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# CONNECTING THE GLOBE

IP TELEPHONY • UNIFIED COMMUNICATIONS • INTEGRATED MOBILITY

## FINANCIAL HIGHLIGHTS

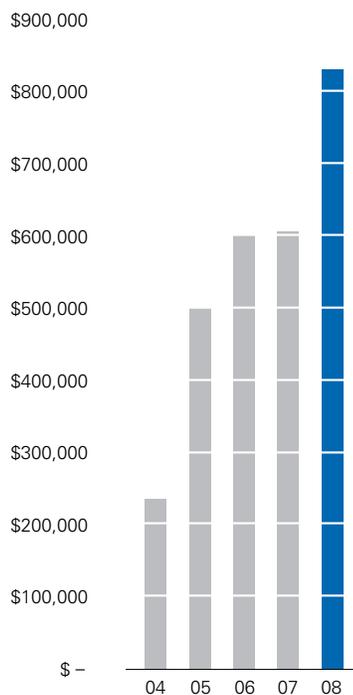
(In thousands of dollars – except percentage and per share amounts)

	2008	2007	2006	2005	2004
<b>Financial Performance</b>					
Net Sales	\$ 832,070	\$ 606,589	\$ 600,536	\$ 500,759	\$ 235,700
Gross Margin	44.9%	42.5%	41.9%	41.9%	48.4%
Operating Income from Continuing Operations <sup>2</sup>	\$ 31,439	\$ 44,393	\$ 30,831	\$ 30,170	\$ 20,479
Net Earnings	\$ 11,477	\$ 35,767	\$ 41,979	\$ 26,315	\$ 24,198
Basic Earnings Per Share	\$ 0.74	\$ 2.23	\$ 2.44	\$ 1.52	\$ 1.42
Diluted Earnings Per Share	\$ 0.73	\$ 2.17	\$ 2.38	\$ 1.46	\$ 1.38
<b>Financial Position</b>					
Net Working Capital	\$ 178,788	\$ 210,844	\$ 190,238	\$ 158,700	\$ 177,320
Total Assets	\$ 680,690	\$ 446,685	\$ 465,547	\$ 470,017	\$ 282,457
Shareholders' Equity	\$ 293,807	\$ 265,047	\$ 242,333	\$ 224,477	\$ 219,945
Book Value Per Share	\$ 19.90	16.55	15.09	14.23	12.75
Debt to Equity Ratio	1.3 to 1	0.7 to 1	0.9 to 1	1.1 to 1	0.3 to 1
Common Shares Outstanding	14,766	16,015	16,010	17,474	17,207

Notes:

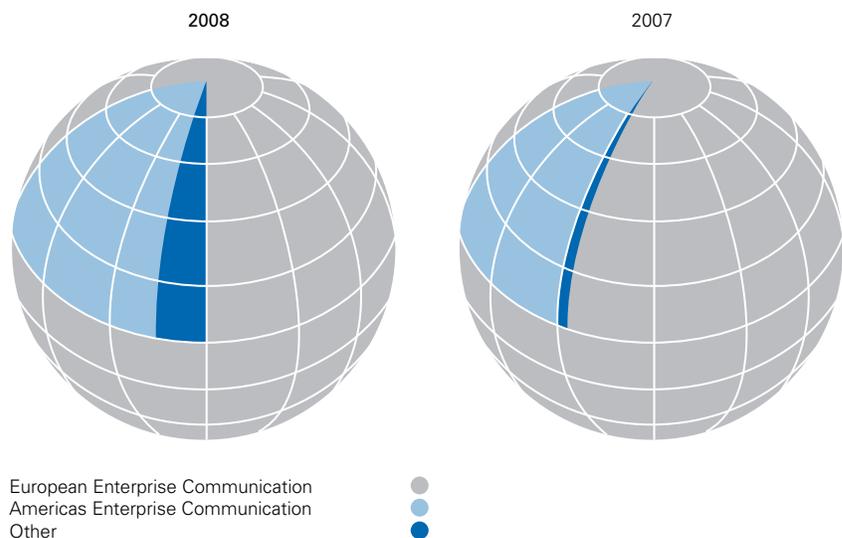
- (1) Results for prior years have been restated to reclassify results of the Digital Video business to discontinued operations.  
 (2) Operating Income from Continuing Operations is defined as gross margin less selling, general and administrative, research and development, and amortization expenses.

## ANNUAL NET SALES



## REVENUE BY GEOGRAPHICAL SEGMENT

	2008	2007
European Enterprise Communication	670,446	514,782
Americas Enterprise Communication	118,135	88,217
Other	43,489	3,590
	<b>832,070</b>	<b>606,589</b>



# AASTRA IS ENTERPRISE COMMUNICATIONS

## Continued Growth, Delivering Value



Aastra 630d Telephone  
and base station

Aastra Technologies Limited is a global leader in the Enterprise Communications market. Our company develops and delivers a wide range of innovative communications products and applications for businesses, organizations, and governments.

Aastra is entirely focused on Enterprise Communications, and offers one of the industry's most complete portfolios of unified communications solutions. These can be individually tailored to satisfy any customer's requirements – from single-line businesses to the complex requirements of multinational enterprises with numerous networked locations.

We are dedicated to helping enterprises succeed by meeting their expanding communication technology needs while exceeding their expectations for value and performance. Aastra's innovative, integrated solutions include feature-rich call managers for small and mid-sized businesses, highly scalable systems for large enterprises, integrated mobility, call center solutions, video conferencing systems, and a wide selection of terminals.

Aastra is committed to supporting our customers through the development and implementation of the latest in open standard VoIP products and systems, mobility solutions, and advanced applications. We are focused on R&D, with five corporate Centers of Excellence, each devoted to innovation in a specific communication technology realm. Our strong commitment to open standards enables our customers to communicate effectively, collaborate efficiently, and manage change with agility.

With headquarters in Concord, Ontario, Canada, and a direct or indirect presence in more than 100 countries, Aastra's operations encompass the world, with more than 50 million installed lines globally. Aastra Technologies Limited is listed on the Toronto Stock Exchange under the symbol AAH.

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# OPERATIONAL HIGHLIGHTS

## YEAR IN REVIEW

2008 was an exceptional year for Aastra. We completed the largest acquisition in Aastra's history: our purchase of the Ericsson Enterprise Communication Business. This acquisition firmly established our company as a major player in the Enterprise Communications market, with a dominant position in Western Europe. It contributed to our achievement of record revenues, and we gained more than 100,000 new customers. It also significantly enlarged Aastra's global footprint; we expanded operations in Latin America, Eastern Europe, Asia Pacific, the Middle East and North Africa, and we entered the emerging markets of Brazil, Russia, China, and India.

In addition to acquiring the Ericsson products portfolio, we also continued to evolve our existing technology platforms, and announced key programs and partnerships that added value for our customers and partners.

## OPERATIONAL HIGHLIGHTS

- Generated record revenues of \$832.1 million with improved gross margins, closing the year with our 43rd consecutive quarter of profitability.
- Announced and completed our acquisition of the Ericsson Enterprise Communication Business, providing new strength in large systems, mobility convergence, and IP migration.
- Launched A2P2, an accreditation system for technology partners, to assist partner companies in fully integrating their solutions with Aastra's telephone systems.
- Joined the HP ProCurve Alliance, a technology certification that ensures solution interoperability, simplified deployment, and optimized performance between our companies' products.
- Joined the UN Global Compact Plan for Ethical Business, the world's largest corporate social responsibility agreement. Members provide leadership by advancing responsible corporate citizenship, developing practical solutions for globalization problems, and sharing best practices.
- Launched new products and product releases, applications, and services across all of our business lines including:
  - Aastra 5000, a pure IP telephony soft-switch for the enterprise market, that is highly scalable and based on open standards.
  - New release for Solidus eCare®, an IP-enabled multimodal contact center solution which addresses the main challenges facing virtual contact centres – improving quality of service and productivity.
  - Major new release for IntelliGate®, an SMB communications platform with advanced fixed-mobile convergence and mobile client.
  - The launch of two new IP-PBX systems aimed at the small business customer, AastraLink RP™, a Microsoft® Response Point™ phone system, and AastraLink Pro™, a phone system based on open standards.

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### Voice over IP

IP Communication System Solutions merge communication technologies with business information systems to provide cost-effective, high-quality, converged telephony solutions. Aastra's efficient, reliable, and highly scalable VoIP solutions deliver performance and value.

### Unified & Collaborative Communications

These include application sharing, instant messaging, presence management, web collaboration, and video conferencing. Unified and Collaborative solutions enable individuals and groups to communicate and collaborate effectively, regardless of location.

### Mobility & Convergence

Inside or outside of the organization, everyone remains in touch with Fixed Mobile Convergence, IP DECT, WLAN, and other integrated mobility solutions that seamlessly connect users to business applications over wired and wireless networks. Mobility solutions enable a mobile workforce to conduct business whenever they want – at any location, and with any device.

## THE COMPANY



Aastra's innovative, integrated solutions address the Enterprise Communications needs of businesses and organizations – both small and large – around the world. Aastra enables enterprises to communicate and collaborate more efficiently and effectively by offering a full range of open standard IP-based and traditional communications networking products including terminals, systems, and applications.

Aastra has one of the world's largest installed customer bases, and the company is well positioned to serve its global market. Aastra markets Enterprise Communications solutions and services in over 100 countries, through direct and indirect sales channels, distributors and Tier 1 service providers in North America; Europe, the Middle East, and Africa; Central and Latin America; and throughout the Asia Pacific region.

### PRODUCTS, APPLICATIONS, AND SERVICES

#### Enterprise Communications Infrastructure

- Telephone terminals – analog, digital, IP
- Server-based Call Managers
- Wireless devices – DECT, WiFi, and DECT over IP
- PBX, converged PBX, and IP-PBX systems
- Open Standard Interface adapters, and media gateways
- Video conferencing platforms

#### Applications

- Corporate networking solutions
- Contact Center solutions and applications
- Soft phones
- Unified messaging tools
- Integrated voice and video conferencing platforms
- Integrated mobility solutions
- System administration tools

#### Global Support Services

- Customer service, support, and training
- Consulting, network design and implementation
- Maintenance and repair



ViPr Multimedia Conferencing station

#### Open Standards

Aastra is strongly committed to open standards. Open standards enable better scalability and provide enhanced interoperability between different communication system elements. In addition to creating a more flexible and complete solution now, open standards also protect our customers' investment by making future growth easy.

#### Multimedia Conferencing

Aastra's ViPr® offers dramatic "virtual presence" video collaboration between remote parties anywhere in the world. It integrates high-quality real-time video conferencing with other media, such as text, graphics, external video programming, and whiteboarding. It's like a face-to-face meeting, without travel expenses or downtime.

## MESSAGE TO SHAREHOLDERS

In 2008, we focused our efforts on acquiring and integrating Ericsson's Enterprise Communication (EEC) business. As it turned out, this task was more complex than originally anticipated. However, due to the hard work of our team and our newly acquired staff, we emerged from 2008 stronger and more capable than ever. Although a major economic crisis has engulfed the global market, we have been prudent in managing our finances so that we are well positioned to weather the challenging economic times that lie ahead. Even with the long-term debt that we incurred to partially fund our EEC acquisition, we enter 2009 with a net positive account for cash and short-term investments, after we deduct our long-term debt obligations.

In 2008, our revenue grew to \$832.1 million, a 37.2% increase over 2007. Much of this growth can be attributed to our EEC acquisition. Our gross margin improved from 42.5% in 2007 to 44.9% in 2008. Although our net earnings from continuing operations decreased from \$35.9 million in 2007 to \$11.5 million in 2008, this decrease was due primarily to substantially greater depreciation and amortization, certain integration charges resulting from our EEC acquisition, and goodwill impairment charges. While our return on equity dropped from 13.5% in 2007 to 3.9% in 2008, we are confident this will improve in the coming years, as our intangible assets are reduced and the full effects of our integration efforts on the EEC business take effect.

Given the challenges we faced, we still generated very good cash flow. This allowed us to purchase back 1,262,000 of our shares under our normal course issuer bid in 2008 and 1,417,738 under substantial issuer bid in January of 2009. We are proud to have fewer shares outstanding today (13,347,835 shares) than we had at the beginning of the millennium (14,285,610 shares, December 31, 2000) while our annual revenue has grown from \$188.7 million in 2000 to \$832.1 million in 2008. As a result, we are better leveraged to have a greater return on equity, which should result in improved shareholders' return.

As discussed in last year's message to shareholders, throughout 2006 and 2007 we did not make any acquisitions, but rather focused on streamlining our operations and improving our business prospects. These previous efforts allowed our management team to focus on the integration of our EEC acquisition, while our core business continued to gain momentum. One highlight of 2008 was the launch of our A5000, our full IP call-control system for large enterprises; in addition to being offered in France (the primary market for the predecessor of the A5000), we were able to expand our offering to a number of other countries including Germany, Switzerland, and the Nordic region. Our small system sales continued to perform well, and we were able to strengthen our leadership position in Switzerland, Spain, Belgium, and the Nordic region. In particular, in a year where economic

turbulence has affected all of Western Europe, we were able to grow our sales in Switzerland by approximately 6%, and hold our sales level in most countries, including economically hard hit Spain.

In North America, we have always anticipated and closely monitored the decline of our legacy terminal business. In 2008, our IP phone sales surpassed the legacy terminal sales. We are pleased to note that during 2008, our IP phone sales doubled while our legacy phone sales declined by only 11.1%. In the large system market in North America, we were able to gain some traction with our Clearspan offering for large campus systems and call center solutions.

In integrating the EEC acquisition, our first order of business was to get to know our customers – their issues and needs. From there, we worked diligently to satisfy their expectations. Our customers told us what they wanted: reliable products, competitive pricing, value-added services provided by local staff who understood their needs, and a product roadmap that protected their previous product investments while anticipating their future growth. This has always been our approach and philosophy.

The EEC acquisition enriched our product offering by adding a world-class Enterprise Communications portfolio, which included:

- MX-One – IP Enterprise Communication system
- Business Phone – Small and Medium hybrid IP-PBX
- MD evolution – Small and Medium PBX for targeted markets
- Solidus eCare – Contact Centre application suite
- CMG suite – Application components for Unified Communications
- Snapware suite – Application components for Unified Communications
- ViPr – Personal Video Conference System
- XMP1 – Highly reliable cross-connect multiplexer for mission critical enterprise networks



Aastra XS Mediagateway  
for Aastra 5000

The EEC acquisition also expanded our global footprint and permitted us to establish a meaningful presence in BRICA (Brazil, Russia, India, China, and Africa), as well as Australia, New Zealand, Malaysia, Central Europe, and the Middle East. We have established over 15 new offices and have expanded our direct presence to more than 30 countries. Our products are now offered in over 100 countries around the world.

In 2008, we continued to consolidate and align core R&D competencies, building on the Centers of Excellence (CoE) framework first undertaken in 2007. This structure allows us to focus our core CoE competencies on all of our brands. Consistent with this vision and approach, we also began to consolidate and align the newly acquired R&D competencies from the EEC acquisition and will continue with these efforts into 2009. This alignment of our resources will eliminate overlapping development activities, focus resources, and significantly enhance development efficiencies. This will in turn improve our time to market for new products while continuing to support our customers with maintenance releases for all their core call managers and applications.

We currently operate five key Centers of Excellence: Belgium and Sweden are jointly responsible for applications with a focus on Unified Communications; France and Sweden are focused on scalable and resilient call managers for medium to large enterprises; Switzerland concentrates on hybrid IP systems for small to medium enterprises; Germany continues to excel at enterprise-grade mobility solutions, such as DECT and WiFi; and our North American team remains focused on open standards and systems solutions such as terminals, SMB appliance-based call managers and carrier-grade campus area communications solutions.

Our R&D activities can be divided into three interwoven categories: evolution, integration, and innovation. We continue to evolve and maintain our larger call server platforms to provide for greater security, scalability, higher reliability, and deeper SIP interoperability. On the smaller platforms, we've focused on ease of installation and use, and excellence in product value, by providing feature rich sets, such as enterprise

mobility, and protection of user investment through product evolution strategies.

In 2008, we introduced a number of new products and augmented our existing offering via several major software releases targeting enhanced SIP interoperability, Unified Communications, enterprise mobility, and fixed mobile convergence. We remain committed to open standards and routinely engage in interoperability testing to ensure that our open solutions are compatible with those of other vendors. Our 675Xi SIP terminals, as an example, are deployed with Asterisk SIP systems, where customers routinely leverage the terminal's rich XML capabilities for customized end user applications. Conversely, nearly all of Aastra's call managers support SIP, fulfilling our pledge of openness and ensuring that customers have flexibility of choice.

Looking forward: while most will say visibility is poor, we believe the view is quite clear. There is a difficult time ahead; we are in an economic storm driven by the collapse of the credit market. The history of past credit market collapses indicates that it generally takes a few years before confidence is restored. As such, 2009 will be a demanding year. However, we are prepared for this, and are looking forward to the challenges that lie ahead. Our balance sheet is strong and our cost structure is well positioned to meet these new demands. In relative terms, we generally do better in an environment where value becomes important. We are confident that Aastra will emerge from this stronger than ever.

March 26, 2009

*F. Shen*

Francis Shen  
Chairman  
& Co-CEO

*Anthony Shen*

Anthony Shen  
Co-CEO  
President & COO

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion has been prepared by management and is a review of the consolidated operating results and financial position of Aastra Technologies Limited ("Aastra" or the "Company"), based upon accounting principles generally accepted in Canada. This discussion and analysis should be read in conjunction with the consolidated financial statements of the Company, as well as the notes thereto, for the respective years. The Company maintains appropriate systems of internal control, policies, and procedures that provide management reasonable assurance that assets are safeguarded and that its financial information is reliable. All amounts are expressed in Canadian dollars unless otherwise stated. This disclosure is effective as of March 9, 2009.

Management's discussion and analysis may contain forward-looking information, or forward-looking statements, within the meaning of applicable securities legislation ("forward-looking statements"). Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions, potentials, future events, or performance (often, but not always, using words or phrases such as "believes", "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", or "intends" or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken or achieved), are not statements of historical fact, but are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance or achievements, or developments in our business or in our industry, to differ materially from the anticipated results, performance, achievements, or developments expressed or implied by such forward-looking statements.

Please refer to the heading "Risk Factors" in our Annual Information Form for the year ended December 31, 2008 for the material factors that could cause our actual results to differ materially from the forward-looking statements contained herein. These factors include: the risks related to the current economic downturn, the integration of our recent acquisition and demand for our acquired products; our reliance on third party manufacturers and component suppliers (in general and related to the recently-acquired businesses); dependence on key personnel; risks related to expansion of our business operations, domestically and internationally; exchange rate fluctuations; risks related to future acquisitions; requirements for additional financing of our business and any future acquisitions; credit terms extended to our customers; continued implementation of an enterprise resource planning system; potential fluctuations in quarterly financial results; possible volatility in our share price; product and geographic concentration in conjunction with the limited range of products that we sell; our historical dependence on some large customers; risks associated with product returns and product defects; our ability to protect our intellectual property; our potential vulnerability to computer and information systems security breaches; competition from third parties; rapid technological change as the Enterprise Communication market moves to Voice over Internet Protocol ("VoIP") technology; risk of third party claims for infringement of intellectual property rights by others; and risks related to technical standards and the certification of our products.

It is important to note that:

- Unless otherwise indicated, forward-looking statements describe our expectations as of the date of this management's discussion and analysis.
- We caution readers not to place undue reliance on these statements as our actual results may differ materially from our expectations, if known, and unknown risks or uncertainties affect our business, or if our estimates or assumptions prove inaccurate. Therefore, we cannot provide any assurance that forward-looking statements will materialize.
- We assume no obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or any other reason.

