moved to a pervasive national IP multi-protocol label switching (IP-MPLS) network by the end of 2006. At the end of Q1, 67% of the traffic on our core network was IP-based.
- As part of our strategy shift to IP, we continued the process of discontinuing legacy data services by adding to the list of services that we no longer sell to customers who do not use them now. In Q1, this list was expanded by 11 services.
- We also began providing our Internet Protocol Virtual Private Network (IP-VPN) service based on standardized deployment processes that will deliver an enhanced customer experience in a far more efficient manner. With these changes, service provisioning times are expected to be dramatically shortened.

Overall, our various initiatives led to cost reductions this quarter of \$120 million. These savings were primarily from:

- The employee departures that took place in Q4 2004;
- Procurement savings reducing cost of acquisition;
- Improvements in cost of goods sold.

2) Deliver abundant bandwidth to enable next-generation services

We continued our fiber-to-the-node (FTTN) rollout by deploying another 386 neighbourhood nodes, raising the total number of nodes served to 762. We are not yet providing video services through these nodes.

We also made solid progress in the deployment of very high bit rate DSL (VDSL) to large multiple-dwelling units (MDUs). By the end of the quarter, we had signed access agreements with 414 buildings and had provisioned VDSL in 254 buildings.

3) Create next-generation services to drive future growth

In Q1, our Consumer segment:

- Introduced Digital Voice, our feature-rich voice-over-IP (VoIP) offering in Québec City, Sherbrooke and Trois-Rivières
- Enhanced our suite of DSL services by upgrading our DSL Basic offering from 128 Kbps to 256 Kbps and by launching Basic Lite DSL (at 128 Kbps) in the Ontario market
- Launched 10-4 , a new service that allows customers to use their cell phones as a walkie-talkie to communicate with up to five other users at the push of a button
- Launched Sympatico/MSN Video channel, enabling customers to create customized playlists of streaming video clips, and enhanced our Sympatico.MSN music site, enabling customers to watch music videos, download ring tones and buy music in one place.

Our small and medium-sized businesses (SMB) unit:

- Completed the acquisition of Nexxlink Technologies Inc. (Nexxlink), a Montreal based IT solutions provider, and announced it will combine Nexxlink with Charon Systems Inc., which was acquired in 2004, into a new wholly-owned subsidiary to be named Bell Business Solutions Inc. which will provide leading IT solutions to the SMB customers across Canada
- Launched PC Care and Network Care, two new Virtual Chief Information Officer (VCIO) solutions providing software and technical support for SMB customer PC's and networks
- Announced technical trials of a VoIP offering for SMB customers
- Announced a partnership with Sproqit Technologies to deliver remote access from a Personal Digital Assistant (PDA) to all desktop applications.

Our Enterprise unit:

- Has sold 158,000 IP enabled lines on customer premises equipment (CPE) to date
- Launched Bell Security Solutions Inc., to provide integrated, end-to-end network and information security solutions to customers nationwide.

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We also announced an alliance with Clearwire Corporation (Clearwire) whereby Bell Canada will become Clearwire's exclusive strategic partner for the provision of VoIP services in the United States. This alliance will enable us to develop our capabilities with the wireless broadband data technology provided by Clearwire.

8 Bell Canada Enterprises 2005 Quarterly Report

Quarterly Financial Information

The table below shows selected consolidated financial data for the eight most recently completed quarters.

| | 2005 | | | 2004 | | | 2003 | |
|--|--------------|-------|---------|-------|-------|-------|-------|-------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Operating revenues | 4,859 | 4,986 | 4,778 | 4,779 | 4,638 | 4,815 | 4,624 | 4,670 |
| EBITDA | 1,938 | 1,831 | 1,936 | 1,953 | 1,844 | 1,847 | 1,895 | 1,895 |
| Amortization expense | (773) | (803) | (769) | (769) | (767) | (775) | (801) | (774) |
| Net benefit plans cost | (103) | (67) | (61) | (65) | (63) | (46) | (44) | (43) |
| Restructuring and other items | 4 | (126) | (1,081) | (14) | (3) | (13) | (1) | |
| Operating income | 1,066 | 835 | 25 | 1,105 | 1,011 | 1,013 | 1,049 | 1,078 |
| Earnings from continuing operations | 492 | 367 | 102 | 544 | 485 | 486 | 453 | 466 |
| Discontinued operations | (1) | (2) | (2) | 27 | 3 | (86) | 11 | 12 |
| Extraordinary gain | | 69 | | | | | | |
| Net earnings | 491 | 434 | 100 | 571 | 488 | 400 | 464 | 478 |
| Net earnings applicable to common shares | 474 | 417 | 82 | 554 | 470 | 386 | 446 | 461 |
| Included in net earnings: | | | | | | | | |
| Net gains on investments | | | | | | | | |
| Continuing operations | 1 | 64 | 325 | | | 84 | | |
| Discontinued operations | (1) | (2) | (2) | 31 | 7 | (94) | 8 | |
| Restructuring and other items | 2 | (62) | (725) | 16 | (1) | (9) | 6 | |
| Net earnings per common share | | | | | | | | |
| Continuing operations basic | 0.51 | 0.38 | 0.09 | 0.57 | 0.51 | 0.50 | 0.48 | 0.49 |
| Continuing operations diluted | 0.51 | 0.38 | 0.09 | 0.57 | 0.51 | 0.50 | 0.47 | 0.49 |
| Net earnings basic | 0.51 | 0.45 | 0.09 | 0.60 | 0.51 | 0.41 | 0.49 | 0.50 |
| Net earnings diluted | 0.51 | 0.45 | 0.09 | 0.60 | 0.51 | 0.41 | 0.48 | 0.50 |

Average number of
common shares

outstanding (millions) **926.2** 925.3 924.6 924.3 924.1 923.4 921.5 919.3

Management's Discussion and Analysis

Financial Results Analysis

This section provides detailed information and analysis about our performance in Q1 2005 compared to Q1 2004. It focuses on our consolidated operating results and provides financial information for each of our operating segments.

Financial Results Analysis

Consolidated Analysis

| | Q1 2005 | Q1 2004 | % CHANGE |
|---|--------------|---------|----------|
| Operating revenues | 4,859 | 4,638 | 4.8% |
| Operating expenses | (2,921) | (2,794) | (4.5%) |
| EBITDA | 1,938 | 1,844 | 5.1% |
| Amortization expense | (773) | (767) | (0.8%) |
| Net benefit plans cost | (103) | (63) | (63.5%) |
| Restructuring and other items | 4 | (3) | n.m. |
| Operating income | 1,066 | 1,011 | 5.4% |
| Other income | 7 | 36 | (80.6%) |
| Interest expense | (247) | (252) | 2.0% |
| Pre-tax earnings from continuing operations | 826 | 795 | 3.9% |
| Income taxes | (271) | (262) | (3.4%) |
| Non-controlling interest | (63) | (48) | (31.3%) |
| Earnings from continuing operations | 492 | 485 | 1.4% |
| Discontinued operations | (1) | 3 | n.m. |
| Net earnings | 491 | 488 | 0.6% |
| Dividends on preferred shares | (17) | (18) | 5.6% |
| Net earnings applicable to common shares | 474 | 470 | 0.9% |
| EPS | 0.51 | 0.51 | |

n.m.: not meaningful

Operating revenues

Our revenues this quarter were \$4,859 million, or 4.8% higher than the same period last year. This is the fifth consecutive quarter that our revenue growth rate has improved. This growth reflected higher revenue performance at Bell Canada driven by increases in the Business segment, particularly in data and wireless, and by growth in the Consumer and Aliant segments. Focused execution of our VCIO, VAS and IP strategies, including recent acquisitions, contributed to this growth. The Other BCE segment also contributed to our revenue growth, with double digit revenue growth at CGI and Telesat and single digit growth at Bell Globemedia.

Operating income

Our operating income this quarter was \$1,066 million, or 5.4% higher than the same period last year reflecting our strong revenue growth and the impact of cost savings initiatives and lower acquisitions costs partly offset by increases in wireless bad debt expense, net benefit plans cost and amortization expense.

At Bell Canada, our various initiatives generated \$120 million in cost savings this quarter. These savings were primarily from:

- The employee departures that took place in Q4 2004;
- Procurement savings reducing cost of acquisition;
- Improvements in cost of goods sold.

EBITDA

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Our EBITDA for the quarter was \$1,938 million, an increase of \$94 million or 5.1% compared with last year, reflecting increases in all segments. Bell Canada's EBITDA this quarter was \$1,815 million, or 3.4% higher than last year, reflecting EBITDA improvements in wireline, wireless, and video.

Wireless EBITDA increased by 14.5% this quarter reflecting wireless revenue growth and lower costs of acquiring customers. These factors more than offset higher bad debt expense and led to a 1.8 percentage point margin improvement. Video EBITDA also increased this quarter reflecting revenue growth and lower costs of acquiring customers.

The cost of acquisition (COA) for video services in the first quarter of 2005 decreased by 28.4% to \$473 per gross activation from \$661 per gross activation in the same quarter one year earlier. The significant improvement can be attributed primarily to lower set-top-box (STB) pricing, reflecting the negotiation of a favourable supply contract, and the increased purchasing power of a stronger Canadian dollar, partially offset by a higher number of customers taking second STBs.

Wireless COA improved 18.0% to \$373 per gross activation in the first quarter of 2005 from \$455 per gross activation in the same quarter one year earlier. The decrease was driven primarily by a higher percentage of prepaid gross activations and volume rebates from handset manufacturers.