## **FISCAL 2008 FINANCIAL HIGHLIGHTS**

ACHIEVED RECORD SALES OF \$832.1 MILLION

CLOSED THE YEAR WITH 43 CONSECUTIVE QUARTERS  
OF PROFITABILITY

GENERATED \$26.8 MILLION OF CASH FLOW FROM  
CONTINUING OPERATIONS

CLOSED THE YEAR WITH \$98.2 MILLION IN CASH,  
CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS

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### **OVERVIEW OF THE COMPANY**

Aastra Technologies Limited develops, markets, and supports a comprehensive portfolio of enterprise or business telephony solutions, including hybrid IP-PBX and traditional PBX telephone systems. In addition, the Company offers a number of analog, digital, and open standard VoIP terminals, as well as a range of wireless DECT terminals and a significant number of advanced software applications, including contact center solutions. The Company serves a number of telephone companies ("telcos"), as well as a vast network of dealers and distributors, and operates primarily in North America and Europe.

**OVERVIEW OF RESULTS OF OPERATIONS**

The following table presents selected annual information for the years ended December 31, 2008, 2007 and 2006. The information has been prepared in accordance with accounting principals generally accepted in Canada, and the amounts are in Canadian dollars.

**Selected Annual Information**

(\$'000's – except percentages  
and per share amounts)

	2008		2007		2006	
Sales	\$ 832,070	100.0%	\$ 606,589	100.0%	\$ 600,536	100.0%
Cost of goods sold	458,149	55.1%	349,051	57.5%	348,906	58.1%
Gross margin	373,921	44.9%	257,538	42.5%	251,630	41.9%
Operating expenses:						
Selling, general and administrative	218,064	26.2%	145,094	23.9%	144,235	24.0%
Research and development	97,984	11.8%	54,629	9.0%	59,631	9.9%
Depreciation and amortization	26,434	3.2%	13,422	2.3%	16,834	2.8%
Interest expense	2,405	0.3%	135	0.0%	99	0.0%
Foreign exchange loss (gain)	3,113	0.4%	400	0.1%	(2,909)	(0.4%)
Investment income	(3,645)	(0.4%)	(3,535)	(0.6%)	(4,361)	(0.7%)
Other charges (income)	13,734	1.6%	(170)	(0.0%)	11,356	1.9%
Earnings from continuing operations						
before income taxes	15,832	1.8%	47,563	7.8%	26,745	4.4%
Income tax expense	4,355	0.5%	11,655	1.9%	3,168	0.5%
Net earnings from continuing operations	11,477	1.3%	35,908	5.9%	23,577	3.9%
Earnings (loss) from discontinued operations, net of income taxes	–	0.0%	(141)	(0.0%)	18,402	3.1%
Net earnings	11,477	1.3%	35,767	5.9%	41,979	7.0%
Earnings per share						
from continuing operations:						
Basic earnings per share	0.74		2.24		1.37	
Diluted earnings per share	0.73		2.18		1.34	
Earnings per share:						
Basic earnings per share	0.74		2.23		2.44	
Diluted earnings per share	0.73		2.17		2.38	
Total assets	680,690		446,685		465,547	
Total long-term financial liabilities	87,809		37,547		51,140	

**PRODUCT SEGMENTATION**

The Company operates in one product focused segment, Enterprise Communication. The Enterprise Communication segment develops and markets a full line of enterprise or business telephony solutions, including Voice over Internet Protocol ("VoIP"), IP-PBX and PBX telephone systems, analog, digital, and VoIP telephone terminals, as well as contact center and other enterprise software solutions. Management reviews operations of this segment geographically and, as such, has split the disclosures presented below into Europe, Americas, and Other.

There are two sets of key performance drivers for the Enterprise Communication segment. Where the Company has a direct sales relationship with the end customer, our ability to provide timely service and maintenance of the systems at our customers' sites is a key performance driver. The risk is that our customers experience system downtime, disrupting their operations. This is an essential performance driver of our Aastra Intecom business in the United States, which sells and services medium to large enterprise telephony solutions and our DeTeWe Communications business in Germany, as well as our operations in Belgium, which sell and install small to medium-sized enterprise telephony systems.

Where the Company has an indirect sales relationship with the end customer, the first key performance driver is our ability to maintain strong relationships with our sales channels, including service providers, distributors, and partners, which sell our products to the end customer. The Company strives to keep our sales channels educated and trained on all of our products in order for them to be able to sell to and service our end customers. The second key performance driver is our ability to offer a product road map and remain current on technological changes in our market, including VoIP, cordless technologies, and software applications for the enterprise customer.

## SALES

Sales for the year ended December 31, 2008 were \$832.1 million compared to \$606.6 million for 2007, a record for the Company. The results for 2008 include sales for 8 months of the product lines acquired from Ericsson. Excluding the revenue from these acquired product lines, sales would have increased 1.7% from 2007 to \$617.0 million in 2008.

### Effect of Foreign Exchange on Sales

The Company's reporting currency is the Canadian dollar. The results for 2008 include only 2.3% of sales generated by customers in Canada. Foreign exchange rates between the Canadian dollar and major global currencies significantly affected the Company's reported operating results. The following chart shows the average exchange rates for 2008 and 2007 from selected foreign currencies to Canadian dollars. The variance represents the strengthening or weakening of these foreign currencies against the Canadian dollar during 2008:

1 unit of foreign currency = Canadian dollars	2008	2007	\$ variance	% variance
U.S. dollar	1.0660	1.0740	(0.0080)	(0.7%)
Euro	1.5603	1.4690	0.0913	6.2%
Swiss franc	0.9840	0.8945	0.0895	10.0%
British pound	1.9617	2.1475	(0.1858)	(8.7%)

The strengthening of the Canadian dollar against the U.S. dollar during 2008 means that if sales earned by the Company in the U.S. were equal in 2008 and 2007 they would be translated into fewer Canadian dollars in 2008 than in 2007. The opposite can be said of the Euro and Swiss franc as the Canadian dollar weakened against these currencies during 2008. When holding the foreign currency sales equal between years, the translation of sales to Canadian dollars in 2008 is favourable. The positive impact of the weakening of the Canadian dollar against the Euro and Swiss franc outweighed the negative impact of the strengthening of the Canadian dollar against the U.S. dollar and British pound. The net positive impact on sales in the twelve-month period ended December 31, 2008 was approximately \$30.2 million.

### Segment Sales by Geographic Distribution

(\$000's – except percentages)	2008		2007		\$ variance
Europe	\$ 670,446	80.6%	\$ 514,782	84.9%	\$ 155,664
Americas	118,135	14.2%	88,217	14.5%	29,918
Other	43,489	5.2%	3,590	0.6%	39,899
Total Sales	\$ 832,070	100.0%	\$ 606,589	100.0%	\$ 225,481

The Company operates in the Enterprise Communication segment which develops and markets a full line of residential and business telephones for the cable and telecommunication markets. The Enterprise Communication segment is managed geographically between Americas, Europe, and Other. As a result of the acquisition of the Ericsson Enterprise Communication Business in April 2008, the Company gained a stronger presence outside of the Americas and Europe. Management now reviews the results outside of these regions separately, and thus it is appropriate to disclose this as a separate segment. The Other segment includes Africa, Asia, the Middle East, and the Pacific region. Prior year comparative information has been reclassified into these geographic regions.

European Enterprise Communication sales increased by \$155.7 million or 30.2%, from \$514.8 million in 2007 to \$670.5 million in 2008. The increase is partially due to fluctuations in the exchange rate between European currencies and the Canadian dollar. Excluding the positive effect of foreign exchange, European Enterprise Communication sales increased by \$121.8 million or 23.7% between 2007 and 2008. The increase is mainly due to the inclusion of eight months of sales of the Ericsson Enterprise Communication Business, acquired on April 30, 2008. Without Ericsson sales and the fluctuation in exchange rates, sales in Europe, which include small business as well as medium to large enterprise IP-PBX systems, and VoIP terminals, would have decreased by approximately 4%.

Sales in Switzerland continued to grow in 2008, increasing approximately 17% when compared to 2007, as a result of higher volumes and a positive foreign exchange impact. Excluding the benefits from foreign exchange, sales in Switzerland still increased by approximately 6% in 2008 from 2007. Sales in Spain improved significantly in the second half of 2008 after a very slow start to the year. For the year, sales in Spain in 2008 were consistent with sales in this region in 2007. Despite a positive foreign exchange impact, the Company still experienced a sales decline in Germany, its biggest market in this region. German sales were lower as a result of declines in its OEM cordless phone sales as well as from the discontinuation of certain consumer products formerly sold in this region. Sales in other countries across Europe increased slightly in 2008 when compared to 2007, driven mainly by stronger sales in Belgium.

The American Enterprise Communication sales increased by 33.9%, from \$88.2 million in 2007 to \$118.1 million in 2008. Sales in this segment include the Aastra Intecom business, which sells and services medium to large enterprise telephony solutions, as well as sales of analog, digital, and VoIP terminals. In addition, since May 1, 2008,

sales in this segment include small to large enterprise telephony solutions acquired as part of the Ericsson acquisition.

Sales in Canada decreased by 2.5% as the decline in analog and digital telephones was offset only partially by an increase in VoIP telephone sales. Sales in the U.S. increased by 19.3% from \$66.8 million in 2007 to \$79.7 million in 2008, mainly due to the inclusion of sales from the Ericsson acquisition. Excluding the impact of the acquisition and foreign exchange, sales in the U.S. would have increased by 6.3%. U.S. sales were driven by strong growth in IP terminal sales, while sales of legacy analog and digital telephones continued to gradually decline. For the year, IP terminal sales grew by more than 100% when compared to 2007 IP terminal sales. Large system sales and service in the U.S. were relatively flat in 2008, while sales of the former Ericsson products were approximately 11% of the sales in this segment for 2008.

Sales in other foreign jurisdictions increased from \$3.6 million in 2007 to \$43.5 million in 2008, mainly due to the inclusion of sales from the Ericsson acquisition for eight months. Sales in this segment include sales into the Middle East, Africa, Australia, and several other Asia Pacific countries.

## GROSS MARGIN

Gross margin increased from 42.5% of sales in 2007 to 44.9% of sales in 2008. The following table presents gross margin by geographic distribution:

(\$000's – except percentages)	Gross Margin 2008	% of Segment Revenue	Gross Margin 2007	% of Segment Revenue
Europe	\$ 307,786	45.9%	\$ 222,756	43.3%
Americas	46,916	39.7%	34,440	39.0%
Other	21,124	48.6%	1,819	50.7%
Corporate	(1,905)	–	(1,477)	–
Total	\$ 373,921	44.9%	\$ 257,538	42.5%

In Europe, gross margins increased from 43.3% in 2007 to 45.9% in 2008. Despite a marginal decline in average selling prices, we were able to decrease our cost of goods sold as we transferred the production of certain products to our vendors in Asia. At the same time, gross margin was positively impacted as a result of lower spending on overhead functions as we consolidated certain supply chain activities. Finally, the inclusion of sales of the former Ericsson products had a positive impact on the gross margin experienced in this segment.

In the Americas, gross margins increased slightly from 39.0% in 2007 to 39.7% in 2008. While gross margin in both the Intecom business and the terminals business in North America decreased slightly, these decreases were more than offset by a favourable gross margin impact as a result of the inclusion of sales of the former Ericsson products in this segment.

## SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative ("SG&A") expenses increased from \$145.1 million in 2007 or 23.9% of sales to \$218.1 million or 26.2% of sales in 2008. Excluding the increase in expenses from the acquired Ericsson business, total SG&A expenses would have increased by 8.8% to \$157.9 million or 25.6% of sales. The biggest reason for the increased SG&A was the impact of foreign exchange. During 2008, Aastra increased its spending on marketing efforts in Europe, while the Company also added new sales people in several markets. Additional SG&A costs were incurred as the Company prepared for, and completed, the Ericsson acquisition, while minor headcount reduction efforts in several regions cost an additional \$2.6 million during the year. In the acquired Ericsson business, the Company completed a headcount reduction in Sweden in the fourth quarter of 2008, which totalled \$2.2 million. As a result of this restructuring, as well as several cost saving measures, the SG&A expenses from the acquired Ericsson business began to decrease in the late stages of 2008, but remain slightly higher, as a percentage of sales, than Aastra's pre-acquisition levels.

## RESEARCH AND DEVELOPMENT EXPENSES

Research and development ("R&D") expenses were \$98.0 million or 11.8% of sales in 2008, compared to \$54.6 million, or 9.0% of sales in 2007. Without the impact of the Ericsson business, R&D expenses would have been relatively flat, at \$54.4 million, or 8.8% of sales. The R&D expenses in 2008 included \$6.2 million in severance related to headcount reduction efforts in Germany and the United States. Offsetting these charges, investment tax credits of \$7.5 million, mainly from Europe, were recorded as a reduction to R&D expenses in 2008 compared to a reduction of \$0.5 million in 2007 from R&D investment tax credits. R&D expenses incurred on the acquired Ericsson product lines totalled \$43.6 million or approximately 20% of sales of the former Ericsson products. This balance included approximately \$5.0 million related to severance, as well as approximately \$3.0 million related to the termination of certain unprofitable contracts.

Aastra's R&D groups continue to be aligned as Centers of Excellence with a significant presence in several areas across Europe and North America. The Swiss R&D group is focused on the development of IP and IP-PBX systems for small businesses, as well as corded terminals; the French group on the development of large

enterprise IP and IP-PBX communication systems; and the German group on small to medium business solutions and cordless terminals, including WiFi and DECT mobility solutions. This approach has allowed Aastra to better prioritize projects, and has led to some substantial cost reductions as duplicated efforts across the groups have been reduced.

The North American R&D team has been working with these European groups primarily in the area of open source VoIP terminals and telephony solutions for large enterprises. In December 2007, Aastra completed a reorganization of the Dallas R&D team in order to better support the new Clearspan IP-based large enterprise solution, launched at the end of 2007. In the second quarter of 2008, Aastra completed a headcount reduction of the German R&D team to eliminate certain duplicate functions and improve efficiencies. This included a charge to earnings of \$5.9 million in the second quarter of 2008, and a decrease in R&D expenses in the second half of 2008. In the fourth quarter of 2008, there was a further restructuring in Americas R&D team in the amount of \$0.3 million.

As a result of the Ericsson acquisition, Aastra has now added additional R&D resources, as well as several new product lines that were previously sold by the Ericsson Enterprise Communication Business. We are currently reviewing these resources and will continue our efforts to focus our R&D resources on specific areas of excellence to ensure an efficient R&D spend across the Company.

Early in 2002, Aastra entered into an agreement with Technology Partnerships Canada. This program provided Aastra a maximum of \$9.9 million in funding to reimburse 33% of eligible costs of a research project, aimed at developing new wireless or VoIP communication devices. A final benefit of \$2.2 million was recorded in 2005, and no benefits were recorded after 2005 relating to government assistance received under the Technology Partnerships of Canada Program. The agreement specifies repayment of the funding to be 2.2% of Gross Project Revenues, to a maximum of \$20.6 million, or until the repayment period expires on December 31, 2012. Such repayments will be recorded as royalty expenses at the time they are made. In 2008, the Company paid royalties of \$0.2 million (2007 – \$0.1) to Technology Partnerships of Canada.

In addition to the benefits previously received under the Technology Partnerships of Canada program with the Canadian government, Aastra continues to explore opportunities to receive benefits from regional governments regarding its investment in R&D activities. As stated earlier, the Company recorded a benefit of \$7.5 million, compared to \$0.5 million in 2007, relating to government investment tax credits, earned from research and development activities in Europe and North America. These tax credits were recorded as a reduction to reported research and development expenses and will offset income taxes otherwise payable in these regions.

R&D activities, completed to date in 2008, include the introduction of the Aastra 5000, a highly resilient and scalable Linux-based IP call manager for large businesses that can network up to 150,000 users from multiple sites. This product, which was launched in March of 2008, will provide our significant installed base of large enterprise customers with a cost-effective IP solution that will protect their investment in their legacy Aastra PBX system. In addition, we plan to launch the Aastra 800 during 2009, a Windows-based call manager for small to medium-sized enterprises that will support Aastra's proprietary IP, IP-DECT cordless and SIP based terminals.

Also in 2008, Aastra launched Response Point™, a small business call manager solution that incorporates voice recognition and our VoIP terminals, through a partnership with Microsoft. In North America, Aastra has recently launched the AastraLink, an Asterisk based call manager that will support our SIP terminals for small business environments.

Finally, the Company will look to introduce several new terminals, including a new line of TDM terminals for NeXspan solutions, as well as new TDM and IP DECT terminals. These new development efforts are critical as we look to refresh our product line across Europe and expand these products into new markets.

#### **DEPRECIATION AND AMORTIZATION**

Excluding the depreciation of tooling, which is recorded as part of cost of goods sold, depreciation and amortization expense increased from \$13.4 million in 2007 to \$26.4 million in 2008. The increase in amortization expense is mainly due to amortization of intangible assets acquired as part of the Ericsson acquisition. In addition, depreciation of property and equipment increased from \$7.0 million in 2007 to \$8.2 million in 2008 as a result of a higher volume of capital additions in the current year.

#### **INTEREST EXPENSE**

Aastra recognized interest expense of \$2.4 million in 2008 compared to \$0.1 million in 2007. On April 28, 2008, the Company entered into a 350.0 million Swedish Krona term loan facility and, on April 30, 2008, Aastra drew 350.0 million Swedish Krona on this facility for the Ericsson acquisition.

## FOREIGN EXCHANGE

Aastra recognized a loss on foreign exchange of \$3.1 million in 2008 compared to a loss of \$0.4 million in 2007. Gains on foreign exchange from our operations in the Americas and Europe were offset by foreign exchange losses resulting from a reduction in our net investments in certain foreign European subsidiaries, mainly in the second half of the year. Our net investment in these subsidiaries was reduced as we repatriated foreign currencies from certain foreign subsidiaries during 2008. As cash is repatriated back to Canada from its self-sustaining foreign subsidiaries, a portion of the exchange gains and losses previously accumulated in other comprehensive income (loss) is recognized in income.

In addition, foreign exchange losses of approximately \$0.7 million were incurred as part of the purchase price adjustment process on the Ericsson acquisition. After completing the acquisition in April, the Company only received certain funds back from Ericsson on the final settlement in late 2008, and foreign exchange rates had moved unfavourably against the Canadian dollar during this time.

## INVESTMENT INCOME

Investment income increased slightly to \$3.6 million in 2008 compared to \$3.5 million in 2007. Included in investment income in 2008 is \$0.6 million of financing income on leasing activities in the Spanish market. Excluding this finance income in Spain, investment income would have declined slightly as a result of lower average excess cash balances and lower rates of return. The Company continues to invest its excess cash primarily in highly liquid cash equivalents or short-term instruments such as Canadian banker acceptances, treasury bills, and government bonds in an effort to achieve a low-risk rate of return on these balances, while always maintaining the liquidity of these funds for other corporate purposes.

## OTHER CHARGES (INCOME)

The following table presents the contents of the Consolidated Income Statement line item Other Income:

(\$000's)	2008	2007
Contingent consideration	\$ (1,968)	\$ (1,789)
Change in fair value of long-term investment in ABCP	1,579	1,619
Impairment of property, equipment, and intangible assets	5,101	-
Impairment of goodwill	9,022	-
Total	\$ 13,734	\$ (170)

Other charges include the net effect of four charges. First, the Company recognized a gain from contingent consideration not earned by the Seller of the Ascotel Group in 2003. The payment of this consideration was contingent on the achievement of specific levels of revenue by the acquired business. During 2008 and 2007, the acquired business did not reach the specified levels of revenue and, as a result, the contingent consideration was not earned and the accrual for the payment was reversed, resulting in a gain of \$2.0 million (2007 – \$1.8 million) or 2.0 million Swiss francs (2007 – 2.0 million Swiss francs) in the income statement during the fourth quarter of each of these years. There is no further outstanding balance of contingent consideration for this acquisition at December 31, 2008.