Amortization expense

Amortization expense increased 0.8% or \$6 million to \$773 million in Q1 2005, compared to Q1 2004. This was a result of an increase in our capital asset base from capital spending that continues to be higher than asset retirements.

Net benefit plans cost

The net benefit plans cost increased by 64% or \$40 million to \$103 million in Q1 2005, compared to Q1 2004. The increase resulted mainly from:

- a reduction in the discount rate from 6.5% to 6.2%, which resulted in an increase in the accrued benefit obligation of our pension plans
- a reduction in plan asset base due to the amortization of investment losses experienced in 2001 and 2002
- fully amortizing in 2004 the savings relating to the transitional asset that arose upon the adoption of new accounting rules in 1987
- an increase in the pension obligations from the early retirement program implemented in 2004.

Restructuring and other items

We recorded a credit for restructuring and other items of \$4 million in Q1 2005, which included a \$25 million credit for the reversal of restructuring provisions that were no longer necessary, since the actual payments made to employees were lower than estimated. We recognized a \$21 million charge mainly for relocating employees and closing real estate facilities that are no longer needed because of the reduction in the workforce from the 2004 employee departure program.

Net earnings / Earnings per Share (EPS)

Net earnings applicable to common shares for Q1 2005 were \$474 million, or \$0.51 per common share, essentially flat compared with net earnings of \$470 million or \$0.51 per common share for the same period last year. The improvements in EBITDA and interest expense were offset by higher net benefit plans cost and amortization expense.

Management's Discussion and Analysis

Segmented Analysis

%

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| OPERATING REVENUES | Q1 2005 | Q1 2004 | CHANGE |
|---------------------------------|--------------|---------|--------|
| Consumer | 1,856 | 1,825 | 1.7% |
| Business | 1,478 | 1,435 | 3.0% |
| Aliant | 524 | 504 | 4.0% |
| Other Bell Canada | 479 | 474 | 1.1% |
| Inter-segment eliminations | (128) | (132) | 3.0% |
| Bell Canada | 4,209 | 4,106 | 2.5% |
| Other BCE | 748 | 651 | 14.9% |
| Inter-segment eliminations | (98) | (119) | 17.6% |
| Total operating revenues | 4,859 | 4,638 | 4.8% |

| OPERATING INCOME | Q1 2005 | Q1 2004 | CHANGE |
|-------------------------------|--------------|--------------|-------------|
| Consumer | 526 | 526 | |
| Business | 240 | 241 | (0.4%) |
| Aliant | 87 | 82 | 6.1% |
| Other Bell Canada | 129 | 111 | 16.2% |
| Bell Canada Consolidated | 982 | 960 | 2.3% |
| Other BCE | 84 | 51 | 64.7% |
| Total operating income | 1,066 | 1,011 | 5.4% |

Consumer revenues

Consumer revenues this quarter grew by 1.7% to \$1,856 million reflecting continued strength in our growth services, such as Internet access, wireless and video driven by gains in the respective subscriber bases of these services. Growth in these services more than offset declines in long distance and local and access revenues.

Wireless

Consumer wireless revenues for Q1 2005 increased year-over-year, mainly as a result of a higher average number of customers in our subscriber base compared to Q1 2004. Revenue growth during the quarter was impacted by an increased number of postpaid customers in collection status whose wireless services were suspended for account non-payment. Due to last year's billing delays stemming from our billing system migration, a large number of postpaid customers accumulated past due balances because of their inability to pay multiple invoices that were received within a relatively short period of time. Revenues for Q1 were also impacted by the issuance of billing and retention credits to compensate customers for billing errors and delays that occurred following implementation of

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the new billing platform. Moreover, as we addressed higher-than-normal call volumes regarding customer billing inquiries early in the first quarter, our call centre agents were limited in their ability to sell additional services to new and existing customers. (For further information about our wireless subscriber base, please see Wireless within our Product Line Analysis.)

Video

Video revenues grew by 6.8%, year-over-year, to \$221 million this quarter from \$207 million last year, mainly as a result of a higher average number of subscribers. We added 29,000 net new video customers in the first quarter of 2005, an 81% increase compared with the 16,000 net activations achieved for the same quarter in 2004. This brought our total video customer base to 1,532,000, compared with 1,403,000 customers at the end of Q1 2004. The notable improvement in net activations was driven by the positive impact of our STB rental program, VDSL

12 Bell Canada Enterprises 2005 Quarterly Report

growth, traction from certain marketing initiatives at our own stores and with third-party retailers, as well as by aggressive churn management.

Our video churn rate of 0.8% per month in Q1 2005, represented a further 0.1 percentage point improvement compared with the first quarter of 2004. This year-over-year improvement can be attributed primarily to the continued success of our bundled services market strategy and the requirement that, as of August 1, 2004, all new video customers have contracts. At the end of the first quarter of 2005, approximately one-third of our video customers subscribed either to a one or two-year contract.

Average revenue per user (ARPU) for the first quarter remained flat year-over-year at \$48 per month, mainly as a result of lower pay per view revenues due to the NHL lockout and bundle discounts. This impact was mitigated, in part, by a shift in the product mix towards higher priced programming packages and an increase in the number of customers taking additional STBs.

Data

Consumer data revenues grew this quarter driven by growth of approximately 23% in our High-Speed Internet subscriber base and an increase in revenues from our Sympatico.MSN.ca web portal.

Consumer high-speed Internet net additions were stronger this quarter over last year, aided by footprint expansion, focused selling efforts, improved retention strategies and the introduction of our Basic Lite service in the Ontario market. Bell Sympatico value-added services (VAS) such as MSN Premium, Desktop Anti-Virus and

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Desktop Firewall added 142,000 subscriptions this quarter to reach a total of 766,000 subscriptions, more than double the number of a year ago.

Our Sympatico.MSN.ca portal currently averages 15.1 million unique visitors per month, or 84% of online Canadians.

Wireline

Local and access revenues declined for the quarter compared with the same period last year due mainly to NAS declines (leading to both lower NAS revenues and related SmartTouch feature revenues), partly offset by higher revenues from wireline insurance and maintenance plans. NAS decreased as a result of losses to competitive local exchange carriers (CLECs) and continued pressure from growth in high-speed Internet access which reduces the need for second telephone lines. NAS declines also increased in the quarter due to an increase in customers substituting wireline with wireless telephone service and the launch of a low-priced cable telephony offering in certain of our Québec markets as well as from losses to other VoIP providers.

Long distance revenues in Q1 2005 were lower than the same period in 2004 reflecting both lower average revenue per minute (ARPM) as well as lower volumes of conversation minutes, partially offset by the success of international prepaid calling card sales. ARPM declines reflect competition from non-traditional long distance providers, the impact of our \$5 Long Distance Bundle, and loss of higher priced overseas minutes. Despite usage gains stemming from our bundle, overall minute volumes declined slightly reflecting losses to non-traditional long distance providers.

Consumer operating income

The Consumer segment achieved operating income of \$526 million this quarter, unchanged from the same period in 2004. Increases in net benefit plans cost, amortization expenses, and wireless bad debt expense offset Consumer segment EBITDA growth from revenue gains and the benefits of cost savings initiatives.

Wireless bad debt expense increased significantly compared with the first quarter of the previous year. Due to billing delays during the second half of 2004, many of our customers received several invoices within a relatively short period of time which they were unable to pay. In February, we launched several initiatives to contact our customers and arrange for payment terms to lessen their financial strain. While these initiatives have demonstrated success to date, we increased our level of provision to account for potential future non-payment.

Management's Discussion and Analysis

Business revenues

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Business segment revenues were \$1,478 million this quarter, or 3.0% higher compared with Q1 2004. Increases in data, wireless and terminal sales and other revenues were partially offset by declines in long distance and local and access revenues.

Enterprise

Revenues from enterprise customers increased this quarter as increases in wireless, data, and terminal sales and other revenues more than offset declines in local and access and long distance revenues.

Our IP-based connectivity and VAS revenues continue to grow significantly. VAS revenues grew by 47% this quarter compared with the same period last year.

The migration to IP continued throughout the quarter with close to 100 customers, including the Jean Coutu Group, adopting our solution. Gowling Lafleur Henderson LLP, a Canadian law firm, has migrated its eight offices and 2,200 lines across the country to an IP network. The MaRS Discovery District, an innovation centre affiliated with the University of Toronto aimed at connecting scientists with the business community, also adopted our IP solution.

We also announced a four-year, \$17.3 million contract with the National Bank of Canada to provide integrated call centre solutions and telephone services. In addition, the Institutional Trade Management Solution (ITMS) which enables near real-time trading was implemented for Desjardins Securities and other financial institutions.

SMB

Revenues from SMB customers increased this quarter as increases in data, wireless and terminal sales and other revenues more than offset revenue declines in long distance and local and access revenues. The recent business acquisition of Nexxlink, combined with improved rates of growth from Accutel Conferencing Systems Inc. (Accutel) and Charon Systems Inc. (Charon) acquired in 2004, contributed significantly to this quarter's growth. Continued growth in DSL high-speed Internet access services and VAS also contributed to data revenue growth. Subscriptions to VAS increased by 10,000 this quarter, ending the quarter with 93,000 subscribers. Long distance revenues declined due to significant competitive pricing pressures and the weakening of our payphone business. Local and access revenues were also lower in our payphone business.

Bell West

Bell West continued to grow its customer base leading to increases in local and access and long distance revenues this quarter. However, data revenues decreased, reflecting lower construction revenue compared with last year from a contract to build a next generation network for the Government of Alberta (GOA).