Also included in the other income is a fair value adjustment loss of \$1.6 million (2007 – \$1.6 million), relating to our investment in ABCP. In July 2007, the Company invested \$8.5 million in Asset-Backed Commercial Paper ("ABCP") issued by Structured Investment Trust III ("SIT ABCP"), which was rated R1-High by the Dominion Bond Rating Service at the time it was purchased. In August 2007, the market for trading certain ABCP in Canada was halted after several issuers of ABCP could not obtain financing to roll their investments. The fair value of the SIT ABCP was calculated using a going concern valuation approach, and the inputs to this approach are discussed in the section below, titled "Fair Value of Asset-Backed Commercial Paper". The Company has continually monitored the market for the ABCP investments and continued to increase its write-down of this investment during 2008, as additional information became available.

The Company tests property and equipment and intangible assets for recoverability when changes in circumstances indicate that the carrying amount may not be recoverable. During the three months ended December 31, 2008, the Company recorded non-cash charges of \$1.8 million and \$3.1 million against property and equipment and intangible assets, respectively, in North America, and non-cash charges of \$0.2 million against intangible assets in Latin America.

The Company evaluates goodwill annually or whenever events or changes in circumstances indicate that the carrying amount may not be recovered. Goodwill is tested for impairment, using the two-step method, at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. To the extent a reporting unit's carrying amount exceeds its fair value, goodwill is impaired. The Company experienced a decline in its stock price during the three months ended September 30, 2008, related to general market conditions, and, as this decline is a possible indicator of goodwill impairment, an analysis was performed. However, a comparison of fair value to carrying value at September 30, 2008 indicated that goodwill was not impaired.

The Company performed its annual testing at December 31, 2008. The Company's goodwill balance prior to the impairment charge was \$59.3 million, and was allocated to each of the Company's reporting units: North America,

Europe, the Middle East and Africa, Asia Pacific, and Latin America. The goodwill arose on acquisitions that occurred from 2001 to 2008. We completed our step one analysis using a market capitalization approach and a discounted cash flow approach. The market capitalization approach uses comparable market multiples to arrive at a fair value, and the discounted cash flow method uses revenue and expense projections and risk-adjusted discount rates. The process of determining fair value is subjective and requires management to exercise a significant amount of judgment in determining future growth rates, discount and tax rates, and other factors. A higher discount rate was used to reflect the risk and uncertainty in the current market. The results of the step one analysis indicated impairment in the North American, Latin American, and Asia Pacific reporting units. The second step of the goodwill impairment assessment was performed in order to quantify the amount of the impairment. This involved calculating the implied fair value of goodwill, determined in a manner similar to a purchase price allocation, and comparing the residual amount to the carrying amount of goodwill. This comparison indicated that the balances of goodwill in each of the three reporting units were impaired and, as such, \$9.0 million was recognized in the three months ended December 31, 2008. The impairment testing incorporated the Company's lower market capitalization and the uncertainties in the markets in which the Company operates.

### INCOME TAX EXPENSE

Income tax expense was \$4.4 million or 27.5% of pre-tax income in 2008, compared to \$11.7 million in 2007 or 24.5% of pre-tax income. The increase in the income tax rate during 2008 is mainly due to the write-down of goodwill recognized on the income statement which is not tax deductible. Excluding this non-deductible write-down, the tax rate would have been 17.5% of pre-tax income recognized in 2008. As a result of the Company earning some of its taxable income in lower tax jurisdictions, the Company has continued to report a tax rate that is significantly lower than its statutory tax rate in Canada.

### DISCONTINUED OPERATIONS

On May 31, 2006, the Company sold its Digital Video business, centered in the U.S. with operations in the U.K. and Canada, to Harris Corporation for cash consideration of \$38.1 million (U.S. \$34.6 million). The sale of this business was driven by the Company's desire to focus its business efforts on the Enterprise Communication market. The sale of the Digital Video business met the criteria for presentation as discontinued operations and the results of the business are disclosed separately from those of continuing operations for the periods presented. In the first quarter of 2007, Aastra settled a post-closing adjustment with Harris Corporation, which resulted in an expense of \$0.1 million.

### NET EARNINGS

Net earnings from continuing operations decreased from \$35.9 million in 2007 or 5.9% of sales to \$11.5 million or 1.3% of sales in 2008. The other income line item includes one-time losses and non-cash gains in both 2007 and 2008. Excluding other charges, net earnings from continuing operations decreased from \$35.7 million or 5.9% of sales in 2007 to \$25.2 million or 3.0% in 2008. The decrease in net earnings from continuing operations, excluding other charges, was a result of the losses incurred on the former Ericsson business for the eight months of 2008. If we also exclude the impact of the acquisition, net income in 2008 would have actually increased by approximately 6.5%, as a result of stable revenues and improved gross margins when compared to 2007.

### FAIR VALUE OF ASSET-BACKED COMMERCIAL PAPER

In July 2007, the Company invested \$8.5 million in ABCP, issued by Structured Investment Trust III that was rated R1-High by the Dominion Bond Rating Service at the time it was purchased. This ABCP is classified as a long-term investment held-for-trading on the Consolidated Balance Sheet. It matured on October 10, 2007; however, neither principal nor interest were received prior to year ended December 31, 2008.

The Pan-Canadian Investors Committee ("Investors Committee") was formed to restructure the pool of assets underlying the affected ABCP into longer term floating rate notes. On March 17, 2008, a Plan of Arrangement filed by the Investors Committee was approved, and on January 12, 2009, the court ordered the Plan Implementation.

Pursuant to the Plan Implementation, subsequent to year end, the Company has received the following notes in replacement for its ABCP:

MAV II CL-A-1	\$5.7
MAV II CL-A-2	\$1.4
MAV II CL-B	\$0.3
MAV II CL-C	\$0.2
MAV II CL-15	\$0.9

The Company received \$0.3 million in interest on its MAV II investment subsequent to December 31, 2008.

As the investment is not supported by observable market prices or rates at December 31, 2008, the Company's management determined the fair value of the SIT ABCP, using a going concern valuation approach to a discounted

cash flow model, to come up with a range of reasonably possible outcomes. The output from this valuation technique has given the Company a range of possible fair values from \$4.4 million to \$6.3 million. The Company recorded a fair value adjustment loss of \$1.6 million in the three months ended December 31, 2007. A further fair value adjustment loss of \$1.6 million was recorded in the twelve months ended December 31, 2008. The SIT ABCP is classified as a long-term asset on the Consolidated Balance Sheet at \$5.4 million.

The Company is continuing to monitor market conditions. Based on existing knowledge, it is reasonably possible that changes in future conditions in the near term could require a material change in the recognized amount.

## QUARTERLY INFORMATION

The following table presents key financial information by quarter for the current and previous year:

(\$ 000's – except per share amounts)						
	Sales	Net Earnings from Continuing Operations	Net Earnings (Loss) from Discontinued Operations	Net Earnings	Basic EPS	Diluted EPS
<b>2008</b>						
Quarter One	\$ 140,035	\$ 5,256	\$ –	\$ 5,256	\$ 0.33	\$ 0.33
Quarter Two	205,793	2,125	–	2,125	0.13	0.13
Quarter Three	224,464	2,595	–	2,595	0.17	0.17
Quarter Four	261,778	1,501	–	1,501	0.10	0.10
<b>2007</b>						
Quarter One	\$ 153,251	\$ 8,300	\$ (141)	\$ 8,159	\$ 0.51	\$ 0.50
Quarter Two	156,982	8,237	–	8,237	0.51	0.50
Quarter Three	141,148	7,112	–	7,112	0.44	0.43
Quarter Four	155,208	12,259	–	12,259	0.77	0.75

The quarterly sales figures in 2008 and 2007 highlight the seasonality of our third and fourth quarter operating results. As a result of the impact of the European vacation schedule, the third quarter sales and operating results are seasonally weaker than the first and second quarters. In addition, this results in the fourth quarter being seasonally stronger as a result of pent up demand created by the third quarter vacation schedule.

Sales for the three months ended December 31, 2008 were \$261.8 million compared to sales of \$155.2 million for the same period in 2007, an increase of 68.7%. Sales in Europe increased from \$135.0 million in the three months ended December 31, 2007 to \$210.0 million in the same period in 2008. Again, this growth was driven by the inclusion of three months of sales from the Ericsson acquisition. Excluding the Ericsson acquisition, sales in Europe would have been \$150.8 million, an increase of 11.7% from the fourth quarter of 2007. This increase is mainly due to higher average foreign exchange rates of the Euro and Swiss franc in the three months ended December 31, 2008 than in the same period of 2007. Holding exchange rates constant, the revenues in European Enterprise Communication in the fourth quarter of 2008 would have been consistent with the same period in 2007.

Sales in the Americas increased from \$19.7 million in the three months ended December 31, 2007 to \$36.1 million in the same period in 2008, an increase of 82.7%. Sales in Canada increased 12.9% in the three months ended December 31, 2008 compared to the same period in 2007. Sales in the U.S. include three months of Ericsson sales and an increase of Aastra product sales. The Canadian dollar was, on average, stronger against the U.S. dollar in the three months ended December 31, 2008 than the same period of 2007. Excluding the impact of foreign exchange and the Ericsson acquisition, sales in the U.S. would have increased by 2.6% in the fourth quarter of 2008, in comparison to the same period in 2007, as a result of higher VoIP terminal sales, offset partially by lower analog and digital telephone sales. Sales in South America increased by \$8.1 million in the fourth quarter of 2008, when compared to the same quarter of 2007, as the Ericsson acquisition opened up several new channels for Aastra in this region.

Sales in other foreign jurisdictions increased from \$0.4 million in the three months ended December 31, 2008 to \$15.7 million in the three months ended December 31, 2007. Again, the Ericsson acquisition has opened up a number of additional sales channels outside of Europe and the Americas.

Gross margin was 47.0% of sales for the three months ended December 31, 2008 compared to 42.8% of sales in the same quarter last year. In Europe, gross margin increased from 44.3% in 2007 to 49.0% in the fourth quarter of 2008 mainly as a result of significant cost decreases as well as the inclusion of sales in the fourth quarter of products acquired from Ericsson. In the Americas, gross margin decreased from 35.0% in 2007 to 33.4% in the same period of 2008 as a result of an unfavourable product mix.

Selling, general, and administrative expenses were \$67.9 million, or 25.9% of sales, in the quarter, compared to \$35.0 million, or 22.5% of sales, in the fourth quarter of 2007. The cost increase was driven by the impact of the acquired business from Ericsson. In addition, the impact of foreign exchange from a stronger Euro, resulted in a large cost increase in the quarter. Finally, severance charges and higher selling costs across Europe contributed to the SG&A increase.

Research and development expenses in the fourth quarter of 2008 were \$27.7 million, or 10.6% of sales, compared to \$13.0 million, or 8.4% of sales in the comparable quarter of 2007. Excluding the impact of the Ericsson business, research and development expenses would have been \$11.7 million in the fourth quarter this year, a decrease of \$1.3 million. Research and development expenses included \$4.9 million of severance expenses incurred in Sweden and the United States, while these costs were offset by the inclusion of \$3.7 million in investment tax credits accrued as a reduction to research and development expenses in the quarter.

For the fourth quarter of 2008, interest expense increased to \$0.9 million from \$nil for the same period in 2007. Again, the increase is due to the term loan facility drawn to finance the Ericsson acquisition.

The Company recorded a foreign exchange loss of \$2.1 million during the fourth quarter of 2008, compared to a foreign exchange loss of \$0.6 million in the fourth quarter of 2007. Investment income remained constant at \$1.0 million in the fourth quarter of 2008 compared to the same quarter in 2007.

As discussed above in the section titled "Other Charges (Income)", other charges in the three months ended December 31, 2008 include the reversal of unearned contingent consideration of \$2.0 million, the current quarter change in fair value of the SIT ABCP of \$0.4 million, the impairment of long-lived assets of \$5.1 million, and goodwill of \$9.0 million. In the three months ended December 31, 2007, other charges include the reversal of unearned contingent consideration of \$1.8 million, and the change in fair value of the SIT ABCP of \$1.6 million.

Income tax expense was \$1.7 million in the fourth quarter, or 53.6% of pre-tax net earnings from continuing operations, compared to \$3.6 million or 22.9% of pre-tax net earnings from continuing operations in the fourth quarter of 2007. While income tax rates have continued to be impacted by profits in lower tax jurisdictions, the income tax rate in the fourth quarter was negatively impacted by the inclusion of a charge for the impairment of goodwill which is not taxable.

As a result of the above, net earnings for the three months ended December 31, 2008 were \$1.5 million, or \$0.10 diluted earnings per share, compared to \$12.3 million, or \$0.75 diluted earnings per share, in the same period in 2007.

## OVERVIEW OF THE BALANCE SHEET

### Liquidity and Capital Resources

At December 31, 2008, the Company held \$98.2 million of cash, cash equivalents, and short-term investments, compared to \$133.2 million at the end of 2007.

Cash flow from operations was \$26.8 million in 2008, in comparison to \$47.7 million in 2007. Primarily as a result of the acquisition from Ericsson, the Company invested \$27.8 million in working capital during 2008. At December 31, 2008, Aastra had net working capital of \$178.8 million, compared to \$210.8 million at December 31, 2007. Aged receivables were relatively stable, ending the year at approximately 78 days of sales in receivables in 2008, compared to 81 days of sales in receivables at the end of 2007. The Company continues to pursue its goal of achieving the best credit policies possible in each of the countries in which it operates. However, customers in Western Europe generally have significantly longer credit terms than North America and, as a result, the consolidated accounts receivable turnover will continue to be longer than North American standards.

The Company used cash flow from discontinued operations of \$0.1 million in 2007 to settle post-closing adjustments on the sale of the Digital Video business.

Financing activities provided cash flow of \$37.5 million during 2008 compared to a use of cash flow of \$3.1 million in 2007. The primary source of cash during the twelve months ended December 31, 2008 was the 350.0 million Swedish Kronas (Cdn \$59.0 million) in financing obtained from Skandinaviska Enskilda Banken AB ("SEB"), used to partially finance the Ericsson acquisition.

On August 8, 2007, the Company received approval to commence a second Normal Course Issuer Bid (the "2007 Bid") for up to 800,000 of its common shares, at prevailing market prices, on the Toronto Stock Exchange. The 2007 Bid commenced August 10, 2007 and terminated on August 9, 2008. During the year ended December 31, 2008, 487,000 shares were repurchased under the 2007 Bid, at an average per share value of \$26.17, for an aggregate purchase amount of \$12.7 million. No shares were repurchased under the 2007 Bid during 2007.

On August 14, 2008, the Company received approval to commence a third Normal Course Issuer Bid (the "2008 Bid") for up to 775,000 of its common shares, at prevailing market prices, on the Toronto Stock Exchange. The 2008 Bid commenced August 18, 2008 and terminated on November 13, 2008 as the Company repurchased the maximum number of shares allowed under the 2008 Bid. During the year ended December 31, 2008, 775,000 shares were repurchased at an average per share value of \$10.09, for an aggregate purchase amount of \$7.8 million.

On December 17, 2008, the Company received approval to repurchase for cancellation up to \$25.0 million of its common shares, in a range of \$10.00 to \$12.50 per share, through a Dutch auction issuer bid. The maximum number of common shares that may be purchased pursuant to the bid is 2,500,000 or 16.9% of the Company's total issued and outstanding common shares. There were no repurchases under this auction in 2008. On January 27, 2009 the Company repurchased 1,417,738 common shares at a purchase price of \$12.50 for an aggregate purchase amount of \$17.7 million.

At December 31, 2008, the Company had approximately \$32.5 million (2007 – \$30.1 million) of available bank

overdraft facilities to provide short-term financing, of which \$nil (2007 – \$nil) was used. The Company had drawn \$1.1 million (2007 – \$1.2 million) on longer term credit facilities used to finance equipment leases in Europe.

The Company operates two stock option plans, the first of which was initiated during the year 2000 and is hereafter referred to as the "2000 Option Plan." The second plan was approved by shareholders at the Company's Annual General Meeting in May 2006 and is hereafter referred to as the "2006 Option Plan." Under the 2000 Option Plan, 3,000,000 common shares of the Company were reserved for the issuance of stock options and the Company granted stock options to certain employees, officers, and directors. The commencement of the 2006 Option Plan means that there will be no further grants under the 2000 Option Plan, from the date of its approval.

Under the 2006 Option Plan, the Company is able to grant options up to 10% of its outstanding share capital on the date of grant. Options are priced at the weighted average share price for the five days preceding the option grant date. The Company has granted stock options to certain employees, officers and directors. Stock options currently granted vest over periods from one to six years, and expire between five and ten years from the date of grant. During 2008, the Company issued \$0.2 million (2007 – \$1.3 million) of common shares in accordance with the stock option plan. The number of outstanding common shares and stock options of Aastra Technologies Limited on March 9, 2009, was 13,347,835 and 1,732,500 respectively. The number of options vested and exercisable on March 9, 2009 was 1,099,625.

Investing activities used cash flow of \$91.7 million during 2008, compared to a source of cash flow of \$14.7 million in 2007. The Company used \$90.3 million of cash flow to purchase the Ericsson Enterprise Communications Business during 2008 which was the main use of investing cash flow. Increases in the purchase of property and equipment during 2008 were due to the opening of new offices in regions where employees were transferred from Ericsson, as well as major renovations in Canada at the corporate headquarters. The maturity of short-term investments, net of purchases of short-term investments, was a source of cash flow in 2008 of \$20.0 million (2007 – \$36.6 million). At December 31, 2008, excess cash was invested in highly liquid short-term instruments, which allowed the Company to meet its cash demands in short time frames. In 2007, the Company purchased an ABCP, which was rated R1 (high) at the time it was bought for \$8.5 million. This ABCP is part of the pool of assets being restructured by the Investors Committee, as described above in the section titled "Fair Value of ABCP." The Company has estimated that the investment will now mature in eight years, based on the latest information released by the Investors Committee and, as such, it has been classified on the Consolidated Balance Sheet as a long-term investment.

The Company's objectives when managing its capital are:

- (a) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk while providing an appropriate return to its shareholders;
- (b) to maintain a strong capital base so as to maintain investor, creditor and market confidence, and to sustain future development of the business;
- (c) to safeguard the Company's ability to obtain financing should the need arise; and
- (d) to maintain financial flexibility in order to have access to capital in the event of future acquisitions, and to manage the business through changing economic conditions.

The Company manages its capital structure and makes adjustments to it in accordance with the objectives stated above, as well as responds to changes in economic conditions and the risk characteristics of the underlying assets. The Company monitors the return on capital, which is defined as total shareholders' equity.

The Company is confident that its liquidity position will continue to be very healthy throughout 2009 on the strength of its remaining cash balances, its current unused and potential additional credit facilities, and the continued generation of cash flow from current operations. However if the Company should experience a severe downturn due to the current global economic and financial crisis, this could have an adverse effect on the Company's operating cash flows. The Company cannot be certain whether it would be able to obtain external financing if it was required under these circumstances.

## DEFINED BENEFIT PENSION PLANS

The Company participates in four defined benefit pension plans. The current economic conditions have had an effect on these plans and the funding status, cash contributions, and future pension expense for each plan are discussed below.

The defined benefit plans in France and Germany are not legally required to be funded and, as such, no assets have been set aside for this purpose. The decrease in market conditions has, therefore, not affected these unfunded pension plans. The funding of these plans will only occur as the employees retire. The current average age of plan participants is 45 years and the retirement age is 65 years.

The defined benefit plan in Switzerland is a funded plan. On an annual basis, the Company's actuary calculates the appropriate amount to be paid into the plan based on a set of assumptions regarding the expected rate of return, the discount rate, the age of plan participants, the mortality rate, and the age at which participants will retire. This amount is paid over the course of the year. In the case that the actual experience does not match the assumptions made at the beginning of the year, the plan assets will not equal the defined benefit obligation. Under Swiss law, if the plan assets are less than ninety percent of the defined benefit obligation, the pension plan must take action to correct the position so that the plan is fully funded within seven years. At December 31, 2008, the Swiss plan assets are 84% of the defined benefit obligation of Swiss francs 63.8 million (\$73.2 million). This plan is sponsored by Ascom AG, which sold the Ascotel business to Aastra in September 2003. Management is closely monitoring the funding status and the actions that will be prescribed by the plan manager. It is probable that cash contributions and related pension expenses of the Swiss plan will be required to increase in 2009 and in future years.

The benefit plan in North America consists of Individual Pension Plans ("IPP") for senior executives and the contributions into these IPPs are calculated by an actuary based on the T4 earnings of each individual and certain actuarial assumptions. Under the IPP plans, a rate of return of 7.5% per annum is guaranteed on plan assets and when actual returns are lower than 7.5%, further contributions must be made by the Company to fund the shortfall, after a calculation is performed by the actuary. At December 31, 2008, the North American plan assets are 69% of the defined benefit obligation of \$1.6 million. Management intends to engage the actuary to recalculate the amount to be funded in 2009. It is probable that cash contributions and related pension expenses of the North American plan will be required to increase in 2009 and in future years.

There are several risks surrounding defined benefit plans. The Company's cash contribution requirements may increase more than expected because there is no assurance that plan assets will be able to earn the assumed rate of return, and because market driven changes may result in change in the discount rates used to calculate required contributions. There is a certain amount of uncertainty incorporated into the actuarial valuation process. Please see section Critical Accounting Estimates below for a further discussion.

## CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The following table shows Aastra's contractual obligations:

(000's)						After
Contractual Obligations	Total	Less than 1 year	1–3 years	4–5 years	5 years	5 years
Purchase obligations <sup>1</sup>	\$ 15,494	\$ 15,494	\$ –	\$ –	\$ –	–
Defined benefit pension contributions <sup>2</sup>	2,292	2,292	–	–	–	–
Loans payable	62,813	27,276	34,590	800	147	–
Operating leases	116,278	27,024	44,664	28,192	16,398	–
<b>Total Contractual Obligations</b>	<b>\$ 196,877</b>	<b>\$ 72,086</b>	<b>\$ 79,254</b>	<b>\$ 28,992</b>	<b>\$ 16,545</b>	<b>–</b>

### Notes:

- (1) Aastra has entered into certain industry standard product purchase obligations with a number of third party manufacturers. Purchase obligations are based on a rolling one to three month forecast provided by Aastra with a particular flexibility percentage built into the agreement.
- (2) Represents the 2009 estimated cash funding of our defined benefit pension plans. We will continue to have funding obligations in each future period; however, we are not currently able to estimate those amounts.

The Company is also subject to various contingent obligations that become payable only if certain events or rulings were to occur. The inherent uncertainty surrounding the timing and financial impact of these events or rulings prevents any meaningful measurement, which is necessary to assess impact on future liquidity. Such obligations include further funding of defined benefit pension plans and potential settlements resulting from litigation.

## OFF BALANCE SHEET TRANSACTIONS

The Company's obligations under guarantees are not recognized in the financial statements, but are disclosed. The Company provides routine commercial letters of credit, letters of guarantee, contractual vendor rebates, and indemnifications to various third parties, whose terms range in duration and often are not explicitly defined. At December 31, 2008 and 2007, the Company had no off balance sheet arrangements other than those noted above.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Disclosure controls and procedures within the corporation have been designed to provide reasonable assurance that all relevant information is identified to its Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, with the participation of the Corporation's Chairman and Co-Chief Executive Officer (Co-CEO), Co-Chief Executive Officer, President and Chief Operating Officer (Co-CEO), and Vice President of Finance and Chief Financial Officer (CFO), to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

The scope of the design and of the disclosure control and procedures and internal controls over financial reporting and the testing of effectiveness was limited to exclude the business that the Company acquired on April 30, 2008, the Ericsson Enterprise Communications Business, as it was acquired less than 365 days ago.

The Corporation filed certifications, signed by the Co-CEO's and CFO with the Canadian Securities Administrators ('CSA') upon filing of the Corporation's 2008 annual filings. In those filings, the Corporation's Co-CEO's and CFO certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures, and the design and effectiveness of internal controls over financial reporting. The Corporation's Co-CEO's and CFO also certify the appropriateness of the financial disclosures in the Corporation's interim filings with securities regulators. In those filings, the Corporation's Co-CEO's and CFO also certify the design of the Corporation's disclosure controls and procedures and the design of internal controls over financial reporting.

### **Management's Report on Disclosure Controls and Procedures**

Management, with the participation of the Company's Co-CEOs and CFO, assessed the effectiveness of the Company's disclosure controls and processes and concluded, as of December 31, 2008, that such disclosure controls and processes were effective to provide reasonable assurance that:

- (i) material information relating to the Company was made known to its Disclosure Committee by others; and
- (ii) information required to be disclosed by the Company in its annual filings, interim filings and other reports filed or submitted by the Company under securities legislations was recorded, processed, summarized, and reported within the periods specified in securities legislation

In addition, the evaluation covered the Company's processes, systems and capabilities relating to regulatory filings, public disclosures, and the identification and communication of material information. This certification was limited to exclude the business that the Company acquired on April 30, 2008, the Ericsson Enterprise Communications Business, as it was acquired less than 365 days ago.

### **Management's Report on Internal Controls over Financial Reporting**

Management, with the participation of the Company's Co-CEOs and CFO, assessed the design and effectiveness of the Company's internal controls over financial reporting. Based on that assessment, management and the Co-CEO's and CFO have concluded that, as of December 31, 2008, the Company's internal controls over financial reporting were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. This certification was limited to exclude the business that the Company acquired on April 30, 2008, the Ericsson Enterprise Communications Business, as it was acquired less than 365 days ago.

### **Changes in Internal Controls over Financial Reporting**

There have been no changes to the Company's internal controls over financial reporting during the year ended December 31, 2008 that have materially affected, or reasonably likely to materially affect, its internal controls over financial reporting.

## **BUSINESS RISKS AND UNCERTAINTIES**

For a more detailed description of the risks facing our business, please refer to the heading "Risk Factors" in our Annual Information Form for the fiscal year ended December 31, 2008, which is available on the website maintained by the Canadian Securities Administrators at [www.sedar.com](http://www.sedar.com).

In the last months of 2008 and the first months of 2009, the risks and concerns regarding the global financial crisis have increased sharply. Companies in all areas of the economy, and in all regions, are trying to assess the potential impact to their businesses of a potential prolonged and deep economic downturn. For Aastra, this economic downturn could impact our ability to obtain equity or debt financing to manage or grow our existing business. The Company currently has a significant excess cash balance and continues to explore all available financing alternatives in order to mitigate this risk. These difficult economic times could impact the demand for

our products and our customers' ability to pay. The Company will continue to closely monitor its accounts receivable and credit risk exposure. The economic downturn could impact the financial condition of our major suppliers, and result in interruptions in the supply of our products. The Company will continue to work closely with our current suppliers and explore alternatives in order to minimize the potential for supply interruptions. The general decrease in equity markets may indicate that assets set aside in pension plans, in which the Company participates, may earn a lower than estimated rate of return, which in turn may force the Company to make future cash contributions to ensure the plans are adequately funded.

Aastra is subject to growth-related risks, including capacity constraints and pressures on management, internal systems, and controls. The Company has experienced a period of growth in sales and operations, which for the most part is attributable to acquisitions completed in the past few years. Although the Company has completed a reorganization of its businesses in Sweden, acquired as part of the Ericsson acquisition on April 2008, it has not fully completed the integration of these former Ericsson operations. While management believes that the former Ericsson operations are well positioned to contribute positive financial results, there can be no assurance that these operations will achieve a sustainable earnings growth or achieve long-term levels of profitability consistent with the Company's other operations. Given the countries that the Company operates in, there can be no assurance that Aastra would be able to implement future restructurings on favorable terms, in the event that prevailing economic and market conditions would require Aastra to further restructure this business.

While management has some experience conducting business outside of North America, some factors that may affect the business of Aastra's foreign operations may be unknown. The Company will be subject to a number of risks associated with international business activities that may increase our costs, lengthen sales cycles, and require significant management attention. International operations carry certain risks and associated costs, such as the complexities and expense of administering a business abroad; complications in both compliance with, and also unexpected changes in, regulatory requirements; foreign laws, international import and export legislation; trading and investment policies; foreign currency fluctuations; exchange controls; tariffs and other trade protection barriers; potential adverse tax consequences; uncertainties of laws and enforcement relating to the protection of intellectual property; unauthorized copying of software; difficulty in managing a geographically dispersed workforce in compliance with diverse local laws and customs; and other factors, depending upon the country involved. There can be no assurance that Aastra will not experience these factors in the future, or that they will not have a material adverse effect on our business, results of operations, financial condition, or prospects.

The Company is subject to growth-related risks, including capacity constraints and pressures on our management, internal systems, and controls. In the future, management will be required to continue to improve our financial and management controls, reporting systems, and procedures in order to manage our current operations and facilitate future growth.

Aastra has historically been dependent on some large customers; however this dependence has been declining over the past few years. The top three customers accounted for approximately 11% of sales in 2008 and 15% in 2007. If any significant customer discontinues their relationship with Aastra for any reason, the operating results and financial condition of Aastra may be materially adversely affected. In addition, given the nature of Aastra's products and customers, Aastra generally receives purchase orders from its customers between one and three weeks prior to the required shipment dates. As a result, Aastra's quarterly financial results could be materially affected by the timing of substantial orders and shipments, as well as the timing of new product introductions. If sales are not realized as anticipated, Aastra's quarter could be materially adversely affected, and such results may not meet the expectations of analysts or investors.

Aastra currently outsources the manufacturing of its products to third party contract manufacturers. Aastra currently uses approximately ten key third party manufacturers, primarily located in North America, France, China, Australia, Germany, Hungary, and Russia. Although Aastra has taken several measures to control the quality and on-time delivery of its products by these manufacturers, Aastra is unable to control all aspects of its third-party manufacturers. If a supplier discontinued or restricted the supply of any product for whatever reason, with or without penalty, Aastra's business may be harmed by the resulting delays. This could result in a material adverse affect on the financial condition of Aastra.

As part of Aastra's business strategy, it may seek to grow by acquiring businesses, products, technologies, or establishing joint ventures that it believes will complement its current or future business. Aastra may not effectively select acquisition candidates, successfully negotiate, finance, or integrate the acquired businesses and their personnel, or acquired products or technologies, into its business. Aastra cannot assure that it can complete any acquisition it pursues on favourable terms, nor that any acquisitions completed will ultimately benefit Aastra's business operating results, financial condition or prospects. In addition, Aastra is a new entrant into a number of markets, and its ability to succeed in these markets is hampered by certain risks. These risks include the establishment of strategic alliances, the establishment of new distribution channels, and market acceptance of products and services.

The industry in which Aastra competes has many participants who own, or claim to own, intellectual property. From time to time, a third party may claim that Aastra infringes such third party's intellectual property rights or may challenge Aastra's rights to its own intellectual property. In such event, Aastra undertakes a careful review to

determine what, if any, actions should be taken with respect to such a claim. Any claim, whether or not with merit, could be time-consuming to evaluate, result in costly litigation, cause product shipment delays or stoppages, or require Aastra to enter into licensing agreements that may require the payment of a license fee and/or royalties to the owner of the intellectual property. Such licensing agreements, if required, may not be available on royalty or other licensing terms acceptable to Aastra.

Customers outside of Canada and the United States accounted for approximately 88% of sales for the 12 months ended December 31, 2008, compared to 86% in 2007. As a result, significant portions of receipts, as well as payments, are sourced from currencies other than Aastra's functional currency, the Canadian dollar. The majority of Aastra's foreign currency exposure relates to the movements in the United States dollar, Euro and Swiss franc, which may affect the operating results of Aastra, both positively and negatively. Derivative instruments are not actively used to reduce Aastra's foreign currency exposure.

### **CRITICAL ACCOUNTING ESTIMATES**

Management estimates are used when accounting for items and matters such as allowances for uncollectible accounts receivable, inventory obsolescence, valuation of financial instruments, warranty provision, valuation of assets acquired in business acquisitions, valuation of goodwill and intangible assets, useful lives of long lived assets, estimated future taxes, pension plans, stock-based compensation, restructuring accruals, and provisions for contingent liabilities. By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements of changes in estimates in future periods could be significant.

Aastra records an allowance for doubtful accounts for estimated credit losses based on customer and industry concentrations, and the Company's knowledge of the financial condition of its customers. A change to these factors could impact the estimated allowance. Aastra values its inventory on a first-in, first-out basis at the lower of cost (determined on a weighted average cost basis) and net realizable value for production parts, work-in-progress and finished goods. Aastra will write-down inventory when management considers inventory to be excess or obsolete based upon assumptions about future demand and market conditions. A change to these assumptions could impact the valuation of inventory. Aastra also provides for the estimated cost of product warranties based on certain assumptions relating to the quality of newly acquired product lines and historical product quality trends. A change to these factors could impact the estimated warranty accrual.

The Company used a discounted cash flow valuation technique to determine the fair value of the SIT ABCP because there is currently no active trade on quoted stock markets. The inputs to this valuation technique required the Company to use estimates such as the term of investment, the timing of payment of interest and principle, the interest rate and discount rate, and the split of senior versus junior notes. These estimates are subject to measurement uncertainty and any changes from estimates could have a material effect on future periods.

The Company engages a third party valuator to assist in the identification and valuation of intangible assets as part of its acquisition transactions. The third party valuator uses assumptions from management regarding future revenues, future profits, and discount rates. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Aastra tested for impairment at the reporting unit level by comparing the reporting unit's carrying value with its fair value. In determining a reporting unit's fair value, management made assumptions regarding future revenues, future profits, and discount rates. Future goodwill impairment tests may result in material impairment charges. Long-lived assets, including property and equipment, and intangible assets with finite useful lives, are amortized over their useful lives. Aastra periodically reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness or, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, using assumptions relating to the future cash flows of the asset. Future long-lived asset impairment tests may result in material impairment charges.

The Company determines its income tax expense or recovery based on the net income earned or net loss incurred in various tax jurisdictions. In the ordinary course of business, there are many transactions and calculations where the ultimate tax outcome is uncertain and is subject to tax authority review. The final outcome of these matters may be different than the estimates originally made by management in determining the income tax provisions, and changes in these estimates could impact the income tax provision in future periods.

Aastra has pension obligations and expenses which are determined from actuarial valuations. Actuarial valuations require management to make certain judgments and estimates relating to expected rate of return earned on plan assets, discount rates, salary escalation, compensation levels at the time of retirement, and retirement ages. Management will continue to evaluate our expected long-term rates of return on plan assets and discount rates at least annually and make adjustments as necessary, which could change the pension obligations and expenses in the future. There is no assurance that the pension plan assets will be able to earn the expected rate of return. Shortfalls in the expected rate of return on plan assets would increase future funding requirements and expense.

The Company granted options under the 2000 Option Plan and the 2006 Option Plan as discussed above. The estimated fair value of the stock options granted is determined using the Black-Scholes option-pricing model. Management uses its best estimates, based on historical data, for inputs into the option-pricing model, such as

the volatility factor of the expected market price of the Company's shares, the expected life, and the expected rate of forfeiture of options.

Due to the nature of the Company's operations, contingencies may arise, the outcome of which is uncertain. Management assesses whether the outcome can be determined or is likely or unlikely based on the information available. The contingent outcomes are reassessed on a regular basis until the final outcome is known. When a contingent loss can be determined, and is likely, management recognizes a contingent liability in the amount of its best estimate. Changes in the estimate could impact the Company's results in future periods.

### **CHANGES IN ACCOUNTING POLICY**

Effective January 1, 2008, the Company adopted the following sections of the Handbook of the Canadian Institute of Chartered Accountants:

CICA Handbook Section 3031, Inventories, replaces corresponding Section 3030 and establishes new standards for the measurement and disclosure of inventories. This new section requires inventories to be measured at the lower of cost and net realizable value, provides guidance on the determination of cost, and requires the reversal of prior period write-downs when the net realizable value of impaired inventory subsequently recovers. The adoption of this section has no impact on the Consolidated Financial Statements.

CICA Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation, enhance existing disclosure requirements and place greater emphasis on disclosures related to recognized and unrecognized financial instruments, and how those risks are managed. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted. The adoption of these standards did not have any impact on the classification and measurement of the Company's financial instruments. The new disclosures pursuant to these new Handbook Sections are included in Note 13 to the Consolidated Financial Statements for the year ended December 31, 2008.

CICA Handbook Section 1535, Capital Disclosures, establishes disclosure requirements about an entity's capital and how it is managed. The impact of adopting this standard is disclosed in Note 14 to the Consolidated Financial Statements for the year ended December 31, 2008.

### **CURRENT OUTLOOK**

Since our last quarterly update, the concerns related to the business risks from the global financial crisis have increased significantly. The current view is that the current financial crisis could have a deep and prolonged impact on the global economy. In addition, the Company operates in an Enterprise Communication Equipment market that over the past several years has seen only minimal growth in product demand. Considering these factors, the Company completed several headcount reduction efforts across its several business units throughout 2008 and will continue to monitor its cost structure to ensure it is in line with the expected demand for its products and services.

We will also continue to monitor closely the current market in credit contraction, and the potential impact on our customers. In particular, we recognize that as a result of these more difficult conditions, our customers may need to reduce or delay their purchases of our products or services, or we may experience increased difficulty receiving payment from our customers. In addition, we will need to continue to monitor the financial strength of our suppliers to ensure that we minimize the potential for disruptions in the supply of our products.

We enter 2009 with a record quarter in terms of sales at the end of 2008, strong cash flow from operations, a strong cash position and very solid balance sheet. We anticipate that our large and diverse global customer base and strong market position within government sectors in many of our geographic markets will further benefit us in these times. As a result, the Company believes it is currently well positioned to manage the tougher market conditions and should be able to absorb the potential impact from a severe and/or prolonged economic recession.

Despite the economic downturn, we will continue to invest, in a controlled manner, in new product development, responding to the needs of our customers. Across all our markets, we will continue to manage the transition from legacy technologies to VoIP. We are entering 2009 with a clear focus on additional new IP enabled products, which will provide our customer base with a compelling product road map as the enterprise communication market continues its evolution to IP.

As a result of the Ericsson acquisition completed last year, a significant amount of effort in 2009 will be focused on continued transitioning and integrating the Ericsson Enterprise Communication Business into our current operations in Western Europe and North America. As well, we will continue our efforts to further develop our stand-alone operations in Eastern Europe, Asia, Australia, the Middle East, Africa, and South America in order to better serve our customers in those regions. We will continue to work on identifying opportunities to expand our product offerings by introducing other Aastra enterprise solutions to these new customers. With our headcount reduction efforts substantially completed for the business acquired from Ericsson and our integration plan progressing, we believe this business is positioned to be a positive contributor to the Company's financial results in 2009.

As discussed earlier, the Company ended December 31, 2008 with a cash, cash equivalents and short-term investments balance of approximately \$98.2 million. This balance, combined with stable cash flow from operations and funds available from available credit facilities (see Liquidity and Capital Resources section above), should

ensure that the Company has significant cash with which to support ongoing operations as well as allow the Company to selectively consider additional investments or strategic initiatives during the balance of 2009.