Group Telecom

In November 2004, we acquired the Canadian operations of 360networks Corporation (360networks) as well as certain U.S. network assets. This acquisition increased our customer base and gave us an extensive fibre network across major cities in Western Canada.

The Business segment now reflects the retail portion of this acquisition, operating in Western Canada as the Group Telecom unit within Bell Canada.

Business operating income

Business segment operating income this quarter was \$240 million, or 0.4% lower than the same period last year, as higher amortization expenses and net benefits plans costs more than offset strong EBITDA growth from revenue gains and the impact of cost savings initiatives.

In the Enterprise unit operating income increased this quarter reflecting revenue growth and cost savings initiatives, partially offset by the operating expenses of businesses acquired over the past year (Infostream Technologies Inc. and Elix Inc.).

Our SMB unit incurred higher salary expenses and cost of goods sold related to its business acquisitions (Nexxlink, Accutel Conferencing Systems Inc. and Charon Systems Inc.).

Bell West incurred lower cost of goods sold related to the GOA contract this quarter. Salary expenses at Bell West are higher this year reflecting a growing workforce to support business growth in Western Canada.

Aliant revenues

Aliant segment revenues of \$524 million for the quarter increased 4.0% compared with the same period last year. Strong growth in wireless and Internet services and IT and other product sales for the quarter offset declines in other areas due to regulatory restrictions, which relate to bundling and packaging of local service with other non-regulated services and to limitations in customer win-back promotions, and the impacts of competition.

Aliant's wireless revenue grew 12.8% in the quarter over the same period last year. The growth was driven by a year-over-year increase of 9.6% in Aliant's wireless customer base, including a 23.7% increase in digital customers, reflecting a strong market position supported by a comprehensive dealer network, attractive pricing offers and extensive service area coverage. In addition, ARPU was up \$3 compared with last year, reflecting the impacts of a higher percentage of customers subscribing to digital service, higher usage and increased customer adoption of features.

Data revenues for the quarter declined as higher Internet revenues were more than offset by other data revenue declines from the continued rationalization of circuit networks by customers and price reductions. The continued increase in Internet revenues stemmed from increased popularity of enhanced services and year-over-year subscriber growth of 5.3%, reflecting a 23.7% growth in Aliant's high-speed Internet customer base. High-speed customer additions in the quarter grew by 54.6% over the same period last year. The higher subscriber base reflects the expansion of high-speed Internet service into new areas, attractive introductory offers and an emphasis on bundling with other products and services. Average revenue per customer declined due to the impact of the aggressive introductory offers that began in late 2004 and ended in the first quarter, limiting revenue growth to 5.7% over the first quarter of 2004.

Intense long distance competition and substitution of long distance calling with Internet and wireless options by customers resulted in long distance revenue declines for the quarter compared with the same period last year. Consumer long distance revenues have declined due to competitive losses and reduced minute volumes from block of minute plans and free minute promotions. Business long distance revenue declines continued to reflect the impact of competitive pressures and rate restructuring.

Local and access revenues in the first quarter declined over the same period last year. This reflects a 1.5% decline in the NAS customer base resulting from competitive losses and technology substitution. Enhanced service feature revenue also declined as more customers received bundling discounts.

Terminal sales and other revenues increased for the quarter as a result of higher product sales.

Aliant operating income

Aliant's operating income for the first quarter was \$87 million reflecting an increase of \$5 million, or 6.1%, compared with the same period last year reflecting revenue growth partially offset by the impact of the Canadian Radio-television and Telecommunications Commission's (CRTC) decision with respect to Competitor Digital Network services (the CDN decision) and an increase in pension and other post-employment benefits cost. The CDN decision has led to the lowering of prices of many services provided to competitors on a going forward basis.

Operating expense

Management's Discussion and Analysis

increases required to drive revenue growth were offset by sound expense management, including the productivity savings from Aliant's 2004 voluntary early retirement incentive program.

Other Bell Canada revenues

Other Bell Canada segment revenues for the quarter were \$479 million, or 1.1% higher compared with the same period last year. Our wholesale unit had higher revenues resulting from the acquisition of the wholesale portion of 360networks in the fourth quarter of last year partly offset by lower revenues resulting from the CDN decision. This increase also reflects a favourable ruling by the CRTC with respect to subsidies for serving high cost areas at Télébec.

Other Bell Canada operating income

Operating income for the Other Bell Canada segment was \$129 million this quarter, or 16.2% higher than Q1 2004. Cost savings initiatives and the impact of the favourable high-cost serving area ruling for Télébec, offset the impact of the CDN decision to our wholesale unit. Operating income also reflects the positive impact of a \$25 million credit for the reversal of restructuring provisions that were no longer necessary, since the actual payments were lower than expected, partly offset by a \$19 million charge for relocating employees and closing real estate facilities that are no longer needed because of the employee departure program.

Other BCE revenues

| | Q1 2005 | Q1 2004 | % CHANGE |
|---------------------------|------------|------------|--------------|
| Bell Globemedia | 356 | 342 | 4.1% |
| Telesat | 108 | 84 | 28.6% |
| CGI | 273 | 214 | 27.6% |
| Other | 11 | 11 | 0.0% |
| Other BCE revenues | 748 | 651 | 14.9% |

Revenues from the Other BCE segment for the first quarter of the year were \$748 million or 14.9% higher than Q1 2004. This increase reflects higher revenues at Bell Globemedia, Telesat and CGI.

Bell Globemedia's revenues for the quarter totalled \$356 million, up 4.1% from Q1 of last year. Television advertising revenues grew by 5.7% reflecting the strength of CTV's schedule, which included 18 of the top 20 regularly scheduled programs from September 2004 to March 2005. Strong growth in advertising revenues in conventional and specialty television helped offset the loss of advertising on hockey broadcasts on our sports specialty channels TSN and RDS.

Bell Globemedia's subscriber revenues grew by 4.1% this quarter reflecting specialty channel growth and online subscription growth at The Globe and Mail.

Telesat's revenues increased by 28.6% to \$108 million this quarter as a result of its acquisition of The SpaceConnection Inc. (SpaceConnection), Ka-band revenues from Anik F2, and higher revenues from broadcast services and Interactive Distance Learning services. SpaceConnection was acquired in January 2005 and is a

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provider of programming-related satellite transmission services to major U.S. television networks and cable programmers.

Anik F2 began commercial service in October 2004 and was the world's first satellite to commercialize the Ka frequency band, enabling two-way high speed Internet access services to consumers and businesses in Canada and the U.S. Telesat has recently established distribution arrangements with Barrett Xplore Inc. (Barrett), a wireless broadband service provider, Télébec, and NorthernTel to deliver two-way high-speed Internet access to Canadians in rural and remote communities using the Ka frequency band of Anik F2.

Our share of CGI revenues was \$273 million this quarter compared with \$214 million in the same period last year with the growth in revenue reflecting CGI's acquisition of American Management Systems Inc. (AMS) in May 2004.

Other BCE operating income

Operating income for the Other BCE segment grew by 65% this quarter to \$84 million driven by growth in operating income in Bell Globemedia, Telesat and CGI.

Bell Globemedia's operating income grew by 60% reflecting revenue gains and cost savings. Telesat's operating income grew by 19.4%, resulting from strong revenue growth partly offset by SpaceConnection's operating

16 Bell Canada Enterprises 2005 Quarterly Report

expenses and higher amortization related to Anik F2 and SpaceConnection. CGI's operating income grew by 19.0% reflecting its acquisition of AMS.

Product Line Analysis

| | Q1 2005 | Q1 2004 | % CHANGE |
|---------------------------------------|--------------|--------------|-------------|
| Local and access | 1,368 | 1,379 | (0.8%) |
| Long distance | 538 | 606 | (11.2%) |
| Wireless | 713 | 651 | 9.5% |
| Data | 951 | 892 | 6.6% |
| Video | 221 | 207 | 6.8% |
| Terminal sales and other | 418 | 371 | 12.7% |
| Total Bell Canada Consolidated | 4,209 | 4,106 | 2.5% |

Local and access

Local and access revenues of \$1,368 million for the quarter declined by 0.8% compared with last year mainly as a result of lower network access services (NAS) and lower SmartTouch feature revenues, partly offset by gains from wireline insurance and maintenance plans.

NAS in service declined by 172,000 or 1.3% over the first quarter of 2004 as a result of losses to CLECs and continued pressure from growth in high-speed Internet access which reduces the need for second telephone lines. The rate of residential

NAS declines also increased this quarter with an increase in customers substituting wireline with wireless telephone service and the launch of an aggressively-priced cable telephony offering in certain of our Québec markets as well as from losses to VoIP providers.

Long distance

Long distance revenues were \$538 million for the quarter, reflecting a year-over-year decrease of 11.2% compared with the same period in 2004. Lower long distance revenues affected both our Consumer and Business markets. The Consumer segment long distance revenues were lower than the same period in 2004, reflecting both lower ARPM as well as lower volumes of conversation minutes partially offset by the success of international prepaid calling card sales. Business segment long distance revenues were lower as a result of lower minute volumes and pricing declines resulting from competitive pressures.

Overall, minute volumes increased slightly this quarter to 4,588 million conversation minutes, or by 0.2%, compared with Q1 2004. However, ARPM decreased this quarter to \$0.107, reflecting a decrease of \$0.013 reflecting competitive pressures and the acceleration of our bundle take-up rate.