### **RECENT ACCOUNTING DEVELOPMENTS**

The following is a summary of recent accounting pronouncements that may affect the Company commencing January 1, 2009. The Company is assessing how it will be affected by these pronouncements.

#### **International Financial Reporting Standards:**

The accounting framework under which financial statements are prepared in Canada for all publicly accountable enterprises is scheduled to change to International Financial Reporting Standards ("IFRS") by January 1, 2011. Generally accepted accounting principles ("GAAP") in Canada will cease to apply and will be replaced by IFRS. Commencing in fiscal 2010, the Company will need to prepare accounts in accordance with Canadian GAAP and IFRS in order to have comparative financial statements on full implementation of IFRS in 2011.

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement, and disclosures. The Company commenced its IFRS transition project in 2008, which consists of three phases: Diagnostic, Development, and Implementation.

The diagnostic phase includes high level assessment to identify key areas of difference between Canadian GAAP and IFRS. As a result of this phase, the Company has prepared a review summary of major differences between Canadian GAAP and current IFRS that will impact the Company's accounting policies. As the Company makes changes to its financial systems, it considers the changes necessary for information gathering with a view to fulfilling the requirements of IFRS disclosure. The Company is also currently assessing choices which affect conversion in accordance with IFRS 1, First Time Adoption of International Financial Reporting Standards. As a number of the IFRS standards are changing, the assessment will be updated to reflect any changes resulting from the final standards.

During the Diagnostic phase, the Company has identified the following areas of significant potential impact: employee benefit plans and impairment of long-lived assets, intangibles, and goodwill. IFRS requires a more elaborate impairment test than under Canadian GAAP, and this test must be applied, at a more detailed level, to individual assets or groups of assets assessed to be Cash Generating Units. IFRS requires the reversal of impairment write-downs where previous adverse circumstances have changed and impairment tests must be completed upon transition to IFRS. The Company anticipates smaller potential impacts in the following areas: foreign currency, provisions, leases, stock-based compensation, income taxes and financial statement presentation, and disclosures. At this time, the impact on the Company's financial position and results of operations is not reasonably determinable or estimable for any of the IFRS conversion impacts identified.

The Development phase involves thorough and detailed evaluation of the financial impact of adoption of IFRS on each key area where difference between Canadian GAAP and IFRS exists. The Company will initiate the development phase in 2009 which will involve a process of substantiating the impact of policy alternatives. Upon completion of this phase, the Company will be able to develop recommendations and design accounting policies to be adopted under IFRS. The Company will also be able to provide recommendations for any modifications to its information systems and processes, as well as its system of internal controls. The Company aims to complete the implementation of IFRS by the end of 2010.

The Company is aware that communication, training, and education are crucial to ensure a successful conversion to IFRS. The Company will periodically report to the audit committee about the status of the conversion project. The Company has started, and will continue to invest in employee training. It will engage third party professional personnel in terms of project management and technical accounting advice, if necessary.

The Company will continue to monitor any changes to IFRS prior to January 1, 2011 and assess the impact of adopting IFRS, and will update its MD&A disclosures quarterly to report on the progress of its IFRS changeover plan.

#### **Financial Statement Concepts:**

CICA Handbook Section 1000 was amended to clarify the criteria for recognition of an asset and the timing of expense recognition, specifically deleting the guidance permitting the deferral of costs. The new requirements are effective for fiscal years beginning on or after October 1, 2008.

#### **Business Combinations:**

CICA Handbook Section 1582, Business Combinations, replaces Section 1581 Business Combinations. This section establishes standards for the recognition, measurement, presentation, and disclosure of business combinations. Section 1582 applies to fiscal years beginning on or after January 1, 2011.

**Consolidated Financial Statements:**

CICA Handbook Section 1601, Consolidated Financial Statements, and CICA Handbook Section 1602, Non-controlling Interests, replace Section 1600 Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements. These sections are effective for fiscal years beginning on or after January 1, 2011.

**Goodwill and Intangible Assets:**

CICA Handbook Section 3064, Goodwill and Intangible Assets, replaces Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The new section establishes standards on the recognition, measurement, presentation and disclosure for goodwill, and intangible assets subsequent to their initial recognition. Section 3064 applies to fiscal years beginning on or after October 1, 2008.

**Additional information relating to our company, including our company's Annual Information Form can be found at the website maintained by the Canadian Securities Administrators at [www.sedar.com](http://www.sedar.com).**

# CONSOLIDATED FINANCIAL STATEMENTS OF AASTRA TECHNOLOGIES LIMITED YEARS ENDED DECEMBER 31, 2008 AND 2007

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and all other information included in this annual report have been prepared by and are the responsibility of management. The consolidated financial statements have been prepared in accordance with accounting principals generally accepted in Canada and reflect management's best estimates and judgments based on information currently available. All other financial information in the report is consistent with that contained in the financial statements. The Company maintains appropriate systems of internal control, policies and procedures that provide management with reasonable assurance that assets are safeguarded and that its financial information is reliable.

The board of directors carries out its responsibility for the consolidated financial statements in this annual report principally through its audit committee. This committee meets with management and the Company's independent auditors to review the Company's reported financial performance and to discuss audit, internal control accounting policy, and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants. Their report outlines the scope of their examination and opinion on the consolidated financial statements.



Francis N. Shen  
Chairman of the Board



Allan J. Brett  
Chief Financial Officer

Toronto, Canada  
March 9, 2009

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Aastra Technologies Limited as at December 31, 2008 and 2007 and the consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants

Toronto, Canada  
March 9, 2009

**Consolidated Balance Sheets**

(In thousands of Canadian dollars)

Years ended December 31, 2008 and 2007

	2008	2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 97,637	\$ 112,802
Short-term investments (note 5(a))	519	20,365
Accounts receivable	234,021	123,010
Income taxes receivable	8,201	215
Inventories (note 6)	108,000	77,745
Net investment in leases (note 7)	7,389	1,731
Acquired lease receivables (note 8)	3,729	5,931
Prepaid expenses and other assets	8,751	4,201
Future income tax assets (note 17)	9,615	8,935
	<b>477,862</b>	<b>354,935</b>
Long-term investment (note 5(b))	5,416	6,996
Future income tax assets (note 17)	4,430	2,853
Net investment in leases (note 7)	19,456	3,532
Acquired lease receivables (note 8)	3,718	6,992
Property and equipment (note 9)	48,859	35,703
Goodwill (note 10(a))	50,269	10,802
Intangible assets (note 10(b))	70,239	24,221
Other assets	441	651
	<b>\$ 680,690</b>	<b>\$ 446,685</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Indebtedness (note 11)	\$ 337	\$ 14
Accounts payable and accrued liabilities	218,933	98,384
Income taxes payable	28,509	25,048
Deferred revenue	22,898	11,900
Contingent consideration payable	-	1,744
Current portion of loans payable (note 12)	27,276	5,986
Future income tax liabilities (note 17)	1,121	1,015
	<b>299,074</b>	<b>144,091</b>
Pensions (note 20)	27,556	19,784
Loans payable (note 12)	35,537	7,905
Future income tax liabilities (note 17)	21,645	7,633
Other long-term liabilities	3,071	2,225
	<b>386,883</b>	<b>181,638</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital (note 15(a))	90,951	98,442
Contributed surplus	6,484	4,029
Accumulated other comprehensive income (loss)	19,588	(15,530)
Retained earnings	176,784	178,106
	<b>293,807</b>	<b>265,047</b>
	<b>\$ 680,690</b>	<b>\$ 446,685</b>

Commitments, contingencies and guarantees (note 22)

Subsequent events (note 23)

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

**Consolidated Statements of Earnings**

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2008 and 2007

	2008	2007
Sales	\$ 832,070	\$ 606,589
Cost of goods sold	458,149	349,051
	373,921	257,538
Expenses (income):		
Selling, general and administrative	218,064	145,094
Research and development (note 18)	97,984	54,629
Depreciation and amortization	26,434	13,422
Interest expense	2,405	135
Foreign exchange loss	3,113	400
Investment income	(3,645)	(3,535)
Other charges (income) (note 16)	13,734	(170)
Earnings from continuing operations before income taxes	15,832	47,563
Income taxes (recovery) (note 17)		
Current	9,735	8,837
Future	(5,380)	2,818
	4,355	11,655
Net earnings from continuing operations	11,477	35,908
Net loss from discontinued operations (note 2)	-	(141)
Net earnings	\$ 11,477	\$ 35,767
Earnings per share from continuing operations:		
Basic	\$ 0.74	\$ 2.24
Diluted	\$ 0.73	\$ 2.18
Earnings per share (note 15(e)):		
Basic	\$ 0.74	\$ 2.23
Diluted	\$ 0.73	\$ 2.17

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Shareholders' Equity and Comprehensive Income**

(In thousands of Canadian dollars, except share amounts)

Years ended December 31, 2008 and 2007

	Common Shares	Share Capital	Contributed Surplus	Accumulated Other Compre- hensive Income (Loss)	Retained Earnings	Total	Compre- hensive Income (Loss)
Balance, December 31, 2006	16,009,573	\$ 97,513	\$ 2,244	\$ (1,549)	\$ 144,125	\$ 242,333	\$ -
Change in accounting policy related to financial instruments, net of income taxes of \$65	-	-	-	-	115	115	-
Adjusted balance, December 31, 2006	16,009,573	97,513	2,244	(1,549)	144,240	242,448	-
Shares issued on exercise of options	75,750	1,259	-	-	-	1,259	-
Stock-based compensation	-	-	1,882	-	-	1,882	-
Shares repurchased for cancellation	(70,000)	(427)	-	-	(1,901)	(2,328)	-
Transfer from contributed surplus to share capital	-	97	(97)	-	-	-	-
Translation of self-sustaining operations	-	-	-	(13,981)	-	(13,981)	(13,981)
Net earnings	-	-	-	-	35,767	35,767	35,767
Balance, December 31, 2007	16,015,323	98,442	4,029	(15,530)	178,106	265,047	21,786
Shares issued on exercise of options	12,250	193	-	-	-	193	-
Stock-based compensation (note 15(c))	-	-	2,536	-	-	2,536	-
Shares repurchased for cancellation note 15(d)	(1,262,000)	(7,765)	-	-	(12,799)	(20,564)	-
Transfer from contributed surplus to share capital	-	81	(81)	-	-	-	-
Translation of self-sustaining operations	-	-	-	35,118	-	35,118	35,118
Net earnings	-	-	-	-	11,477	11,477	11,477
Balance, December 31, 2008	14,765,573	\$ 90,951	\$ 6,484	\$ 19,588	\$ 176,784	\$ 293,807	\$ 46,595

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Cash Flows**

(In thousands of Canadian dollars)

Years ended December 31, 2008 and 2007

	2008	2007
Cash and cash equivalents provided by (used in):		
Operations:		
Net earnings	\$ 11,477	\$ 35,767
Net loss from discontinued operations (note 2)	-	141
Depreciation of property and equipment	12,632	10,803
Amortization of intangible assets	18,209	6,404
Future income taxes	(5,380)	2,818
Stock-based compensation expense	2,536	1,882
Loss (gain) on short-term investments	(147)	955
Loss on sale of property and equipment	432	554
Other charges (income) (note 16)	13,734	(170)
Change in non-cash pension liabilities	1,119	849
Change in non-cash operating working capital (note 19)	(27,764)	(12,274)
	<u>26,848</u>	<u>47,729</u>
Discontinued operations (note 2)	-	(141)
Financing:		
Issuance of common shares on exercise of options	193	1,259
Repurchase of shares (note 15(d))	(20,564)	(2,328)
Receipt of acquired lease receivables	7,159	10,775
Payment of loan to Seller	(7,159)	(10,995)
Increase in loans payable	58,170	454
Payment of loans payable	(294)	-
Decrease in bank indebtedness	(16)	(2,261)
	<u>37,489</u>	<u>(3,096)</u>
Investments:		
Maturity of short-term investments	40,624	85,105
Purchase of short-term investments	(20,631)	(48,498)
Purchase of long-term investment	-	(8,514)
Proceeds on disposal of property and equipment	5	222
Purchase of property and equipment	(18,785)	(13,086)
Business acquisitions, net of cash acquired (note 3(a))	(92,918)	(527)
	<u>(91,705)</u>	<u>14,702</u>
Foreign exchange on cash held in foreign currency	12,203	(4,105)
Increase (decrease) in cash and cash equivalents	(15,165)	55,089
Cash and cash equivalents, beginning of year	112,802	57,713
Cash and cash equivalents, end of year	<u>\$ 97,637</u>	<u>\$ 112,802</u>
Supplemental cash flow information:		
Income taxes paid	\$ 8,268	\$ 3,672
Interest paid	2,443	202
Interest received	3,809	4,007

See accompanying notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(In thousands of Canadian dollars, except share and per share amounts and as otherwise noted)

Years ended December 31, 2008 and 2007

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Aastra Technologies Limited (the "Company") is incorporated under the Canada Business Corporations Act. Its principal business activities include the development and marketing of products and systems for accessing communication networks, including the Internet.

**1. SIGNIFICANT ACCOUNTING POLICIES:****(a) Basis of presentation and consolidation:**

These consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are expressed in thousands of Canadian dollars unless otherwise specified. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

Investments over which the Company is able to exercise significant influence are accounted for using the equity method. Publicly traded investments are classified as held-for-trading investments and are recorded at fair value. Other investments where fair value is not readily available are recorded at cost, and are written down when there is evidence that there has been a decline in the value of those investments that is other than temporary.

**(b) Changes in accounting policy:**

Effective January 1, 2008, the Company adopted the following sections of the Handbook of the Canadian Institute of Chartered Accountants ("CICA"):

**(i) Inventories:**

CICA Handbook Section 3031, Inventories, replaces corresponding Section 3030 and establishes new standards for the measurement and disclosure of inventories. This new section requires inventories to be measured at the lower of cost and net realizable value, provides guidance on the determination of cost, and requires the reversal of prior period write-downs when the net realizable value of impaired inventory subsequently recovers. The new disclosures required by Section 3031 are included in note 6. The adoption of this section had no material impact on the consolidated financial statements.

**(ii) Financial instruments:**

CICA Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation, enhance existing disclosure requirements and place greater emphasis on disclosures related to recognized and unrecognized financial instruments and how those risks are managed.

In accordance with Section 3862, the Company is required to disclose the classifications of its financial instruments into one of the following five categories:

- held-for-trading
- held-to-maturity investments
- loans and receivables
- available-for-sale financial assets
- other financial liabilities

The new disclosures required by Section 3862 are included in note 13. The adoption of these standards had no material impact on the consolidated financial statements.

**(iii) Capital disclosures:**

CICA Handbook Section 1535, Capital Disclosures, establishes disclosure requirements about an entity's capital objectives, policies, and process for managing capital. This new disclosure is provided in note 14. The adoption of this standard did not have a material impact on the consolidated financial statements.

**(c) Revenue recognition:**

The Company's revenue is derived from sales of hardware and software products, installation, maintenance and other services and sales-type and operating leases of communication equipment. Revenue from product sales is recognized upon shipment, since title has passed to the customer, persuasive evidence of an arrangement exists, performance has occurred, receivables are reasonably assured of collection, customer specified test criteria have been met, if applicable, and the earnings process is complete. The Company has no further performance obligations other than those under its standard manufacturing warranty.

For revenue arrangements with multiple deliverables, revenue is allocated to each separable element of the contract using the residual method. The fair value of each undelivered element is determined based upon the price charged when the same element is sold separately or upon other objective evidence. Installation services that are considered essential to the functionality of the related hardware are not separated from the hardware, and revenue related to these combined units is recognized under the percentage-of-completion method using cost of services as a measure of progress to completion.

Maintenance and training services revenue is recognized over the term of the agreement and as the services are provided. Amounts received in advance of revenue recognition are recorded as deferred revenue.

Sales-type leases are those where substantially all of the benefits and risks of ownership of the equipment are transferred to the customer. Sales revenue recognized at the inception of the lease represents the present value of the minimum lease payments, net of any executory costs and related profit included therein, computed at the interest rate implicit in the lease. Unearned finance income, effectively the difference between the total minimum lease payments adjusted for executory costs and the aggregate present value, is deferred and recognized in earnings over the lease term to produce a constant rate of return on the investment in the lease. The cost or carrying value of the equipment being leased is recognized at the inception of the lease reduced by the present value of the unguaranteed residual value accruing to the lessor.

Revenue from equipment under operating leases, where substantially all of the benefits and risks incidental to ownership of the equipment do not transfer to the customer, are included in the determination of net earnings over the lease term on a straight-line basis, representing the time pattern of the customers' benefit.

The Company estimates warranty and other allowances based on historical experience and records a provision in cost of goods sold at the time the revenue is recognized.

**(d) Cash and cash equivalents:**

Cash and cash equivalents include highly liquid investments with original maturity dates of less than 90 days. Cash equivalents are stated at fair value determined by published price quotations in an active market.

**(e) Short-term investments:**

Short-term investments include highly liquid instruments such as commercial paper, bonds and publicly traded stock. Commercial paper and bonds have a maturity date of 90 days or more from the acquisition date. Short-term investments, all of which are classified as held-for-trading, are recorded at fair value.

**(f) Accounts receivable and net investment in leases:**

The Company records an allowance for doubtful accounts against accounts receivable and net investments in leases. Allowances for doubtful accounts receivable and net investment in leases are based on the Company's assessment of the collectibility of specific customer balances, which is based upon review of the customer's credit profile, age of outstanding amounts, past collection experience, and the underlying asset value of the equipment under lease, where applicable.

**(g) Inventories:**

Raw materials are stated at the lower of cost, determined on a weighted average cost basis, and net realizable value. Work-in-progress and finished goods are stated at the lower of cost, determined on a weighted average cost basis, and net realizable value. In determining net realizable value, the Company considers the aging and future demand for the inventory.

**(h) Impairment of long-lived assets:**

Long-lived assets, including property and equipment and intangible assets with finite useful lives, are amortized over their useful lives. The Company annually reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness. The Company performs an impairment assessment of long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount, it is considered to be impaired. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value, which is estimated as the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset.

**(i) Goodwill and intangible assets:**

**(i) Goodwill:**

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. When the Company enters into a business combination, the purchase method of accounting is

used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination.

Goodwill is not amortized, but tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. The Company determines fair value using the combination of a market capitalization approach and a discounted cash flow approach. The market capitalization approach uses comparable market multiples to arrive at a fair value and the discounted cash flow method uses revenue and expense projections and risk-adjusted discount rates. The process of determining fair value is subjective and requires management to exercise a significant amount of judgment in determining future growth rates, discount and tax rates, and other factors. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill, determined in a similar manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

**(ii) Intangible assets:**

Intangible assets acquired in a business combination are recorded at their fair values, amortized over their estimated useful lives and tested for impairment as described in note 1(h).

Intangible assets with determinable lives are amortized over their estimated useful lives on a straight-line basis as follows:

Patents	5 – 10 years
Customer relationships	5 – 10 years
Trade name license	5 years
Non-compete agreement	3 years
Order backlog	Revenue producing period
Licensed technology	5 – 10 years

**(j) Property and equipment:**

Property and equipment are stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Tooling	5 years
Computer hardware	3 – 5 years
Equipment	5 – 10 years
Computer software	2 – 3 years
Furniture	5 – 9 years
Vehicles	4 – 5 years
Buildings	17 – 25 years
Leasehold improvements	Shorter of estimated useful life and lease term

Repairs and maintenance costs are expensed as incurred.

**(k) Research and development costs:**

Research costs, other than capital expenditures, are expensed in the year in which they are incurred. Development costs are expensed in the year incurred, unless such costs meet the criteria for deferral and amortization under GAAP. Research and development costs are reduced by related investment tax credits.

During 2008 and 2007, the Company has not deferred any development costs.

**(l) Foreign currency translation:**

**(i) Self-sustaining foreign operations:**

Assets and liabilities of self-sustaining foreign operations denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at each period-end date. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rates for the period.

The resulting exchange gains or losses on translation are included in the accumulated other comprehensive income (loss) component of shareholders' equity. When there is a reduction in the Company's net investment in its self-sustaining foreign operations, the proportionate amount of the cumulative foreign currency translation adjustment is recognized in earnings.

**(ii) Integrated foreign operations:**

Monetary assets and liabilities of integrated foreign operations denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at each period-end date. Non-monetary assets and liabilities denominated in foreign currencies are translated at their historical exchange rates. Exchange gains or losses arising from the translation of the monetary balances denominated in foreign currencies are recognized in earnings in the period incurred. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rates for the period, except for depreciation, which is translated at the same rate as those used in translation of the corresponding assets. The resulting gains or losses are recognized in earnings in the period incurred.

**(m) Income taxes:**

The Company accounts for income taxes using the asset and liability method. Under this method, future income taxes are recognized for all significant temporary differences between the tax and accounting basis of assets and liabilities and for certain carryforward items. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment of the change.

The Company determines its income tax expense or recovery based on the net earnings or net loss incurred in various tax jurisdictions. In the ordinary course of business, there are many transactions and calculations where the ultimate tax outcome is uncertain and is subject to tax authority review. The final outcome of these matters may be different than the estimates originally made by management in determining the income tax provision, and changes in these estimates could impact the income tax provision in future periods.

**(n) Investment tax credits:**

The Company is entitled to federal and provincial investment tax credits in Canada and France, which are earned as a percentage of eligible research and development expenditures incurred in each taxation year. Investment tax credits are accounted for as a reduction of the related expenditure for items of a current nature and a reduction of the related asset cost for items of a long-term nature, provided that the Company has reasonable assurance that the tax credits will be realized.

**(o) Discontinued operations:**

Long-lived assets are classified as held for sale in the period in which management with the appropriate level of authority commits to a plan to sell the assets. The results of operations and cash flows associated with the assets to be disposed of are reported separately as discontinued operations, net of applicable income taxes, if certain criteria are met.

**(p) Earnings per share:**

Basic earnings per share is computed using the weighted average number of common shares that are outstanding during the year. Diluted earnings per share is computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options using the treasury stock method.

**(q) Asset retirement obligations:**

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in earnings as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset.

**(r) Stock option plan:**

The Company applies a fair value method of accounting to all stock-based compensation granted to both employees and non-employees. The Company has two stock option plans, as described in note 15(b). The estimated fair value of the stock options granted is determined using the Black-Scholes option pricing model with the assumptions noted in note 15(c), and is amortized to income on a straight-line basis over the period in which the related services are rendered, which is usually the vesting period, or, as applicable, over the period to the date an employee is eligible to retire, whichever is shorter.

**(s) Pension plans:**

The Company operates pension plans for current and former employees of its subsidiaries in North America and in several European countries. The plans are accounted for as defined benefit plans or defined contribution plans according to their nature. Defined benefit obligations are calculated using actuarial valuation methods. Under defined benefits plans, the defined benefit obligation is determined using the projected benefit valuation method in plans where the projected benefits are based on length of service, projected salary levels, and pension adjustments, or the accumulated benefit method when projected salary levels do not impact projected benefits. The annual calculated net periodic pension costs, including past service costs, are charged to earnings. The Company does not provide any non-pension post-retirement benefits.

For the purpose of calculating expected return on plan assets, those assets are valued at fair value.

The Company uses the corridor method to amortize actuarial gains or losses (such as changes in actuarial assumptions and experience gains or losses) over the average remaining service life of the plan's participants. Under the corridor method, amortization is recorded only if the accumulated net actuarial gains or losses exceed 10% of the greater of the accrued pension benefit obligation or the market value of the plan assets.

Gains or losses on the plan's settlements or curtailments are recognized in earnings in the year in which they occur. Past service costs arising from a plan initiation or amendment are amortized by assigning an equal amount to each remaining service period up to the full eligibility date of each employee active at the date of the plan initiation or amendment who was not yet fully eligible for benefits at that date. When all, or almost all, of the employees are no longer active, past service costs are amortized on a straight-line basis over the average remaining life expectancy of the former employees.

The Company also has defined contribution plans providing pensions for its employees in Italy. The cost of the defined contribution plans is recognized based on the contributions required to be made during each period.

**(t) Use of estimates:**

Management estimates are used when accounting for items and matters such as valuation of assets acquired in business acquisitions, valuation of the long-term investment, allowances for uncollectible accounts receivable, inventory obsolescence, warranty provision, valuation of goodwill and long-lived assets, useful lives of long-lived assets, valuation of future tax assets, pension plans, stock-based compensation, restructuring accruals, and provisions for contingent liabilities. Key areas of estimation, where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include estimates of future cash flows and discount rates in determining the recoverability of goodwill and long-lived assets. By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements of changes in estimates in future periods could be significant.

**(u) Recent accounting pronouncements:**

The following is a summary of recent accounting pronouncements that may affect the Company. The Company is assessing how it will be affected by these pronouncements.

**(i) International Financial Reporting Standards:**

The accounting framework under which financial statements are prepared in Canada for all publicly accountable enterprises is scheduled to change to International Financial Reporting Standards ("IFRS") by January 1, 2011. Generally accepted accounting principles ("GAAP") in Canada will cease to apply and will be replaced by IFRS. Commencing in fiscal 2010, the Company will need to prepare accounts in accordance with Canadian GAAP and IFRS in order to have comparative financial statements on full implementation of IFRS in 2011.

**(ii) Financial Statement Concepts:**

CICA Handbook Section 1000 was amended to clarify the criteria for recognition of an asset and the timing of expense recognition, specifically deleting the guidance permitting the deferral of costs. The new requirements are effective for fiscal years beginning on or after October 1, 2008.

**(iii) Business Combinations:**

CICA Handbook Section 1582, Business Combinations, replaces Section 1581 Business Combinations. This section establishes standards for the recognition, measurement, presentation and disclosure of business combinations. Section 1582 applies to fiscal years beginning on or after January 1, 2011.

**(iv) Consolidated Financial Statements:**

CICA Handbook Section 1601, Consolidated Financial Statements, and CICA Handbook Section 1602, Non-controlling Interests, replace Section 1600 Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements. These sections are effective for fiscal years beginning on or after January 1, 2011.

**(v) Goodwill and Intangible Assets:**

CICA Handbook Section 3064, Goodwill and Intangible Assets, replaces Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The new section establishes standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets subsequent to their initial recognition. Section 3064 applies to fiscal years beginning on or after October 1, 2008.

**2. DISCONTINUED OPERATIONS:**

On May 31, 2006, the Company sold its digital video business to Harris Corporation, for cash consideration of \$38,100 (U.S. \$34,600). The purchase price was subject to certain adjustment provisions. During the year ended December 31, 2007, the final settlement was made, resulting in a post closing expense of \$234 (U.S. \$200) recorded net of income taxes of \$93.

**3. BUSINESS ACQUISITIONS:**

**(a) Acquisition of Ericsson's Enterprise Communication Business:**

On April 30, 2008, the Company acquired all of the shares and certain assets of Ericsson's Enterprise Communication Business from Telefonaktiebolaget LM Ericsson ("Ericsson") and certain of its subsidiaries. The Enterprise Communication Business offers IP-PBX, converged PBX systems and branch office solutions. As a result of the acquisition of the Ericsson Enterprise Communication Business, the sales of the product lines acquired from Ericsson have been included in the Company's Consolidated Statement of Earnings commencing May 1, 2008.

The final purchase price for the business, including acquisition costs of \$2,364, was \$90,255 (Swedish Kronas 535,952) of which approximately \$58,940 (Swedish Kronas 350,000) was financed through a three year term loan and \$31,315 (Swedish Kronas 185,952) was settled from the cash and short-term investments on hand.

The purchase price has been allocated to the assets and liabilities assumed, based on their estimated fair value at the date of acquisition as follows:

Assets acquired:	
Current assets	\$ 100,436
Property and equipment	2,258
Patent license	8,000
Trademarks	7,000
Non-compete agreement	6,594
Order backlog	5,353
Customer relationships	42,960
Goodwill	52,305
	224,906
Less liabilities assumed:	
Current liabilities	114,452
Future income tax liabilities	20,199
	134,651
Fair value of net assets acquired	\$ 90,255
Financed by:	
Cash, net of cash acquired of \$7,133	\$ 33,978
Receivable from Ericsson	(2,663)
Term loan	58,940
	\$ 90,255

The total goodwill is not taxable and is allocated to each reportable segment as follows: \$1,351 in Americas, \$2,775 in Other and \$48,179 in Europe.

**(b) Acquisition of Soluções de Comunicação, Limitada:**

On February 28, 2005, the Company acquired a 40% interest in Soluções de Comunicação, Limitada ("Elocom") as part of the EADS Telephony Business. On April 1, 2007, the Company entered into four separate purchase agreements to acquire the remaining 60% interest for a total purchase price of \$1,159 (750 Euro). The total purchase price included customer relationships intangible assets of \$2,189 and \$529 allocated to goodwill. Both goodwill and customer relationships are recorded in the European Enterprise Communications segment, and the estimated useful life of the customer relationships is seven years. The purchase agreements signed on April 1, 2007 resulted in the Company acquiring control of Elocom and as such the results of operations for the period from April 1, 2007 to December 31, 2007 have been consolidated into the Company's Consolidated Statement of Earnings.

The purchase agreements stipulate the payment of additional consideration upon the achievement of specific levels of revenue by Elocom in the calendar years 2007 and 2008. Contingent consideration of \$406 (263 Euro) was accrued in the Balance Sheet of the Company at April 1, 2007 reflecting Management's expectation of the likely outcome. In the calendar year 2007, contingent consideration of \$203 was paid and in calendar year 2008, contingent

consideration of \$203 was accrued since Elocom earned the minimum level of revenue specified in the purchase agreements.

**(c) Acquisition of Matracom Networks AG:**

On February 28, 2005, the Company acquired a 40% interest in Matracom Networks AG (“Matracom”) as part of the EADS Telephony Business. During the fourth quarter of 2006, the Company entered into two separate purchase agreements to acquire the remaining 60% interest for a total purchase price of \$380 (397 Swiss francs). The purchase price was finalized in 2007 and included \$270 customer relationships intangible assets with an estimated useful life of seven years.

The acquired business met the targets specified in the purchase agreement for revenue in the first and second quarters of 2007. As a result, the maximum contingent consideration of \$95 (100 Swiss francs) was paid to the Sellers. Contingent consideration was recorded as an adjustment to customer relationships intangible assets.

**4. CASH AND CASH EQUIVALENTS:**

Cash and cash equivalents consist of the following:

	2008	2007
Cash	\$ 47,688	\$ 34,374
Cash equivalents	49,949	78,428
	<b>\$ 97,637</b>	<b>\$ 112,802</b>

Investments held, which mature in less than ninety days from the original maturity, are classified as cash equivalents on the Consolidated Balance Sheet. Generally, cash equivalents are comprised of bankers acceptances, term deposits, and treasury bills. There is no asset-backed commercial paper classified as cash and cash equivalents at December 31, 2008 and 2007. At December 31, 2008 and 2007, none of the Company’s cash was restricted.

**5. INVESTMENTS:**

**(a) Short-term investments:**

The following table presents a breakdown of the Company’s short-term investments, all of which are classified as held-for-trading:

	2008	2007
Bonds	\$ -	\$ 19,761
Preferred shares	388	500
Other	131	104
	<b>\$ 519</b>	<b>\$ 20,365</b>

**(b) Long-term investment:**

In July 2007, the Company invested \$8,514 in asset-backed commercial paper (“ABCP”) issued by Structured Investment Trust III (“SIT ABCP”) which was rated R1-High by the Dominion Bond Rating Service at the time it was purchased. The SIT ABCP matured on October 10, 2007; however, neither principal nor interest were received prior to year end.

In August 2007, the Dominion Bond Rating Service placed the issuer of the SIT ABCP “Under Review with Developing Implications”. The Pan-Canadian Investors Committee (“Investors Committee”) was formed to restructure the pool of assets underlying the affected ABCP into longer term floating rate notes. On March 17, 2008, a Plan of Arrangement filed by the Investors Committee was approved.

Refer to note 16(a), titled Other Charges (Income), for a detailed discussion of the inputs to the valuation technique used by the Company. As a result of the calculation, the Company recorded a fair value adjustment loss and the value recognized on the Consolidated Balance Sheet at December 31, 2008 is **\$5,416** (2007 – \$6,996).

**6. INVENTORIES:**

	2008	2007
Raw materials	\$ 13,799	\$ 11,017
Work in progress	7,946	8,141
Finished goods	86,255	58,587
	<b>\$ 108,000</b>	<b>\$ 77,745</b>

During the year ended December 31, 2008, the Company recorded an inventory provision of \$6,136 to write down the value of the inventory to estimated net realizable value and a reversal of inventory write-down of \$1,623, due to the sale of the inventory previously written down. The net inventory provision of \$4,513 is included in cost of goods sold.

**7. NET INVESTMENT IN LEASES:**

The Company's net investment in leases includes the following:

	2008	2007
Minimum lease payments receivable	\$ 30,655	\$ 6,087
Unearned finance income	(3,810)	(824)
	26,845	5,263
Less: current portion	7,389	1,731
	<b>\$ 19,456</b>	<b>\$ 3,532</b>

During 2008, the Company recorded \$987 of finance income (2007 – \$417).

**8. ACQUIRED LEASE RECEIVABLES AND LOAN PAYABLE:**

As part of the acquisition of the DeTeWe Telecom Systems business in 2005, the Company agreed to assume responsibility for the collection of specified pre-existing leasing receivables, and remit payment to the Seller upon collection. Management believes it does not bear any of the economic risks associated with collection of these lease receivables as any amounts not recoverable from the customers will result in a reduction of that amount to the loan payable by the Company to the Seller. The economic effect of this transaction is that the Company will act as an agent on behalf of the Seller. The following table presents the balances of acquired lease receivables and loan payable.

	2008	2007
Acquired lease receivables	\$ 7,447	\$ 12,923
Less: current portion	3,729	5,931
	<b>\$ 3,718</b>	<b>\$ 6,992</b>

	2008	2007
Loan payable, non-interest bearing (note 12)	\$ 7,345	\$ 12,706
Less: current portion	3,627	5,714
	<b>\$ 3,718</b>	<b>\$ 6,992</b>

**9. PROPERTY AND EQUIPMENT:**

2008	Cost	Impairment	Accumulated amortization	Net book value
Tooling	\$ 19,270	\$ 581	\$ 16,424	\$ 2,265
Computer hardware	21,832	–	15,320	6,512
Equipment	36,384	86	18,395	17,903
Computer software	10,343	–	9,076	1,267
Furniture	6,029	131	4,017	1,881
Vehicles	332	–	281	51
Buildings	5,820	–	1,210	4,610
Leasehold improvements	22,467	1,052	7,045	14,370
	\$ 122,477	\$ 1,850	\$ 71,768	\$ 48,859

2007	Cost	Impairment	Accumulated Amortization	Net book value
Tooling	\$ 16,797	–	\$ 14,041	\$ 2,756
Computer hardware	13,946	–	10,820	3,126
Equipment	27,547	–	14,574	12,973
Computer software	8,053	–	6,729	1,324
Furniture	4,422	–	2,881	1,541
Vehicles	256	–	178	78
Buildings	4,553	–	684	3,869
Leasehold improvements	14,090	–	4,054	10,036
	\$ 89,664	–	\$ 53,961	\$ 35,703

During 2008, depreciation of **\$4,407** was included in cost of goods sold (2007 – \$3,785) and an impairment of **\$1,850** (2007 – \$nil) was included in other charges (income) (note 16(b)). Included in equipment is cost of **\$18,718** and accumulated depreciation of **\$6,529** (2007: cost – \$13,724 and accumulated depreciation – \$4,347) of equipment leased to customers as operating leases. Rental income totalled **\$7,283** (2007 – \$6,544).

**10. GOODWILL AND INTANGIBLE ASSETS:****(a) Goodwill:**

The following table summarizes the changes in goodwill since December 31, 2006:

Balance, December 31, 2006	\$ 11,547
Goodwill recorded during 2007	529
Revaluation of future income tax assets (note 17)	(815)
Adjustment resulting from change in estimates	(120)
Adjustment related to foreign exchange	(339)
Balance, December 31, 2007	\$ 10,802
Goodwill recorded during 2008 (note 3(a))	52,305
Revaluation of future income tax assets (note 17)	(375)
Adjustment resulting from change in estimates	(261)
Impairment (note 16(c))	(9,022)
Adjustment related to foreign exchange	(3,180)
Balance, December 31, 2008	\$ 50,269

**(b) Intangible assets:**

2008	Cost	Other <sup>1</sup>	Accumulated amortization	Net book value
Patents	\$ 55,340	\$ 2,548	\$ 29,635	\$ 23,157
Customer relationships	60,802	5,988	12,902	41,912
Trade name license	2,400	(97)	1,914	583
Non-compete agreement	8,294	672	3,035	4,587
Order backlog	5,353	413	4,940	–
Licensed technology	13,642	7,121	6,521	–
	\$ 145,831	\$ 16,645	\$ 58,947	\$ 70,239

2007	Cost	Other <sup>1</sup>	Accumulated amortization	Net book value
Patents	\$ 40,340	\$ 4,607	\$ 23,344	\$ 12,389
Customer relationships	17,842	2,882	6,112	8,848
Trade name license	2,400	287	1,197	916
Non-compete agreement	1,700	292	1,324	84
Licensed technology	13,642	6,464	5,194	1,984
	\$ 75,924	\$ 14,532	\$ 37,171	\$ 24,221

(1) Other is the total of a decrease of **\$2,564** (2007 – a decrease of \$4,476) related to the fluctuation in foreign exchange rates, a cumulative decrease of **\$8,891** (2007 – a decrease of \$8,112) due to a revaluation of future income tax assets (note 17), a cumulative decrease of **\$1,939** (2007 – \$1,944) related to an acquisition adjustment and an impairment of **\$3,251** (2007 – \$nil) (note 16(b)).

**11. INDEBTEDNESS:**

At December 31, 2008, the Company's available bank overdraft facilities totalled **\$32,528** (2007 – \$30,114). These bank overdraft facilities are short term in nature and are due on demand or within 90 days. The interest rates on the facilities range from 1% to 7% (2007 – 2% to 6%). The Company has provided security interests in certain of its subsidiaries and parent company as security for borrowing under these credit facilities.

**12. LOANS PAYABLE:**

The following table presents a breakdown of the Company's loans payable:

	Principal outstanding	2008	2007
Term loan (a)	350,000 SEK	\$ 54,390	\$ –
Credit facilities (b)	632 Euro	1,078	1,185
Loan (note 8)	4,309 Euro	7,345	12,706
		62,813	13,891
Less: current portion		27,276	5,986
Long-term portion		\$ 35,537	\$ 7,905

The future principal payments due within the next five years are as follows:

2009	\$ 27,276
2010	17,722
2011	16,868
2012	549
2013	251
Thereafter	147
	\$ 62,813

**(a)** On April 30, 2008 the Company borrowed 350,000 Swedish Kronas (SEK), or \$58,940 Canadian dollars, under a three-year term loan, to finance a portion of its acquisition of Ericsson's Enterprise Communication Business. All of the shares of Aastra Telecom Sweden have been pledged as security and Aastra Telecom Europe has provided a guarantee for the borrowing under the term loan.

The term loan bears interest at Stockholm Interbank Offered Rate ("STIBOR"), plus a margin. The Company's European holding company is required to maintain certain covenants with respect to the term loan.