Wireless

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| | Q1 2005 | Q1 2004 | % CHANGE |
|--------------------------------|--------------|---------|-------------|
| ARPU (\$/month) | 46 | 47 | (2.1%) |
| Postpaid | 57 | 59 | (3.4%) |
| Prepaid | 11 | 11 | 0.0% |
| Cellular & PCS Gross | | | |
| Activations (k) | 277 | 261 | 6.1% |
| Postpaid | 193 | 204 | (5.4%) |
| Prepaid | 84 | 57 | 47.4% |
| Churn (average per month) | 1.6% | 1.3% | (0.3 pts) |
| Postpaid | 1.6% | 1.1% | (0.5 pts) |
| Prepaid | 1.8% | 1.7% | (0.1 pts) |
| Cellular & PCS Net | | | |
| Activations (k) ⁽¹⁾ | 37 | 92 | (59.8%) |
| Postpaid ⁽¹⁾ | (5) | 69 | n.m. |
| Prepaid ⁽¹⁾ | 42 | 23 | 82.6% |
| Cellular & PCS | | | |
| Subscribers (k) | 4,962 | 4,504 | 10.2% |
| Postpaid | 3,719 | 3,422 | 8.7% |
| Prepaid | 1,243 | 1,082 | 14.9% |

n.m.: not meaningful

(1) We added 82,000 new customers in Q1 2005 (40,000 postpaid customers and 42,000 prepaid customers) and cancelled 45,000 non-paying postpaid customer accounts.

Wireless service revenues of \$713 million for the quarter represented an increase of 9.5%, compared with the first quarter of 2004. This year-over-year improvement was driven by subscriber growth of 10.2%, partly offset by a decline in blended ARPU.

Gross wireless activations increased by 6.1% in the first quarter of 2005 to 277,000, up from 261,000 for the same period last year. The growth in the total number of gross activations was driven by a 47% improvement in prepaid activations that was partly offset by a slight decline in postpaid activations. Postpaid gross activations started slowly in the first two months of 2005, reflecting our limited number of marketing promotions and the extension by some of our competitors of their fourth-quarter Christmas promotions. However, we made significant progress in March, directly as a result of a series of new promotions that were launched to combat ongoing competitive pressures, as well as the positive customer response to the introduction of our new '10-4' service. Our prepaid growth reflected an increase in the number of new activations early in the new year, brought about by strong sales of our very successful Grab n Go offer during the December holiday season, and to the added consumer attention that prepaid offers received following the launch of service in Canada by Virgin Mobile. Postpaid subscribers continue to represent a large majority of our gross activations, representing 70% of total gross activations, compared with 78% in Q1 2004.

Our postpaid churn rate for the first quarter of 2005 reached 1.6%, compared with 1.1% last year, due primarily to the cancellation of 45,000 non-paying customer accounts. As we addressed accounts receivable issues related to our billing system migration, we tightened our credit policies with respect to customers who had elected to temporarily suspend their service with Bell Mobility but had not reactivated their service within a reasonable period of time. In addition, we cancelled a number of postpaid subscriber accounts who were in default of our credit policy, but to whom we granted extensions as a result of billing delays. Prepaid churn for the quarter also increased slightly to 1.8% compared with 1.7% for Q1 2004. Accordingly, our blended churn rate for the quarter increased to 1.6% this year from 1.3% last year.

Before the cancellation of 45,000 postpaid customer accounts, we added 82,000 new customers during Q1 2005 (40,000 postpaid customers and 42,000 prepaid customers). Prepaid net additions of 42,000 this quarter were

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significantly higher than the 23,000 prepaid net additions last year, due mainly to a higher number of prepaid gross activations. As a result of higher postpaid churn, our postpaid subscriber base decreased by 5,000 customers during the first quarter, compared with the net addition of 69,000 postpaid subscribers during the same period in 2004. Accordingly, our total net additions amounted to 37,000.

Our total cellular and PCS subscriber base totaled 4,962,000 as at March 31, 2005 of which 75% were postpaid customers, compared with a total cellular and PCS subscriber base of 4,504,000 at the end of the first quarter

18 Bell Canada Enterprises 2005 Quarterly Report

of 2004, of which 76% were postpaid. Including paging subscribers, our total wireless customer base reached 5,366,000.

Despite higher value-added service and data revenues per subscriber, our blended ARPU decreased by \$1 to \$46 per month. The decline was caused primarily by the suspension of wireless services for postpaid customers in default of our credit policy, and the application of customer billing and retention credits precipitated by invoicing delays last year. These items affected postpaid ARPU, which decreased to \$57 per month in Q1 2005 from \$59 in Q1 2004. However, we saw a progressive improvement in ARPU during the quarter as billing adjustments and retention credits declined steadily, returning to more normal levels by the end of March. Prepaid ARPU remained flat, year-over-year, at \$11 per month.

Data

Data revenues of \$951 million in Q1 2005 increased by 6.6% compared with the same period last year, reflecting our highest rate of data revenue growth since Q2 2002. The improvement was a result of growth in high-speed Internet, VAS, and IP-based services, which more than offset declines from lower construction revenues from the GOA contract, legacy data revenues and price competition. Our growth in VAS was in part due to the various business acquisitions completed over the last twelve months.

The number of high-speed Internet subscribers increased by 128,000 this quarter to reach a total subscriber count of 1,936,000. The additions achieved this quarter were driven by an expansion of the footprint combined with focused selling efforts, improved retention strategies and the introduction of our Basic Lite service in the Ontario market. Our high-speed Internet access footprint in Ontario and Québec reaches 84% of homes and business lines passed compared with 80% at the same time last year.

Total dial-up customers decreased to 696,000 at the end of the quarter from 836,000 at the end of Q1 2004, as dial-up customers migrated to higher-speed Internet services.

Video

See discussion under Consumer Segment.

Terminal sales and other

Terminal sales and other revenues were \$418 million this quarter, or 12.7% higher than the same period last year, reflecting growth in Aliant's equipment sales. Our revenue growth also reflects the impact of several business acquisitions.

Other Items

Other income

Other income decreased 81% or \$29 million to \$7 million in Q1 2005, compared to Q1 2004, reflecting decreases in:

- equity income due mainly to the sale of our 15.96% interest in Manitoba Telecom Services Inc. (MTS)
- interest income due to lower average cash balances
- foreign exchange gains.

Interest expense

Interest expense declined 2.0% or \$5 million to \$247 million in Q1 2005, compared to Q1 2004. This was a result of lower average debt levels, mainly from the net debt repayments made in the last twelve months.

Management's Discussion and Analysis

Income taxes

Income taxes increased 3.4% or \$9 million to \$271 million in Q1 2005, compared to Q1 2004. The increase was primarily from higher pre-tax earnings. The effective tax rate was 32.8% in Q1 2005 and 33.0% in Q1 2004.

Non-controlling interest

Non-controlling interest increased 31% or \$15 million to \$63 million in Q1 2005, compared to Q1 2004. The increase was mainly a result of:

- the impact of purchasing MTS's 40% interest in Bell West in August 2004. Before August 2004, Bell West's net losses resulted in a reduction of non-controlling interest.
- higher net earnings at Bell Globemedia.

resources to carry out our strategy and deliver financial results. It provides an analysis of our financial condition, cash flows and liquidity on a consolidated basis.

| | | |
|---|---------------|--------|
| Debt due within one year | 1,428 | 1,276 |
| Long-term debt | 12,280 | 11,809 |
| Less: Cash and cash equivalents | (526) | (380) |
| Total net debt | 13,182 | 12,705 |
| Non-controlling interest | 2,914 | 2,908 |
| Total shareholders' equity | 14,208 | 14,024 |
| Total capitalization | 30,304 | 29,637 |
| Net debt to capitalization | 43.5% | 42.9% |
| Outstanding share data (in millions) | | |
| Common shares | 926.4 | 925.9 |
| Stock options | 28.2 | 28.5 |

Our net debt to capitalization ratio was 43.5% at the end of Q1 2005, compared to 42.9% at the end of 2004. This resulted from higher net debt, partly offset by an increase in total shareholders' equity.

Net debt increased by \$477 million to \$13,182 million in Q1 2005. Negative free cash flow of \$162 million and \$209 million in business acquisitions and other investments caused the increase.

Total shareholders' equity increased \$184 million to \$14,208 million in Q1 2005. This mainly represents the net earnings remaining after the dividends we declared on common and preferred shares in Q1 2005.

Cash Flows

The table below is a summary of the flow of cash into and out of BCE in Q1 2005 and Q1 2004.

| | Q1 2005 | Q1 2004 |
|---|--------------|---------|
| Cash from operating activities | 939 | 1,260 |
| Capital expenditures | (737) | (681) |
| Other investing activities | (15) | 19 |
| Cash dividends paid on common shares | (278) | (277) |
| Cash dividends paid on preferred shares | (21) | (22) |
| Cash dividends paid by subsidiaries to non-controlling interest | (50) | (43) |
| Free cash flow | (162) | 256 |
| Business acquisitions | (83) | (59) |
| Business dispositions | | 16 |
| Change in investments accounted for under the cost and equity methods | (126) | 6 |
| Issue of common shares | 9 | 4 |
| Net issuance of debt instruments | 546 | 411 |
| Financing activities of subsidiaries with third parties | (17) | (35) |
| Other financing activities | (30) | (48) |
| Cash provided by discontinued operations | 9 | 238 |

| | | |
|---|-----|-----|
| Net increase in cash and cash equivalents | 146 | 789 |
|---|-----|-----|

Free cash flow

Free cash flow was negative \$162 million in Q1 2005, compared to positive \$256 million in Q1 2004. The decrease of \$418 million year-over-year is mainly due to lower cash from operating activities and higher capital expenditures.

Cash from operating activities

Cash from operating activities decreased 25% or \$321 million to \$939 million in Q1 2005, compared to Q1 2004. This was mainly a result of:

- approximately \$200 million in income taxes paid in Q1 2005 related to the final installments for the 2004 fiscal year
- an increase of \$64 million in pension and other benefit plan payments, due mainly to Aliant's voluntary contribution of \$60 million in Q1 2005
- an increase of \$82 million in payments relating to the employee departure programs at Bell Canada and Aliant.

These were partly offset by improved operating performance in Q1 2005 as a result of higher EBITDA and lower interest costs.

Capital expenditures

Capital expenditures were \$737 million in Q1 2005, or 15.2% of revenues. This was 8.2% higher than the capital expenditures of \$681 million, or 14.7% of revenues, in Q1 2004. The increase reflects mainly the strategic investments in the Consumer segment, which include the FTTN rollout, VDSL deployment, IPTV platform and the acquisition of spectrum licences.

Other investing activities

Cash from other investing activities decreased by \$34 million in Q1 2005, compared to Q1 2004. In Q1 2004, cash from other investing activities included \$43 million of insurance proceeds that Telesat received for a malfunction on the Anik F1 satellite.

Cash dividends paid on common shares

We paid a dividend of \$0.30 per common share in Q1 2005, which is the same as the dividend we paid in Q1 2004.

In December 2004, the board of directors of BCE Inc. approved an increase of 10% or \$0.12 per common share in the annual dividend on BCE Inc.'s common shares. As a result, starting with the quarterly dividend to be paid on April 15, 2005, subject to declaration by the board of directors, we expect to pay quarterly dividends on BCE Inc.'s common shares of approximately \$306 million, based on the revised dividend policy. This assumes that there are no significant changes in the number of outstanding common shares. These quarterly dividends equal \$0.33 per common share, based on approximately 926 million common shares outstanding at March 31, 2005.

Business acquisitions

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We invested \$83 million in business acquisitions in Q1 2005. This consisted mainly of Bell Canada's acquisition of an 89% interest in Nexxlink. The remaining 11% interest was acquired in April 2005.

We invested \$59 million in business acquisitions in Q1 2004. This consisted mainly of:

- Bell Canada's purchase of a 100% interest in Accutel Conferencing Systems Inc. (Canada) and certain branches of Accutel Conferencing Systems (U.S.) (collectively, Accutel) for \$48 million
- Bell Canada's purchase of a 75.8% interest in Elix Inc. (Elix) for \$10 million.

Change in investments accounted for under the cost and equity methods

In Q1 2005, Bell Canada invested US \$100M for an approximate 12% interest in Clearwire, a privately-held company that offers advanced IP-based wireless broadband communications services. Bell Canada is now Clearwire's exclusive strategic partner in the U.S. and preferred provider beyond North America of VoIP and other value-added IP services and applications.

Debt instruments

We issued \$546 million of debt (net of repayments) in Q1 2005. In particular, Bell Canada issued \$700 million in debentures. We also repaid \$155 million of notes payable and bank advances, mainly at Bell Canada.

We issued \$411 million of debt (net of repayments) in Q1 2004. The issuances were mainly at Bell Canada, which issued \$450 million in debentures, and Bell Globemedia, which issued \$300 million of senior notes and withdrew \$490 million under its credit facilities. The repayments were at BCE Inc., which repaid \$351 million in retractable

21 Bell Canada Enterprises 2005 Quarterly Report

Management's Discussion and Analysis

Recent Developments in Legal Proceedings

This section provides a description of new legal proceedings involving BCE and of recent developments in certain of the legal proceedings involving BCE described in the BCE 2004 AIF.

preferred shares, Bell Globemedia, which repaid \$355 million under its credit facilities, and Bell Canada, which repaid \$126 million in debentures.

Cash relating to discontinued operations

There was no significant cash provided by discontinued operations in Q1 2005.

Cash provided by discontinued operations was \$238 million in Q1 2004. This consisted mainly of net cash proceeds of \$285 million from the sale of Emergis' U.S. health operations and \$90 million of cash generated from Emergis' operations. This was partly offset by the deconsolidation of Emergis' cash on hand of \$137 million at December 31, 2003.

Transactions with Related Parties

Bell Canada International Inc. (BCI) loss utilization transaction

On April 15, 2005, 3787915 Canada Inc., a wholly-owned subsidiary of Bell Canada, acquired \$17 billion in preferred shares from 3787923 Canada Inc., a wholly-owned subsidiary of BCI. 3787923 Canada Inc. used the proceeds to advance \$17 billion to BCI through a subordinated interest-free loan. BCI then advanced \$17 billion to 3787915 Canada Inc. by way of a subordinated interest-bearing demand loan, the funds being used to repay a daylight loan granted to 3787915 Canada Inc. to make the initial preferred share investment.

The dividend rate on the preferred shares is equal to 5.1% which is essentially the same as the interest rate on the loan. This transaction is part of a tax loss consolidation strategy that follows the transaction steps laid out in an advanced tax ruling granted by the Canada Revenue Agency to Bell Canada and BCI.

3787915 Canada Inc. has the legal right to offset the demand loan payable to BCI and the investment in preferred shares of 3787923 Canada Inc. Since 3787915 Canada Inc. intends to do this, we will present these items

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and the related interest expense and dividend income on a net basis. The tax savings resulting from the interest expense will be presented as a reduction of income tax expense.

Credit Ratings

Our key credit ratings at May 3, 2005 remained unchanged from those listed in the BCE 2004 MD&A.

Liquidity

Our sources of liquidity and cash requirements remain substantially unchanged from those described in the BCE 2004 MD&A.

Commitment under the deferral account

The deferral account is a mechanism resulting from the CRTC's second price cap decision of May 2002, which requires us to fund initiatives such as service improvements, reduced customer rates and/or customer rebates. We estimate our commitment under the deferral account to be approximately \$179 million at March 31, 2005 and anticipate that it will be reduced to approximately \$130 million by December 31, 2005, primarily due to the impact of the CDN decision. We expect to clear most of this amount in 2006 by implementing the initiatives that are approved by the CRTC for this purpose.

Recent Developments in Legal Proceedings

Lawsuits related to Teleglobe Inc. (Teleglobe)

Teleglobe Lending Syndicate Lawsuit

As indicated in the BCE 2004 AIF, a lawsuit was filed in the Ontario Superior Court of Justice on July 12, 2002 against BCE Inc. by certain of the members of the Teleglobe and Teleglobe Holdings (U.S.) Corporation lending syndicate. BNP Paribas (Canada), which had advanced approximately US \$50 million to Teleglobe, notified BCE Inc. that it will shortly file a notice of discontinuance with the Court and will therefore no longer be a plaintiff in this action. Following such discontinuance, the damages sought by the remaining plaintiffs will amount to approximately US \$1.04 billion (down from approximately US \$1.09 billion), plus interest and costs, representing approximately 83% (down from approximately 87%) of the

Risks That Could Affect Our Business

This section describes general risks that could affect all BCE group companies and specific risks that could affect BCE Inc. and certain of the other BCE group companies.

For a more complete description of the risks that could affect our business, please see the section entitled *Risks*

US \$1.25 billion that the members of the lending syndicate advanced to Teleglobe and Teleglobe Holdings (U.S.) Corporation.

BNP Paribas (Canada) Lawsuit

As indicated in the BCE 2004 AIF, a lawsuit was filed by BNP Paribas (Canada) in the Ontario Superior Court of Justice on December 23, 2004 against BCE Inc. and five former directors of Teleglobe. The statement of claim was finally served on the defendants, subject to their right of challenging jurisdiction, on April 15, 2005.

Teleglobe Unsecured Creditors Lawsuit

As indicated in the BCE 2004 AIF, a lawsuit was filed in the United States Bankruptcy Court for the District of Delaware against BCE Inc. and the former directors and officers of Teleglobe and certain of its subsidiaries on May 26, 2004. The plaintiffs are comprised of Teleglobe Communications Corporation, certain of its affiliated debtors and debtors in possession, and the Official Committee of Unsecured Creditors of these debtors. The action is now pending in the District Court for the District of Delaware.

That Could Affect Our Business set out on pages 32 to 41 of the BCE 2004 AIF filed by BCE Inc. with the Canadian securities commissions (available on BCE Inc.'s site 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 this MD&A.

Please also refer to the BCE 2004 AIF for a detailed description of:

- the principal legal proceedings involving BCE;
- certain regulatory initiatives and proceedings concerning the Bell Canada companies.

Please see *Recent Developments in Legal Proceedings* in this MD&A for a description of new legal proceedings involving us and of recent developments, since the BCE 2004 AIF, in the principal legal proceedings involving us.

In addition, please see *Updates to the Description of Risks* in this MD&A for a description of recent developments, since the BCE 2004 AIF, in the principal regulatory initiatives and proceedings concerning the Bell Canada companies.

23 Bell Canada Enterprises 2005 Quarterly Report

On September 15, 2004, BCE Inc. and the other defendants filed a motion to dismiss the action for lack of standing and for failure to state a claim. On March 23, 2005, the District Court for the District of Delaware denied defendants' motion to dismiss because the Court believes the case requires a fact-intensive analysis.

Lawsuit related to Bell Globemedia

As indicated in the BCE 2004 AIF, on February 5, 2001, Bell Globemedia Publishing Inc., a subsidiary of Bell Globemedia, was added as a defendant to a class action lawsuit relating to copyright infringement. The claim is that The Globe and Mail newspaper and magazines do not have the right to archive and publish certain freelanced and employee material from the newspaper or magazines in any format other than print. In 2001, the Ontario Superior Court of Justice rejected the plaintiff's motion for partial summary judgment (including the rejection of a requested injunction at this stage) on certain proposed common issues.