**(b)** These credit facilities mature in three to four years and bear interest from 5.49% to 5.55%. Substantially all of the assets of Aastra Lease SA have been pledged as security for borrowing under these credit facilities.

**13. FINANCIAL INSTRUMENTS:****(a) Fair values and classification of financial instruments:**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated balance sheet, are as follows:

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents, measured at fair value	\$ 97,637	\$ 97,637	\$ 112,802	\$ 112,802
Financial assets held for trading, measured at fair value:				
Short-term investments	519	519	20,365	20,365
Long-term investment	5,416	5,416	6,996	6,996
Loans and receivables, measured at amortized cost:				
Accounts receivable	234,021	234,021	123,010	123,010
Net investment in leases	26,845	24,776	5,263	4,726
Acquired lease receivables	7,447	6,959	12,923	12,507
Indebtedness, measured at fair value	(337)	(337)	(14)	(14)
Accounts payable and accrued liabilities, measured at amortized cost	(218,933)	(218,933)	(98,384)	(98,384)
Contingent consideration payable, measured at amortized cost	-	-	(1,744)	(1,744)
Loans payable, measured at amortized cost	(62,813)	(59,732)	(13,891)	(13,338)
	\$ 89,802	\$ 90,326	\$ 167,326	\$ 166,926

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above:

- (i) The fair values of cash equivalents and short-term investments are determined by the quoted market values for each of the investments in an active market at the reporting date. The fair value of long-term investment is determined by using valuation techniques (note 16(a)).
- (ii) The carrying amounts of cash, accounts receivable, indebtedness, accounts payable, and accrued liabilities approximate their fair values due to the short-term nature of these financial instruments.
- (iii) The fair values of net investment in leases, acquired lease receivables, loan payable, and other long-term liabilities are estimated using the discounted cash flow method.

**(b) Financial risk management:**

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at December 31, 2008.

**(i) Credit risk:**

Credit risk is the risk of loss resulting from the failure of a customer or counterparty to meet its contractual obligations to the Company. The carrying amount of financial assets represents the Company's estimate of maximum credit exposure.

The Company's credit risk is primarily attributable to its cash balances, accounts receivable, and net investments in leases. Aastra's cash equivalents are held in bankers' acceptance notes of Canadian banks, and are held on deposit with Canadian banks. Given the current global financial market and credit crisis, these holdings could be at risk if the depository banks, or the banks issuing bankers' acceptance notes in which Aastra has invested, were to fail without recourse. All of the major banks with whom Aastra holds deposits, or in whose bankers' acceptance notes Aastra has invested, have a Tier 1 Capital ratio of 9% or greater, and long term credit ratings of AA1 (Moody's), AA- (S&P), AA- (Fitch), and AA (DBRS) or greater.

The Company sells the majority of its products and services to telecommunication companies in Canada, United States, and throughout Europe. The Company's exposure to credit risk associated with non-payment by these customers is affected by conditions or occurrences within its industry and the global marketplace. The Company currently believes these conditions are deteriorating significantly. The Company closely monitors extensions of credit and performs ongoing credit evaluations of its customers' financial condition to manage its credit risk exposure. The Company believes it maintains adequate provisions for potential credit losses. The amounts disclosed in the consolidated balance sheet are net of allowances for doubtful accounts, estimated by the Company's management, based on prior experience and an assessment of current financial conditions of customers, as well as the general economic environment. As of December 31, 2008, accounts receivable are net of an allowance for doubtful accounts of \$10,930 (2007 – \$8,532).

**(ii) Liquidity risk:**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's primary source of liquidity is its cash reserves. The Company also maintains certain credit facilities to support short term funding of operations and trade finance. The Company believes it has sufficient available funds to meet current and foreseeable financial requirements. The repayment schedule for our long-term credit facilities is included in note 12.

**(iii) Market risk:**

Market risk arises from changes in market prices and rates (including interest rates, foreign exchange rates, and equity prices), the correlations among them, and their levels of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

**Currency risk:**

The Company is subject to currency risk primarily through its activities in the United States and Europe. Unfavourable changes in the exchange rate may affect the operating results of the Company. The Company does not actively use derivative instruments to reduce its exposure to foreign currency risk. However, depending on the nature, amount and timing of foreign currency receipts and payments, the Company will occasionally enter into short-term foreign currency forward contracts to mitigate the associated risks. There were no foreign currency forward contracts outstanding at December 31, 2008 and 2007.

The Company's major currency exposures, as of December 31, 2008, are summarized in Canadian dollar equivalents in the following table. The local currency amounts have been converted to Canadian dollar equivalent using the spot rates as of December 31, 2008.

	USD	EUR	SEK
Cash and cash equivalents	\$ 2,016	\$ 2,716	\$ -
Accounts receivable	7,889	23,767	-
Other financial assets (a)	11,721	81,466	40,747
Accounts payable and accrued liabilities	(4,305)	(20,415)	-
Other financial liabilities (a)	(7,112)	(10,234)	(3)
Net financial assets (liabilities)	\$ 10,209	\$ 77,300	\$ 40,744

(a) This includes foreign currency denominated inter-company balances.

A five percent strengthening or weakening of the Canadian dollar against the following currencies at December 31, 2008 would have increased (decreased) net earnings and accumulated other comprehensive income (loss) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	USD	EUR	SEK
5% Strengthening:			
Net earnings (loss)	\$ (155)	\$ (3,742)	\$ (52)
Accumulated other comprehensive income (loss)	(355)	(122)	(1,985)
5% Weakening:			
Net earnings (loss)	155	3,742	52
Accumulated other comprehensive income (loss)	355	122	1,985

**Interest rate risk:**

The interest rate on the term loan is based on STIBOR plus a margin, thereby subjecting the Company to interest rate risk due to fluctuations in the STIBOR rate. Based on the balance outstanding at December 31, 2008, a one percentage point increase in the STIBOR rate would increase interest expense by \$567 annually.

The Company is also exposed to interest rate risk, in that changes in market interest rates will cause fluctuations in the fair value of its cash equivalents, short-term investments, loans and receivables, and long-term credit facilities.

**14. CAPITAL MANAGEMENT:**

The Company's objectives when managing its capital are:

- (a) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk, while providing an appropriate return to its shareholders;
- (b) to maintain a strong capital base so as to maintain investor, creditor and market confidence, and to sustain future development of the business;
- (c) to safeguard the Company's ability to obtain financing should the need arise; and

(d) to maintain financial flexibility in order to have access to capital in the event of future acquisitions, and to manage the business through changing economic conditions.

The Company manages its capital structure and makes adjustments to it in accordance with the objectives stated above, as well as responds to changes in economic conditions and the risk characteristics of the underlying assets. The Company monitors the return on capital, which is defined as total shareholders' equity. The Company's European subsidiary is subject to certain covenants under the term loan as discussed in note 12(a).

**15. SHARE CAPITAL:**

**(a) Authorized:**

Unlimited preferred shares  
 Unlimited common shares

**(b) Stock option plans:**

The Company operates two stock option plans, the first of which was initiated during the year 2000 and is hereafter referred to as the "2000 Option Plan". The second plan was approved by shareholders at the Company's Annual General Meeting in May 2006, and is hereafter referred to as the "2006 Option Plan".

Under the 2000 Option Plan, 3,000,000 common shares of the Company were reserved for the issuance of stock options and the Company granted stock options to certain employees, officers, and directors. The plan provides that the terms of the stock options and the option price shall be fixed by the directors, subject to restrictions imposed by any Canadian stock exchange on which the common shares are listed for trading. Stock options currently granted vest over periods from one to six years, and expire between five and ten years from the date of grant. The commencement of the 2006 Option Plan means that there will be no further grants under the 2000 Option Plan, from the date of its approval.

Under the 2006 Option Plan, the Company is able to grant options up to 10% of its outstanding share capital on the date of grant. Options are priced at the weighted average share price outstanding for the five days preceding the option grant date. The Company has granted stock options to certain employees, officers, and directors. Stock options currently granted vest over periods from one to six years and expire between five and ten years from the date of grant.

Stock option transactions were as follows:

	Number of shares under option	Weighted average exercise price per option
Balance, December 31, 2006	1,368,000	\$ 19.10
Granted	109,500	33.82
Exercised	(75,750)	16.61
Cancelled	(12,000)	20.43
Balance, December 31, 2007	1,389,750	\$ 20.38
Granted	357,000	25.79
Exercised	(12,250)	15.76
Cancelled	(2,000)	25.00
<b>Balance, December 31, 2008</b>	<b>1,732,500</b>	<b>\$ 21.51</b>

At December 31, 2008, the range of exercise prices of stock options outstanding and exercisable is as follows:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding, December 31, 2008	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable, December 31, 2008	Weighted average exercise price
\$ 9.00 - \$10.50	454,000	2.22	\$ 9.66	367,000	\$ 9.47
\$12.00 - \$13.00	242,000	3.82	12.57	242,000	12.57
\$20.00 - \$27.00	395,500	1.73	22.64	199,250	22.29
\$31.00 - \$33.00	504,500	8.41	31.96	124,750	32.95
\$32.50 - \$38.10	136,500	2.98	34.88	43,875	35.37
	1,732,500		\$ 21.51	976,875	\$ 17.01

**(c) Stock-based compensation and other stock-based payments:**

The fair value of the stock options is amortized on a straight-line basis over the vesting periods of the options. For the year ended December 31, 2008, the Company recognized stock compensation expense of **\$2,536** (2007 – \$1,882) relating to the fair value of options granted. At December 31, 2008, the unamortized portion is **\$5,115** (2007 – \$4,586).

The weighted average estimated fair value of options granted in 2008 was **\$26.47** (2007 – \$33.70). The fair value of the options granted during 2008 and 2007 is calculated at the date of each grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2008 Options granted	2007 Options granted
Risk-free rate	2.38% to 3.40%	3.95% to 4.10%
Dividend yield	–	–
Volatility factor of the expected market price of the Company's shares	34% to 40%	35%
Expected option life	4 years	4 to 6 years

**(d) Share repurchase program:**

**(i) Normal Course Issuer Bid:**

On August 4, 2006, the Company received approval to commence a Normal Course Issuer Bid (the "2006 Bid") for up to 877,551 of its common shares at prevailing market prices on the Toronto Stock Exchange. The 2006 Bid commenced August 9, 2006 and terminated on August 8, 2007. During the year ended December 31, 2007, 70,000 shares were repurchased at an average per share value of \$33.26, for an aggregate purchase amount of \$2,328. This resulted in \$427 being recorded as a reduction to share capital, and \$1,901 as a reduction in retained earnings.

On August 8, 2007, the Company received approval to commence a Normal Course Issuer Bid (the "2007 Bid") for up to 800,000 of its common shares at prevailing market prices on the Toronto Stock Exchange. The 2007 Bid commenced August 10, 2007 and terminated on August 9, 2008. During the year ended December 31, 2008, 487,000 shares were repurchased at an average per share value of \$26.17, for an aggregate purchase amount of \$12,746. This resulted in \$2,996 being recorded as a reduction to share capital, and \$9,750 as a reduction in retained earnings. No shares were repurchased in 2007 under the 2007 Bid. In total, 487,000 common shares were repurchased under the 2007 Bid prior to its termination.

On August 14, 2008, the Company received approval to commence a Normal Course Issuer Bid (the "2008 Bid") for up to 775,000 of its common shares at prevailing market prices on the Toronto Stock Exchange. The 2008 Bid commenced August 18, 2008 and terminated on November 13, 2008 as the Company repurchased the maximum number of shares allowed under the 2008 Bid. During the year ended December 31, 2008, 775,000 shares were repurchased at an average per share value of \$10.09 for an aggregate purchase amount of \$7,818. This resulted in \$4,769 being recorded as a reduction to share capital and \$3,049 as a reduction in retained earnings.

**(ii) Dutch Auction Issuer Bid:**

On December 17, 2008, the Company received approval to repurchase for cancellation up to \$25,000 of its common shares, in a range of \$10.00 to \$12.50 per share, through a Dutch auction issuer bid. The maximum number of common shares that may be purchased pursuant to the bid is 2,500,000 or approximately 16.9% of the Company's total issued and outstanding common shares. The bid will terminate on January 27, 2009.

**(e) Reconciliation between basic and diluted earnings per share:**

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computation. Basic earnings per share calculation is as follows:

	2008	2007
Numerator for basic earnings per share:		
Net earnings	\$ 11,477	\$ 35,767
Denominator for basic earnings per share:		
Weighted average common shares	15,427,900	16,012,866
Basic net earnings per share	\$ 0.74	\$ 2.23

Diluted earnings per share calculation is as follows:

	2008	2007
Numerator for diluted earnings per share:		
Net earnings	\$ 11,477	\$ 35,767
Denominator for diluted earnings per share:		
Weighted average common shares	15,427,900	16,012,866
Net common shares that would be issued assuming the proceeds from stock options are used to repurchase common shares at the average share price	327,637	433,126
Diluted weighted average common shares	15,755,537	16,445,992
Diluted net earnings per share	\$ 0.73	\$ 2.17

Options to purchase 990,250 (2007 – 39,000) common shares were outstanding during the year ended December 31, 2008, but were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price of the common shares.

**16. OTHER CHARGES (INCOME):**

	2008	2007
Change in fair value of long-term investment (a)	\$ 1,579	\$ 1,619
Impairment of long-lived assets (b)	5,101	–
Impairment of goodwill (c)	9,022	–
Contingent consideration (d)	(1,968)	(1,789)
	13,734	(170)

**(a) Fair value of long-term investment:**

As discussed in note 5(b), the Company regularly performs a detailed valuation to determine the fair value of the SIT ABCP using information gained from the press releases of the Investors Committee, other relevant information available at December 31, 2008 of the proposed restructuring, and the Company's best estimates of reasonably possible outcomes.

As the investment is not supported by observable market prices or rates at December 31, 2008, the Company determined the fair value of the SIT ABCP using a going concern valuation approach to a discounted cash flow model to come up with a range of reasonably possible outcomes.

The following inputs were factored into the valuation technique:

- (i)** Recoverability of each type of restructured notes – The Company estimated a range of between 100% and 85% recoverability for Class A-1 and Class A-2 Notes, 100% and 50% for Class B Notes, 80% and 50% for Class C Notes, and 50% and 0% for Class IA Notes.
- (ii)** Term of investment – On March 20, 2008, the Investors Committee issued the "Information for Noteholders" report, which indicated that the maturity of the Notes will be in eight years.
- (iii)** Payment of interest – The "Information for Noteholders" report indicated that Class A-1 and Class A-2 Notes will pay interest regularly, while Class B Notes will accrue interest but will not pay interest on a current basis, and Class C Notes will accrue interest but will be paid as a low priority. The model assumes a range of possibilities including interest being paid, accrued and paid at the end of the term only, and not being accrued or paid, depending on the type of Notes.
- (iv)** Coupon rate of interest – The Company used a range of coupon rates from 0% to 2.9% in the valuation model, which includes an estimate of restructuring charges and which takes into consideration the probability of interest payment to each class of Notes.

**(v) Discount rate** – The discounted cash flow valuation technique requires a discount rate to match the risks of owning this investment, and also to incorporate the liquidity and credit quality premiums. The yield on CAD Composite AA, A, and BB rated paper at December 31, 2008 is quoted as 5.00%, 5.84%, and 7.74% respectively for a maturity of eight years. The Company has added a premium for credit and liquidity risk of between 175 to 225 basis points.

The output from the valuation technique has given the Company a range of possible fair values from \$4,354 to \$6,269. As the investment is classified as held-for-trading, the Company has recorded a fair value adjustment loss of **\$1,579** (2007 – \$1,619) in the Consolidated Statement of Earnings, based on assigned probabilities of the scenarios. The SIT ABCP is classified as a long-term asset on the Consolidated Balance Sheet at **\$5,416** (2007 – \$6,996).

The Company is continuing to monitor the progress of the Investors Committee. Based on existing knowledge, it is reasonably possible that changes in future conditions in the near term could require a material change in the recognized amount.

**(b) Impairment of long-lived assets:**

The Company tests property and equipment and intangible assets for recoverability when changes in circumstances indicate that the carrying amount may not be recoverable. During the three months ended December 31, 2008, the Company recorded non-cash charges of \$1,804 and \$3,098 against property and equipment and intangible assets, respectively, in North America, and non-cash charges of \$46 and \$153 against property and equipment and intangible assets, respectively, in Latin America.

**(c) Impairment of goodwill:**

The Company evaluates goodwill annually or whenever events or changes in circumstances indicate that the carrying amount may not be recovered. Goodwill is tested for impairment using the two-step method at the reporting unit level, by comparing the reporting unit's carrying amount to its fair value. To the extent a reporting unit's carrying amount exceeds its fair value, goodwill is impaired.

The Company's goodwill balance prior to the impairment charge was \$59,291, and was allocated to each of the Company's reporting units: North America, Europe, the Middle East and Africa, Asia Pacific, and Latin America. The goodwill arose on acquisitions that occurred from 2001 to 2008. The Company completed its step one analysis using a market capitalization approach and a discounted cash flow approach. The market capitalization approach uses comparable market multiples to arrive at a fair value and the discounted cash flow method uses revenue and expense projections and risk-adjusted discount rates. The process of determining fair value is subjective and requires management to exercise a significant amount of judgment in determining future growth rates, discount and tax rates, and other factors. A higher discount rate was used to reflect the risk and uncertainty in the current market. The results of the step one analysis indicated impairment in the North American, Latin American, and Asia Pacific reporting units. The second step of the goodwill impairment assessment was performed in order to quantify the amount of the impairment. This involved calculating the implied fair value of goodwill, determined in a manner similar to a purchase price allocation, and comparing the residual amount to the carrying amount of goodwill. This comparison indicated that the total balance of goodwill in each of the three reporting units was impaired and, as such, \$9,022 was recognized in the three months ended December 31, 2008. The impairment testing incorporated the Company's lower market capitalization and the uncertainties in the markets in which the Company operates.

**(d) Contingent consideration:**

In connection with the business acquisition in 2003, the Company accrued contingent consideration payable upon the achievement of specific levels of revenue by the acquired business. The maximum amount of contingent consideration payable of Swiss franc 6,000 was recorded as a liability at the acquisition date, in 2003. As at December 31, 2008, contingent consideration in the amount of **\$1,968** (Swiss franc 2,000) (2007 – \$1,789 (Swiss franc 2,000)) has not been earned or paid and, accordingly, has been recorded in earnings.

**17. INCOME TAXES:**

The income tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities are as follows:

	2008	2007
Future income tax assets:		
Reserves	\$ 5,735	\$ 7,242
Property and equipment	1,852	724
Goodwill and intangible assets	2,891	1,405
Losses carried forward	12,375	10,305
Other	1,609	633
	24,462	20,309
Less valuation allowance	(10,417)	(8,521)
Total future income tax assets	14,045	11,788
Future income tax liabilities:		
Goodwill and intangible assets	21,738	7,756
Other	1,028	892
Total future income tax liabilities	22,766	8,648
Future income tax (liabilities) assets, net	\$ (8,721)	\$ 3,140

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the years in which the temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the income tax asset, and the tax planning strategies in place when making this assessment. To the extent that management believes that the realization of future income tax assets does not meet the more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

During 2008, projections for the use of tax loss carryforwards acquired in an acquisition were reassessed, resulting in a current year increase to future income tax assets of **\$1,154** (2007 – \$1,822). Goodwill established on acquisition was decreased by **\$375** (2007 – \$815), intangible assets established on acquisition were decreased by **\$779** (2007 – \$1,509), and the income tax expense was increased by **\$nil** (2007 – increased by \$502).