The plaintiff appealed this decision, and the defendants cross-appealed on some issues. The Ontario Court of Appeal provided its majority decision on October 6, 2004, and affirmed the initial refusal of summary judgment by the original motions judge. Each of the plaintiff and the defendants has filed an application with the Supreme Court of Canada, seeking leave to appeal to that court from the ruling of the Court of Appeal. On April 21, 2005, the plaintiff and the defendants have been granted leave to appeal to the Supreme Court of Canada.

Risks That Could Affect Our Business

A risk is the possibility that an event might happen in the future that could have a negative effect on the financial condition, results of operations or business of one or more BCE group companies. Part of managing our business is to understand what these potential risks could be and to minimize them where we can.

Because no one can predict whether an event will happen or what its consequences may be, the actual effect of any event on our business could be materially different from what we currently anticipate. In addition, the risks described below and elsewhere in this MD&A do not include all possible risks, and there may be other risks of which we are currently not aware.

In the BCE 2004 AIF, we provided a detailed review of the risks that could affect our financial condition, results of operations or business and that could cause actual results to differ materially from those expressed in our forward-looking statements. This detailed description of risks is updated in this MD&A. These risks include risks associated with:

- our ability to implement our strategies and plans in order to produce the expected benefits and growth prospects, including meeting targets for revenue, earnings per share, free cash flow and capital intensity;
- our ability to implement the significant changes in our processes, in how we approach our markets, and in how we develop and deliver products and services, required by our strategic direction;

Management's Discussion and Analysis

- general economic and market conditions and the level of consumer confidence and spending, and the demand for, and prices of, our products and services;
- the intensity of competitive activity from both traditional and new competitors, Canadian or foreign, including cross-platform competition, which is increasing following the introduction of new technologies such as Voice over Internet Protocol (VoIP) which have reduced barriers to entry that existed in the industry, and its impact on our ability to retain existing, and attract new, customers, and on pricing strategies and financial results;
- our ability to improve productivity and contain capital intensity while maintaining quality of services;
- our ability to anticipate, and respond to, changes in technology, industry standards and client needs and migrate to and deploy new technologies, including VoIP, and offer new products and services rapidly and achieve market acceptance thereof;
- the availability and cost of capital required to implement our business plan and fund capital and other expenditures;
- our ability to find suitable companies to acquire or to partner with;
- the impact of pending or future litigation and of adverse changes in laws or regulations, including tax laws, or in how they are interpreted, or of adverse regulatory initiatives or proceedings, including decisions by the CRTC, affecting our ability to compete effectively, including, more specifically, decisions concerning the regulation of VoIP services;
- the risk of litigation should BCE Inc. or Bell Canada stop funding a subsidiary or change the nature of its investment, or dispose of all or part of its interest, in a subsidiary;
- the risk of increased pension plan contributions;
- our ability to effectively manage labour relations, negotiate satisfactory labour agreements, including new agreements replacing expired labour agreements, while avoiding work stoppages, and maintain service to customers and minimize disruptions during strikes and other work stoppages;
- events affecting the functionality of our networks or of the networks of other telecommunications carriers on which we rely to provide our services;
- our ability to improve and upgrade, on a timely basis, our various IT systems and software on which many aspects of our businesses, including customer billing, depend;
- stock market volatility;
- the risk that Bell Canada could incur higher than currently anticipated costs in completing acceptance of a high-speed Internet network by the Government of Alberta;
- the risk that licences on which we rely to provide services might be revoked or not renewed when they expire;
- our ability to retain major customers;
- the risk that the amount of the expected annual savings relating to Bell Canada's 2004 employee voluntary departure program will be lower than anticipated due to various factors including the incurrence of outsourcing, replacement and other costs;
- health concerns about radio frequency emissions; and
- launch and in-orbit risks and the ability to obtain appropriate insurance coverage at favourable rates, concerning Telesat's satellites, certain of which are used by Bell ExpressVu to provide services.

Updates to the Description of Risks

The following are updates to the description of risks contained in the section entitled *Risks That Could Affect Our Business* set out on pages 32 to 41 of the BCE 2004 AIF. For ease of reference, the updates to the description of risks below have been presented under the same headings and in the same order contained in the section entitled *Risks That Could Affect Our Business* set out in the BCE 2004 AIF.

Risks That Could Affect All BCE Group Companies

Renegotiating labour agreements

On April 30, 2005, Bell Canada completed the purchase of all the issued and outstanding shares that it did not already own of Entourage Technology Solutions Inc. (Entourage), its installation and repair supplier. Entourage has 1,400 technicians in Ontario and 900 technicians in Québec, all unionized with the Communications Energy and Paperworkers Union (CEP). The collective agreements between Entourage and the CEP expired on September 30, 2004 and the Ontario technicians went on strike on March 24, 2005. During the week of April 4, 2005, a final offer was made to both the Ontario and Québec technicians. The offer was rejected by the Ontario technicians who continue to be on strike, while the Québec technicians approved the new collective agreement. Although Bell Canada has implemented a number of measures seeking to minimize disruptions and ensure that customers continue to receive normal service in Ontario, there is no assurance that service to Bell Canada's customers will not be adversely affected should the strike in Ontario continue.

Software and system upgrades

As indicated in the BCE 2004 AIF, many aspects of the BCE group companies' businesses including, but not limited to, customer billing, depend to a large extent on various IP systems and software, which must be improved and upgraded on a regular basis and replaced from time to time. For example, last year, Bell Mobility migrated its wireless customers to a new billing platform which provided additional features and functionality and which also enabled the consolidation of wireless into a single bill. As we addressed accounts receivable concerns related to this billing system migration in the first quarter of 2005, we cancelled a number of post-paid subscriber accounts which were in default of our credit policy, but to whom we had granted payment extensions or term payment options as a result of billing delays, and we increased our allowance for doubtful accounts. Although we believe that the adjustments made to our post-paid subscriber base in the first quarter of 2005 reflect non-paying subscriber accounts relating to our billing conversion, there is a risk that there could be additional cancellations of post-paid subscriber accounts, leading to a possible increase in churn and wireless bad debt expense.

Risks That Could Affect Certain BCE Group Companies

Bell Canada companies

Changes to Wireline Regulation

Retail quality of service indicators

On March 24, 2005, the CRTC released Decision 2005-17 which, among other things, established the rate adjustment plan to be applied when incumbent telephone companies do not meet mandated standards of quality of service provided to their retail customers. As a result of this decision, incumbent telephone companies are subject to a penalty mechanism when they do not meet one or more service standards for their retail services. For Bell Canada, the amount of the potential penalty could be as much as approximately \$251 million annually. For the initial period of July 1, 2002 to December 31, 2004, Bell Canada was not required to pay any penalty. For Aliant, the CRTC determined that it did not meet certain service standards during the period January 1, 2004 to December 31, 2004. Aliant has applied to the CRTC for an exclusion from having to pay a penalty due to its labour disruption last year, as allowed for in the decision.

Allstream and Call-Net application concerning customer-specific arrangements

As indicated in the BCE 2004 AIF, on January 23, 2004, Allstream Inc. and Call-Net Enterprises Inc. filed a joint application asking the CRTC to order Bell Canada to stop providing service under any customer-specific arrangements that were filed with the CRTC but not yet approved. On April 7, 2005, the CRTC issued its decision denying their application.

Management's Discussion and Analysis

Application Seeking Consistent Regulation

On April 4, 2005, the CRTC issued a decision concerning the 9-1-1 obligations of VoIP service providers. The CRTC announced that it will issue its decision on the balance of the issues related to the regulatory framework for VoIP on or before May 12, 2005.

Forbearance from regulation of local exchange services

On April 28, 2005, the CRTC issued a public notice asking for comments on a framework for forbearance from the regulation of residential and business local exchange services offered by the incumbent telephone companies. The rules resulting from this public notice are intended to clarify the conditions under which Bell Canada and the other incumbent telephone companies will be able to seek regulatory forbearance for local exchange services. The CRTC will also address Aliant's April 2004 application which requested forbearance from the regulation of specified residential wireline local services in 32 exchanges. The CRTC plans to issue a decision in March 2006. Bell Canada's and the other incumbent telephone companies' flexibility to compete could be adversely affected in the event that the CRTC, in its decision, establishes onerous conditions to be satisfied in order for the incumbent telephone companies to obtain regulatory forbearance of residential and business local exchange services.

Price floor safeguards for retail services

On April 29, 2005, the CRTC issued its decision on price floor safeguards (minimum prices for the regulated services of incumbent telephone companies) and other related issues. In this decision, the CRTC rejected most of its preliminary proposals (set out in its October 23, 2003 public notice on changes to minimum prices) to change the pricing and bundling rules that apply to the incumbent telephone companies and modified others. The CRTC's preliminary proposals, if implemented, would have resulted in significantly higher price floors for services offered to residential, small and medium business and enterprise customers. The CRTC also denied an application by Rogers Communications Inc. to prohibit the incumbent telephone companies from bundling residential tariffed services with forborne services.

Notably, the CRTC made no changes to the imputation test (a test that must be satisfied based on studies that demonstrate that revenues derived from a service exceed its costs) requirements for customer-specific arrangements, though it reminded the incumbent telephone companies to provide sufficient costing information in support of their tariff applications, in the format required by the CRTC, or risk a CRTC denial of such tariff applications.