Income tax expense differs from the amount that would be computed by applying the combined federal and provincial statutory income tax rate of **33.5%** (2007 – 36.12%) to earnings before income taxes. The reasons for the differences are as follows:

	2008	2007
Computed tax expense	\$ 5,303	\$ 17,180
Increase (decrease) resulting from:		
Effect of different tax rates on earnings of foreign subsidiaries	(3,855)	(3,445)
Permanent differences	(485)	1,676
Goodwill impairment losses not deductible for tax	3,023	–
Non-taxable portion of capital loss	144	592
Change in valuation allowance	225	(4,348)
	\$ 4,355	\$ 11,655

As at December 31, 2008, the Company has approximately **\$40,499** (2007 – \$32,278) in non-capital losses, relating to its foreign subsidiaries, available to reduce future years' income for income tax purposes. A summary of the non-capital losses by year of expiry is as follows:

2009	\$ 89
2010	454
2011	322
2013	471
2017	33
2018	1,834
2024	2,850
2027	416
Indefinite	34,030
	\$ 40,499

**18. INVESTMENT TAX CREDITS:**

The Company realized a benefit of **\$7,479** (2007 – \$500) relating to investment tax credits. These tax credits are recorded as a reduction to research and development expenses in the year.

As at December 31, 2008, \$7,166 is recorded as income tax receivable and **\$580** (2007 – \$580) is recorded as a reduction to income taxes payable.

**19. CONSOLIDATED STATEMENTS OF CASH FLOWS:**

The change in non-cash operating working capital consists of the following:

	2008	2007
Accounts receivable	\$ (23,439)	\$ 14,586
Inventories	16,086	(10,295)
Net investment in leases	(18,902)	(901)
Prepaid expenses and other assets	(3,214)	1,732
Accounts payable and accrued liabilities	1,230	(20,457)
Income taxes payable	(2,948)	4,060
Deferred revenue	3,423	(999)
	<b>\$ (27,764)</b>	<b>\$ (12,274)</b>

**20. PENSIONS:**

The following table presents pension liabilities of the Company by type of plan:

	2008	2007
Defined contribution pension liabilities	\$ 2,753	\$ 1,643
Defined benefit pension liabilities	24,803	18,141
	<b>\$ 27,556</b>	<b>\$ 19,784</b>

The Company participates in various pension plans in North America and Europe. In countries where there are legal requirements to fund these pension plans, the Company funds these plans as required. In other countries, no such obligation exists.

**(a) Funded defined benefit pension plan in North America:**

During 2006, the Company commenced an Individual Pension Plan scheme for certain senior North American executives. The plan provides pensions based on years of service, years of contributions and earnings, and guarantees the plan members an annual rate of return on plan assets of 7.5%.

Actuarial estimates and maximum retirement benefits are based on projections of employees' compensation levels at the time of retirement, subject to certain adjustments. The most recent actuarial valuation was completed in April 2008 for the years ended 2008 to 2010.

The estimated present value of accrued plan benefits and the estimated market value of the net assets available to provide for these benefits for the years ended December 31 are as follows:

	2008	2007
Plan assets, at fair value	\$ 1,094	\$ 1,190
Defined benefit obligations	(1,580)	(1,348)
Funded status	(486)	(158)
Unrecognized net experience gain	486	158
Net pension asset recognized	<b>\$ -</b>	<b>\$ -</b>

The following information is provided on pension fund assets:

	2008	2007
Plan assets, beginning of year	\$ 1,190	\$ 1,049
Company contributions	225	136
Actual return on plan assets	(321)	5
Plan assets, end of year	<b>\$ 1,094</b>	<b>\$ 1,190</b>

Defined benefit obligations are outlined below:

	2008	2007
Opening balance	\$ 1,348	\$ 1,118
Current service cost	122	136
Interest cost	110	94
Defined benefit obligation, end of year	\$ 1,580	\$ 1,348

Net plan expense is outlined below:

	2008	2007
Current service cost	\$ 122	\$ 136
Interest cost	110	94
Net plan expense	\$ 232	\$ 230

Actuarial assumptions:

	2008	2007
Weighted average discount rate for accrued benefit obligations	7.5%	7.5%
Weighted average rate of compensation increase	5.5%	5.5%
Weighted average expected long-term rate of return on plan assets	5.5%	7.5%

Allocation of plan assets:

Asset category	2008	2007
Equity securities	100%	100%

Contributions:

	Employer	Employee	Total
Actual contributions during 2007	\$ 136	\$ -	\$ 136
Actual contributions during 2008	225	-	225
Expected contributions during 2009	130	-	130

**(b) Funded defined benefit pension plan in Europe:**

In connection with an acquisition in 2003, the Company commenced participation in a contributory defined benefit pension plan which covers certain employees in Switzerland. The plan provides pensions based on years of service, years of contributions, and earnings.

Actuarial estimates and maximum retirement benefits are based on projections of employees' compensation levels at the time of retirement, subject to certain adjustments. The most recent actuarial valuation was completed as of December 31, 2008. The next required valuation will be as of December 31, 2009.

The estimated present value of accrued plan benefits and the estimated market value of the net assets available to provide for these benefits for the years ended December 31 are as follows:

	2008	2007
Plan assets, at fair value	\$ 61,188	\$ 39,217
Defined benefit obligations	(73,213)	(39,036)
Funded status	(12,025)	181
Unrecognized net experience loss	12,025	2,969
Valuation allowance	-	(3,150)
Net pension asset recognized	\$ -	\$ -

Pension fund assets consist primarily of fixed income and equity securities, valued at market value. The following information is provided on pension fund assets:

	2008	2007
Plan assets, beginning of year	\$ 39,217	\$ 37,022
Actual return on plan assets	(10,162)	1,049
Contributions by employees	2,044	1,264
Company contributions	2,162	1,264
Benefits paid/assets transferred in	5,714	1,850
Restructuring	9,836	-
Foreign exchange impact	12,377	(3,232)
Plan assets, end of year	\$ 61,188	\$ 39,217

Defined benefit obligations are outlined below:

	2008	2007
Defined benefit obligations, beginning of year	\$ 39,036	\$ 39,041
Service cost	1,990	1,113
Interest cost	2,297	1,097
Benefits paid/assets transferred in	5,714	1,850
Employee contributions	2,044	1,264
Actuarial gain (loss)	1,208	(1,920)
Restructuring	8,604	-
Foreign exchange impact	12,320	(3,409)
Defined benefit obligations, end of year	\$ 73,213	\$ 39,036

Net plan expense is outlined below:

	2008	2007
Service cost	\$ 1,990	\$ 1,113
Interest cost on accrued benefit obligations	2,297	1,097
Expected return on plan assets	(2,987)	(1,619)
Amortization of net loss	5,006	85
Other	(4,144)	588
Net plan expense	\$ 2,162	\$ 1,264

Actuarial assumptions:

	2008	2007
Weighted average discount rate for accrued benefit obligations	3.00%	3.50%
Weighted average rate of compensation increase	2.00%	2.00%
Weighted average expected long-term rate of return on plan assets	4.50%	4.50%

Allocation of plan assets:

Asset category	Target allocation	2008	2007
Equity securities	46%	37%	38%
Debt securities	19%	18%	21%
Cash	3%	4%	7%
Properties	32%	41%	34%
	100%	100%	100%

The Company makes contributions to the plan to secure the benefits of plan members, and invests in permitted investments, using the target ranges established by the Pension Committee of the pension fund. The Pension Committee reviews actuarial assumptions on an annual basis. The assumptions established, including the expected long-term rate of return, are based on the existing performance and trends and expected results.

Contributions:

	Employer	Employee	Total
Actual contributions during 2007	1,264	1,264	2,528
Actual contributions during 2008	2,162	2,044	4,206
Expected contributions during 2009	2,162	2,044	4,206

**(c) Unfunded pension plans:**

**Defined contribution pension liabilities:**

In Italy, the Company participates in state pension plans, for which contributions expensed correspond to the contributions payable to the state organizations. The Company's obligation is limited to the amount of contributions that are expensed. During 2008, the Company expensed \$1,293 (2007 – \$856) of contributions to defined contribution plans.

**Defined benefit pension liabilities:**

As part of the acquisitions of the EADS Telephony Business and the DeTeWe Telecom Systems Business, the Company assumed the pension obligations related to certain European employees in 2005.

Independent actuaries calculate the Company's obligation in respect of these plans, using the accrued benefit valuation method. Actuarial assumptions comprise mortality, rates of employee turnover, projection of future salary levels, and revaluation of future benefits. Future estimated benefits are discounted using discount rates appropriate to each country. These plans have differing characteristics. In Germany, retirees benefit from the receipt of a

perpetual annuity during their retirement. In France, retirees benefit from a lump sum payment on the employee's retirement or departure.

The most recent actuarial valuations were completed as of December 31, 2008. The next required valuations will be as of December 31, 2009.

Defined benefit obligations are outlined below:

	2008	2007
Defined benefit obligations, beginning of year	\$ 13,792	\$ 18,892
Service cost	409	511
Interest cost	846	765
Benefits paid	(302)	(543)
New entrants/transfers	-	55
Assumption changes	3	(403)
Past service cost	-	(4,264)
Acquisitions	2,367	-
Actuarial loss (gain)	(1,410)	(127)
Foreign exchange impact	2,680	(1,094)
Defined benefit obligations, end of year	\$ 18,385	\$ 13,792

Accrued benefit liabilities are outlined below:

	2008	2007
Accrued benefit liabilities, beginning of year	\$ 18,141	\$ 18,699
Benefit expense	1,021	1,147
Benefits paid	(302)	(543)
Acquisitions	2,367	-
Foreign exchange impact	3,576	(1,162)
Accrued benefit liabilities, end of year	\$ 24,803	\$ 18,141

The reconciliation of defined benefit obligations to accrued benefit liabilities is outlined below:

	2008	2007
Accrued benefit liabilities, end of year	\$ 24,803	\$ 18,141
Unrecognized past service cost	(3,072)	(2,794)
Unrecognized actuarial gain	(3,346)	(1,555)
Defined benefit obligations, end of year	\$ 18,385	\$ 13,792

Net plan expense is outlined below:

	2008	2007
Service cost	\$ 409	\$ 511
Interest cost on accrued benefit obligations	846	765
Amortization of past service cost	(210)	-
Amortization of net gain	(24)	(129)
Net plan expense	\$ 1,021	\$ 1,147

Actuarial assumptions:

	2008	2007
Discount rate for accrued benefit obligations	5.25% to 6.25%	5.25% to 5.50%
Rate of compensation increase	2.25% to 3.50%	2.25% to 3.50%

## 21. SEGMENTED AND GEOGRAPHICAL INFORMATION:

### Segment disclosures:

The Company operates in the Enterprise Communication segment which develops and markets a full line of residential and business telephones for the cable and telecommunication markets. The Enterprise Communication segment is managed geographically between Americas, Europe, and Other. As a result of the acquisition of the Ericsson Enterprise Communication Business in April 2008, the Company gained a stronger presence outside of the Americas and Europe. Management now reviews the results outside of these regions separately, and thus it is appropriate to disclose this as a separate segment. The Other segment includes Africa, Asia, the Middle East, and the Pacific region. Prior year comparative information has been reclassified into these geographic regions.

Management evaluates each geographic segment's performance based on revenues, less cost of goods sold, selling, general and administrative expenses, depreciation of property and equipment, and amortization of intangible assets. The accounting policies of the geographic segments are the same as those described in the summary of significant accounting policies. Research and development and corporate selling, general and administrative

expenses, that benefit all geographic segments, are not allocated to a geographic segment and are included in "Corporate".

The following tables present the segmented statements of earnings for the years ended December 31, 2008 and 2007:

2008	Americas	Europe	Other	Corporate	Total Consolidated
Sales	\$ 118,135	\$ 670,446	\$ 43,489	\$ -	\$ 832,070
Cost of goods sold	71,219	362,660	22,365	1,905	458,149
	46,916	307,786	21,124	(1,905)	373,921
Expenses (income):					
Selling, general and administrative	23,485	181,382	3,729	9,468	218,064
Depreciation of property and equipment	2,568	5,576	81	-	8,225
Amortization of intangible assets	1,555	15,106	1,548	-	18,209
	\$ 19,308	\$ 105,722	\$ 15,766	\$ (11,373)	\$ 129,423
Research and development					97,984
Interest expense					2,405
Foreign exchange loss					3,113
Investment income					(3,645)
Other charges					13,734
Earnings from continuing operations before income taxes					\$ 15,832

2007	Americas	Europe	Other	Corporate	Total Consolidated
Sales	\$ 88,217	\$ 514,782	\$ 3,590	\$ -	\$ 606,589
Cost of goods sold	53,777	292,026	1,771	1,477	349,051
	34,440	222,756	1,819	(1,477)	257,538
Expenses (income):					
Selling, general and administrative	17,514	118,970	513	8,097	145,094
Depreciation of property and equipment	2,972	4,028	18	-	7,018
Amortization of intangible assets	1,355	5,049	-	-	6,404
	\$ 12,599	\$ 94,709	\$ 1,288	\$ (9,574)	\$ 99,022
Research and development					54,629
Interest expense					135
Foreign exchange loss					400
Investment income					(3,535)
Other income					(170)
Earnings from continuing operations before income taxes					\$ 47,563

The following table presents sales to third party customers attributable to geographic location based on the location of the customer for the years ended December 31, 2008 and 2007:

	2008	2007
Germany	\$ 202,625	\$ 183,199
France	130,212	110,752
United States	78,754	65,806
Nordic	63,512	16,472
Canada	19,205	18,587
Other	337,762	211,773
	\$ 832,070	\$ 606,589

Total assets by reportable segment are as follows:

	2008	2007
Europe	\$ 497,422	\$ 241,735
Americas	70,078	57,899
Other	6,103	688
Corporate/ unallocated	107,087	146,363
	\$ 680,690	\$ 446,685

Capital expenditures by reportable segment are as follows:

	2008	2007
Europe	\$ 12,120	\$ 11,425
Americas	1,855	1,246
Other	490	4
Corporate	4,320	411
	\$ 18,785	\$ 13,086

Goodwill by reportable segment is as follows:

	2008	2007
Europe	\$ 49,020	\$ 4,449
Other	1,249	–
Americas	–	6,353
	<b>\$ 50,269</b>	<b>\$ 10,802</b>

Property and equipment and intangible assets by geographical area are as follows:

	2008	2007
Canada	\$ 4,214	\$ 6,558
United States	8,520	7,427
Europe	101,972	45,876
Other foreign	4,392	63
	<b>\$ 119,098</b>	<b>\$ 59,924</b>

## 22. COMMITMENTS, CONTINGENCIES, AND GUARANTEES:

### (a) Lease commitments:

The future minimum annual lease payments under operating leases for rental premises, vehicles, and equipment are as follows:

2009	\$ 27,024
2010	24,264
2011	20,400
2012	16,389
2013	11,802
Thereafter	16,399
	<b>\$ 116,278</b>

During 2008, rent expense totalled **\$16,955** (2007 – \$11,433).

### (b) Bluetooth Technology Partnership Canada Program:

During 2002, the Company entered into an agreement with Technology Partnerships Canada, which will provide the Company funding, to a maximum of \$9,900, to reimburse 33% of eligible costs for a specific research project. To date, the Company has claimed approximately **\$8,628** (2007 – \$8,628), and received approximately **\$8,236** (2007 – \$8,236) from the program. No benefits were received under the agreement in 2008 and 2007. The Company is obligated to pay a royalty of 2.2% of gross project revenues, during a royalty period from January 1, 2006 to December 31, 2010. If, by December 31, 2010, royalties paid are less than \$20,621, the royalty period extends until December 31, 2012. During 2008, the Company paid **\$162** (2007 – \$147) in royalties.

### (c) Litigation:

In the normal course of operations, the Company may be subject to litigation and claims from customers, suppliers, and former employees. Management believes that adequate provisions have been recorded in the accounts, where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the results of operations, financial position, or liquidity of the Company.

### (d) Guarantees:

The Company's obligations under guarantees are not recognized in the financial statements, but are disclosed. The Company provides routine commercial letters of credit, letters of guarantee, contractual vendor rebates, and indemnifications to various third parties, whose terms range in duration, and often are not explicitly defined.

### (e) Asset retirement obligations:

The Company's asset retirement obligations relate to the restoration of various rental premises to their original state. The Company accrued additional liabilities of **\$687** (2007 – \$nil). No liabilities were settled during 2008 and 2007. Accretion expense of **\$64** (2007 – \$nil) was recorded in the Company's Consolidated Statement of Earnings. The total undiscounted amount of cash flows required to settle the obligations is estimated at approximately **\$1,459** (2007 – \$605). Discount rates of 3.25% to 4.00% were used to calculate the present value of the asset retirement obligations over a period of 2 to 12 years. The asset retirement obligations in the amount of **\$1,203** (2007 – \$452) are included in other long-term liabilities.

**23. SUBSEQUENT EVENTS:**

**(a) Long-term investments:**

On January 12, 2009, the Pan-Canadian Investors Committee announced final court approval for implementation of CCAA restructuring plan, and announced terms for payment of accrued interest on ABCP. The Company received an interest payment of \$295 subsequent to December 31, 2008.

Pursuant to the Plan Implementation, subsequent to year end, the Company received the following notes in replacement for its ABCP:

- Class A-1:	\$5,683
- Class A-2:	\$1,425
- Class B:	\$259
- Class C:	\$228
- Class IA:	\$919

**(b) Share repurchase program:**

On January 27, 2009, 1,417,738 shares were repurchased at a per share value of \$12.50, for an aggregate purchase amount of \$17,722, through a Dutch auction issuer bid.

**(c) Loan payable:**

The Company repaid 50,000 Swedish Kronas of the term loan on January 15, 2009.

**24. COMPARATIVE FIGURES:**

Certain 2007 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2008.

## CORPORATE DIRECTORY

### BOARD OF DIRECTORS

Francis N. Shen, P.Eng  
Chairman and  
Co-Chief Executive Officer

Anthony P. Shen, P.Eng  
Co-Chief Executive Officer,  
President and Chief Operating Officer

Hugues Scholaert, P.Eng  
Executive Vice-President

Donald Watt  
Independent Director

Gerald J. Shortall, C.A.  
Independent Director

David M. Williams  
Independent Director

### COMMITTEES OF THE BOARD

#### Audit

Gerald J. Shortall – Chairman  
David M. Williams  
Donald Watt

#### Compensation

David M. Williams – Chairman  
Gerald J. Shortall  
Donald Watt

#### Nominating and Corporate Governance

Donald Watt – Chairman  
Gerald J. Shortall  
David M. Williams

#### LEAD INDEPENDENT DIRECTOR

David M. Williams

#### AUDITORS

KPMG LLP  
Chartered Accountants  
Toronto, Ontario, Canada

### CORPORATE OFFICERS

Francis N. Shen, P.Eng  
Chairman and  
Co-Chief Executive Officer

Anthony P. Shen, P.Eng  
Co-Chief Executive Officer,  
President and Chief Operating Officer

Allan J. Brett, CA, CBV  
Vice-President, Finance  
and Chief Financial Officer

Hugues Scholaert, P.Eng  
Executive Vice-President

John Tobia, M.A.Sc., LL.B.  
Vice-President,  
Legal & General Counsel

Yves Laliberté  
Executive Vice-President

Paulo Francisco, P.Eng  
Vice-President, Global Technology  
and Development  
Aastra Telecom Inc.

Rudy Scholaert, M.A.  
Senior Vice-President, Global Supply Chain  
Aastra Telecom Inc.

### STOCK EXCHANGE

Toronto Stock Exchange  
Stock Symbol – AAH  
Toronto, Ontario, Canada

### TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.  
Toronto, Ontario, Canada

### CORPORATE SOLICITORS

McCarthy Tétrault LLP  
Toronto, Ontario, Canada

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