Although the CRTC decision rejected most of its preliminary proposals, it made minor changes to the imputation tests to be satisfied by incumbent telephone companies with respect to stand-alone services, generally offered in bundles, and term and volume contracts. In some circumstances, the changes will, in the future, result in higher price floors for new services and bundles which could negatively limit Bell Canada's ability to compete.

Wireless Number Portability

As indicated in the BCE 2004 AIF, the Government of Canada in its Budget 2005 announced that it intended to ask the CRTC to implement in Canada wireless number portability, which will enable customers to retain the same phone number when changing service provider within the same local serving area. The Government of Canada has defined wireless number portability as including the ability for customers to retain their telephone number when changing from wireline to wireless service providers and vice versa, as well as when changing between wireless service providers. On April 21, 2005, the Canadian Wireless Telecommunications Association (CWTA), of which Bell Mobility is a member, announced that the members of the CWTA agreed to implement wireless number portability in Canada. The CWTA also announced that it will contract an independent consultant to develop an implementation plan, expected to be completed by September 1, 2005.

Bell ExpressVu

On March 31, 2005, the Québec Superior Court overruled the Court of Québec's decision in *R. v. D. Argy and Theriault* and upheld the constitutional validity of the provisions of the *Radiocommunication Act* (Canada) making it a criminal offence to manufacture, offer for sale or sell any device used to decode an encrypted subscription signal relating to the unauthorized reception of satellite signals. The defendants have been granted leave to appeal the ruling of the Québec Superior Court to the Québec Court of Appeal.

Telesat

Telesat has placed launch insurance and one year of in-orbit insurance for Anik FIR covering its approximate book value.

Our Accounting Policies

We have prepared our consolidated financial statements according to Canadian GAAP. See Note 1 to the consolidated financial statements for more information about the accounting principles we used to prepare our financial statements.

The key estimates and assumptions that management has made under these principles and their impact on the amounts reported in the financial statements and notes remain substantially unchanged from those described in the BCE 2004 MD&A.

We have not had any significant changes in the accounting standards or our accounting policies other than those described in the BCE 2004 MD&A.

Consolidated Statements of Operations

FOR THE THREE MONTHS ENDED MARCH 31

(in \$ millions, except share amounts) (unaudited)

| | 2005 | 2004 |
|--|----------------|---------|
| Operating revenues | 4,859 | 4,638 |
| Operating expenses | (2,921) | (2,794) |
| Amortization expense | (773) | (767) |
| Net benefit plans cost (Note 3) | (103) | (63) |
| Restructuring and other items (Note 4) | 4 | (3) |
| Total operating expenses | (3,793) | (3,627) |
| Operating income | 1,066 | 1,011 |
| Other income | 7 | 36 |
| Interest expense | (247) | (252) |

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| | | |
|---|--------------|-------|
| Pre-tax earnings from continuing operations | 826 | 795 |
| Income taxes | (271) | (262) |
| Non-controlling interest | (63) | (48) |
| <hr/> | | |
| Earnings from continuing operations | 492 | 485 |
| Discontinued operations | (1) | 3 |
| <hr/> | | |
| Net earnings | 491 | 488 |
| Dividends on preferred shares | (17) | (18) |
| <hr/> | | |
| Net earnings applicable to common shares | 474 | 470 |
| <hr/> | | |
| Net earnings per common share basic | | |
| Continuing operations | 0.51 | 0.51 |
| Discontinued operations | | |
| Net earnings | 0.51 | 0.51 |
| Net earnings per common share diluted | | |
| Continuing operations | 0.51 | 0.51 |
| Discontinued operations | | |
| Net earnings | 0.51 | 0.51 |
| Dividends per common share | 0.33 | 0.30 |
| Average number of common shares outstanding basic (millions) | 926.2 | 924.1 |
| <hr/> | | |
| <hr/> | | |

Consolidated Statements of Deficit

| FOR THE THREE MONTHS ENDED MARCH 31 <i>(in \$ millions) (unaudited)</i> | 2005 | 2004 |
|--|----------------|---------|
| Balance at beginning of period, as previously reported | (5,424) | (5,837) |
| Accounting policy change (Note 1) | (8) | (8) |
| <hr/> | | |
| Balance at beginning of period, as restated | (5,432) | (5,845) |
| Net earnings | 491 | 488 |
| Dividends declared on preferred shares | (17) | (18) |
| Dividends declared on common shares | (306) | (277) |
| Other | | (1) |
| <hr/> | | |
| Balance at end of period | (5,264) | (5,653) |
| <hr/> | | |
| <hr/> | | |

Consolidated Balance Sheets

| <i>(in \$ millions) (unaudited)</i> | MARCH 31, 2005 | DECEMBER 31, 2004 |
|--|---------------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 526 | 380 |
| Accounts receivable | 2,074 | 2,096 |
| Other current assets | 1,364 | 1,212 |
| Total current assets | 3,964 | 3,688 |
| Capital assets | | |
| Other long-term assets | 2,747 | 2,656 |
| Indefinite-life intangible assets | 2,951 | 2,916 |
| Goodwill | 8,482 | 8,413 |
| Non-current assets of discontinued operations | 50 | 50 |
| Total assets | 39,570 | 39,121 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 3,313 | 3,692 |
| Interest payable | 283 | 183 |
| Dividends payable | 325 | 297 |
| Debt due within one year | 1,428 | 1,276 |
| Total current liabilities | 5,349 | 5,448 |
| Long-term debt | 12,280 | 11,809 |
| Other long-term liabilities | 4,819 | 4,932 |
| Total liabilities | 22,448 | 22,189 |
| Non-controlling interest | 2,914 | 2,908 |
| Shareholders' equity | | |
| Preferred shares | 1,670 | 1,670 |
| Common shareholders' equity | | |
| Common shares | 16,790 | 16,781 |
| Contributed surplus | 1,065 | 1,061 |
| Deficit | (5,264) | (5,432) |
| Currency translation adjustment | (53) | (56) |
| Total common shareholders' equity | 12,538 | 12,354 |

| | | |
|--|---------------|--------|
| Total shareholders equity | 14,208 | 14,024 |
| Total liabilities and shareholders equity | 39,570 | 39,121 |

29 Bell Canada Enterprises 2005 Quarterly Report

Consolidated Statements of Cash Flows

FOR THE THREE MONTHS ENDED MARCH 31

(in \$ millions) (unaudited)

| | 2005 | 2004 |
|---|--------------|-------|
| Cash flows from operating activities | | |
| Earnings from continuing operations | 492 | 485 |
| Adjustments to reconcile earnings from continuing operations to cash flows from operating activities: | | |
| Amortization expense | 773 | 767 |
| Net benefit plans cost | 103 | 63 |
| Restructuring and other items | (4) | 3 |
| Net gains on investments | (2) | (5) |
| Future income taxes | 109 | 54 |
| Non-controlling interest | 63 | 48 |
| Contributions to employee pension plans | (94) | (29) |
| Other employee future benefit plan payments | (23) | (24) |
| Payments of restructuring and other items | (101) | (19) |
| Operating assets and liabilities | (377) | (83) |
| Cash flows from operating activities | 939 | 1,260 |
| Cash flows from investing activities | | |
| Capital expenditures | (737) | (681) |
| Business acquisitions | (83) | (59) |
| Business dispositions | | 16 |
| Change in investments accounted for under the cost and equity methods | (126) | 6 |
| Other investing activities | (15) | 19 |
| Cash flows used in investing activities | (961) | (699) |
| Cash flows from financing activities | | |
| Increase (decrease) in notes payable and bank advances | (155) | 19 |
| Issue of long-term debt | 785 | 1,326 |
| Repayment of long-term debt | (84) | (934) |
| Issue of common shares | 9 | 4 |
| Issue of equity securities by subsidiaries to | | 7 |

| | | |
|---|------------|-------|
| non-controlling interest | | |
| Redemption of equity securities by subsidiaries from non-controlling interest | (17) | (42) |
| Cash dividends paid on common shares | (278) | (277) |
| Cash dividends paid on preferred shares | (21) | (22) |
| Cash dividends paid by subsidiaries to non-controlling interest | (50) | (43) |
| Other financing activities | (30) | (48) |
| Cash flows from (used in) financing activities | 159 | (10) |
| Cash provided by continuing operations | 137 | 551 |
| Cash provided by discontinued operations | 9 | 238 |
| Net increase in cash and cash equivalents | 146 | 789 |
| Cash and cash equivalents at beginning of period | 380 | 722 |
| Cash and cash equivalents at end of period | 526 | 1,511 |
| Consists of: | | |
| Cash and cash equivalents of continuing operations | 526 | 1,135 |
| Cash and cash equivalents of discontinued operations | | 376 |
| Total | 526 | 1,511 |

Notes to Consolidated Financial Statements

The interim consolidated financial statements should be read in conjunction with BCE Inc.'s annual consolidated financial statements for the year ended December 31, 2004, on pages 82 to 121 of BCE Inc.'s 2004 annual report.

These notes are unaudited.

All amounts are in millions of Canadian

Note 1: Significant accounting policies

We have prepared the consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) using the same basis of presentation and accounting policies as outlined in Note 1 to the annual consolidated financial statements for the year ended December 31, 2004, except as noted below.

Comparative figures

We have reclassified some of the figures for the comparative periods in the consolidated financial statements to make them consistent with the presentation for the current period.

We have restated financial information for previous periods to reflect:

- the change in accounting policy for Aliant Inc.'s (Aliant) method of recognizing revenues and expenses in our directory business effective January 2005, as described below
- the change in classification to discontinued operations for minor business dispositions.

dollars, except where noted.

Change in accounting policy

We, us, our and *BCE* mean BCE Inc., its subsidiaries and joint ventures.

Effective January 1, 2005, we defer and amortize revenues and expenses from Aliant's directory business over the period of circulation, which is usually 12 months. Prior to January 1, 2005, we recognized revenues and expenses from Aliant's directory business on the publication date. The impact on our consolidated statements of operations for the three months ended March 31, 2005 and the comparative period was negligible and we did not restate the statements of operations for prior periods. At December 31, 2004, this resulted in:

- a decrease of \$23 million in accounts receivable
- an increase of \$1 million in other current assets
- a decrease of \$8 million in accounts payable and accrued liabilities
- a decrease of \$6 million in non-controlling interest
- an increase of \$8 million in the deficit.

31 Bell Canada Enterprises 2005 Quarterly Report

Notes to Consolidated Financial Statements

Note 2: Segmented information

The table below is a summary of financial information by segment.

| FOR THE THREE MONTHS ENDED MARCH 31 | | 2005 | 2004 |
|-------------------------------------|---------------|--------------|-------|
| Operating revenues | | | |
| Consumer | External | 1,839 | 1,813 |
| | Inter-segment | 17 | 12 |
| | | 1,856 | 1,825 |
| Business | External | 1,434 | 1,354 |
| | Inter-segment | 44 | 81 |
| | | 1,478 | 1,435 |
| Aliant | External | 488 | 464 |
| | Inter-segment | 36 | 40 |
| | | 524 | 504 |
| Other Bell Canada | External | 434 | 438 |
| | Inter-segment | 45 | 36 |
| | | 479 | 474 |
| Inter-segment eliminations | Bell Canada | (128) | (132) |
| Bell Canada | | 4,209 | 4,106 |

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| | | | |
|--|---------------|--------------|-------|
| Other BCE | External | 664 | 569 |
| | Inter-segment | 84 | 82 |
| | | 748 | 651 |
| Inter-segment eliminations | Other | (98) | (119) |
| Total operating revenues | | 4,859 | 4,638 |
| Operating income | | | |
| Consumer | | 526 | 526 |
| Business | | 240 | 241 |
| Aliant | | 87 | 82 |
| Other Bell Canada | | 129 | 111 |
| Bell Canada | | 982 | 960 |
| Other BCE | | 84 | 51 |
| Total operating income | | 1,066 | 1,011 |
| Other income | | 7 | 36 |
| Interest expense | | (247) | (252) |
| Income taxes | | (271) | (262) |
| Non-controlling interest | | (63) | (48) |
| Earnings from continuing operations | | 492 | 485 |

32 Bell Canada Enterprises 2005 Quarterly Report

Note 3: Employee benefit plans

The table below shows the components of the net benefit plans cost.

| FOR THE THREE MONTHS ENDED MARCH 31 | PENSION BENEFITS | | OTHER BENEFITS | |
|--|---------------------|-------|-------------------|------|
| | 2005 | 2004 | 2005 | 2004 |
| Current service cost | 60 | 60 | 9 | 8 |
| Interest cost on accrued benefit obligation | 219 | 201 | 27 | 26 |
| Expected return on plan assets | (237) | (237) | (2) | (2) |
| Amortization of past service costs | 2 | 2 | | |
| Amortization of net actuarial losses | 26 | 8 | | |
| Amortization of transitional (asset) obligation | (1) | (11) | 6 | 7 |

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| | | | | |
|--|-----------|----|-----------|----|
| Increase (decrease) in valuation allowance | (6) | 1 | | |
| Net benefit plans cost | 63 | 24 | 40 | 39 |
| Comprised of: | | | | |
| Defined benefit plans cost | 56 | 21 | 40 | 39 |
| Defined contribution plans cost | 7 | 3 | | |

The table below shows the amounts we contributed to the defined benefit and defined contribution plans and the payments made to beneficiaries under other employee future benefit plans.

| FOR THE THREE MONTHS ENDED MARCH 31 | PENSION BENEFITS | | OTHER BENEFITS | |
|---|---------------------|------|-------------------|------|
| | 2005 | 2004 | 2005 | 2004 |
| Aliant | 81 | 19 | 1 | 1 |
| Bell Canada | 7 | 5 | 22 | 23 |
| Bell Globemedia | 4 | 3 | | |
| BCE Inc. | 2 | 2 | | |
| Total | 94 | 29 | 23 | 24 |
| Comprised of: | | | | |
| Contributions to defined benefit plans | 91 | 26 | 23 | 24 |
| Contributions to defined contribution plans | 3 | 3 | | |

Note 4: Restructuring and other items

Employee departure programs

The table below provides an update on the liability relating to the employee departure programs which were implemented in 2004.

| | BELL CANADA | ALIAN T | CONSO- LIDATED |
|--|----------------|-----------|-------------------|
| Balance in accounts payable and accrued liabilities at December 31, 2004 | 120 | 67 | 187 |
| Less: | | | |
| Cash payments | (48) | (33) | (81) |
| Reversal of excess provision | (25) | | (25) |
| Balance in accounts payable and accrued liabilities at March 31, 2005 | 47 | 34 | 81 |

Notes to Consolidated Financial Statements

During the first quarter of 2005, we recorded a pre-tax charge of \$21 million primarily for relocating employees and closing real estate facilities that are no longer needed because of the employee departure program. We expect to spend approximately \$45 million in the future for similar costs that will be expensed as incurred. These charges were offset by a credit of \$25 million relating to the reversal of restructuring provisions that were no longer necessary since the actual payments were lower than estimated.

Note 5: Stock-based compensation plans

Restricted share units (RSUs)

The table below is a summary of the status of RSUs.

| | NUMBER OF RSUs |
|------------------------------------|-------------------|
| Outstanding, January 1, 2005 | 1,996,522 |
| Granted | 187,130 |
| Dividends credited | 20,032 |
| Expired/forfeited | (30,625) |
| Outstanding, March 31, 2005 | 2,173,059 |
| Vested, March 31, 2005 | |

For the three months ended March 31, 2005 and March 31, 2004, we recorded compensation expense for RSUs of \$9 million and \$4 million, respectively.

BCE Inc. stock options

The table below is a summary of the status of BCE Inc.'s stock option programs.

| | NUMBER OF SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
|------------------------------------|---------------------|--|
| Outstanding, January 1, 2005 | 28,481,679 | \$32 |
| Granted | 477,524 | \$29 |
| Exercised | (438,096) | \$20 |
| Expired/forfeited | (311,069) | \$35 |
| Outstanding, March 31, 2005 | 28,210,038 | \$32 |

| | | |
|-----------------------------|------------|------|
| Exercisable, March 31, 2005 | 17,500,109 | \$34 |
|-----------------------------|------------|------|

Assumptions used in stock option pricing model

The table below shows the assumptions used to determine the stock-based compensation expense using the Black-Scholes option pricing model.

| FOR THE PERIOD ENDED MARCH 31 | 2005 | 2004 |
|---|---------|-----------|
| Compensation expense (\$ millions) | 6 | 8 |
| Number of stock options granted | 477,524 | 5,394,776 |
| Weighted average fair value per option granted (\$) | 3 | 3 |
| Weighted average assumptions | | |
| Dividend yield | 4.5% | 4.0% |
| Expected volatility | 24% | 27% |
| Risk-free interest rate | 3.3% | 3.1% |
| Expected life (years) | 3.6 | 3.5 |

Note 6: Subsequent events

Bell Canada International Inc. (BCI) loss utilization transaction

On April 15, 2005, 3787915 Canada Inc., a wholly-owned subsidiary of Bell Canada, acquired \$17 billion in preferred shares from 3787923 Canada Inc., a wholly-owned subsidiary of BCI. 3787923 Canada Inc. used the proceeds to advance \$17 billion to BCI through a subordinated interest-free loan. BCI then advanced \$17 billion to 3787915 Canada Inc. by way of a subordinated interest-bearing demand loan, the funds being used to repay a daylight loan granted to 3787915 Canada Inc. to make the initial preferred share investment.

The dividend rate on the preferred shares is equal to 5.1% which is essentially the same as the interest rate on the loan. This transaction is part of a tax loss consolidation strategy that follows the transaction steps laid out in an advanced tax ruling granted by the Canada Revenue Agency to Bell Canada and BCI.

3787915 Canada Inc. has the legal right to offset the demand loan payable to BCI and the investment in preferred shares of 3787923 Canada Inc. Since 3787915 Canada Inc. intends to do this, we will present these items and the related interest expense and dividend income on a net basis. The tax savings resulting from the interest expense will be presented as a reduction of income tax expense.

Teleglobe Lending Syndicate Lawsuit

As indicated in Note 24 to BCE's audited Consolidated Financial Statements for the year ended December 31, 2004, a lawsuit was filed in the Ontario Superior Court of Justice on July 12, 2002 against BCE Inc. by certain of the members of the Teleglobe and Teleglobe Holdings (U.S.) Corporation lending syndicate. BNP Paribas (Canada), which had advanced approximately US \$50M to Teleglobe, notified BCE Inc. that it will shortly file a notice of discontinuance with the Court and will therefore no longer be a plaintiff in this action. Following such discontinuance, the damages sought by the remaining plaintiffs will amount to approximately US \$1.04 billion (down from approximately US \$1.09 billion), plus interest and costs, representing approximately 83% (down from

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approximately 87%) of the US \$1.25 billion that the members of the lending syndicate advanced to Teleglobe and Teleglobe Holdings (U.S.) Corporation.

35 Bell Canada Enterprises 2005 Quarterly Report

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: May 4, 2005