

ORIGINAL



MEMORANDUM

Arizona Corporation Commission

**DOCKETED**

JUN 18 2004

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FROM: Ernest G. Johnson *EJ*  
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THRU: Wilfred Shand Jr. *WS*  
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Matthew Rowell *MR*  
Chief, Telecommunications & Energy Section  
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DATE: June 18, 2004

RE: SUPPLEMENTAL STAFF REPORT FOR BCE NEXXIA CORPORATION TO OBTAIN A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE FACILITIES-BASED INTEREXCHANGE SERVICES AND PETITION FOR A COMPETITIVE CLASSIFICATION OF PROPOSED SERVICES WITHIN THE STATE OF ARIZONA (DOCKET NO. T-04200A-03-0550)

On August 5, 2003, BCE Nexxia Corporation ("BCE" or "Applicant") filed an application for a Certificate of Convenience and Necessity ("CC&N") to provide facilities-based interexchange within the State of Arizona. On April 16, 2004, a public hearing was held concerning this docket. At the conclusion of the hearing, the Administrative Law Judge requested that BCE submit its most current financial statements.

On June 3, 2004, BCE submitted, as a late-filed exhibit, the 2003 Consolidated Financial Statements of BCE'S parent company, Bell Canada Enterprises, which represented the twelve months ending January 31, 2003. These financial statements list current assets in excess of \$39 billion; total equity in excess of \$13 billion; and a net income in excess of \$1.8 billion. The Applicant did provide notes related to the financial statements. BCE also indicated that these financial statements were audited.

The financial statements submitted in BCE's late filed exhibit are not a substantial change from the financial statements submitted in BCE's original application. Because of this, Staff does not believe that any of the recommendations from the Staff Report filed on October 21, 2003 should be changed.

Originator: Adam Lebrecht

Attachment: Original and Sixteen Copies

SERVICE LIST FOR: BCE NEXXIA CORPORATION

DOCKET NO. T-04200A-03-0550

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Ms. Lyn Farmer  
Chief Administrative Law Judge  
Arizona Corporation Commission  
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## CONSOLIDATED FINANCIAL STATEMENTS

## Financial statements at a glance

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This section of our annual report contains the audited consolidated financial statements of BCE and detailed notes with explanations and additional information.

BCE consists of many businesses, including subsidiaries, joint ventures and investments in significantly influenced companies. We present the financial information for all of our holdings as one "consolidated" company.

Except in the auditors' report, we, us, our and BCE mean BCE Inc., its subsidiaries and joint ventures.

The financial statements contain our results and financial history for the past three years. The notes are an important part of understanding our financial results. They explain how we arrived at the numbers in the financial statements, describe significant events or changes that affect the numbers, and explain certain items in the financial statements. They also include details about our financial results that are not shown in the financial statements.

## Management's report

These financial statements form the basis for all of the financial information that appears in this annual report.

The financial statements and all of the information in this annual report are the responsibility of the management of BCE Inc. and have been reviewed and approved by the board of directors. The board of directors is responsible for ensuring that management fulfills its financial reporting responsibilities. Deloitte & Touche LLP, the shareholders' auditors, have audited the financial statements.

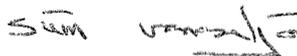
Management has prepared the financial statements according to Canadian generally accepted accounting principles. Under these principles, management has made certain estimates and assumptions that are reflected in the financial statements and notes. Management believes that these financial statements fairly present BCE's consolidated financial position, results of operations and cash flows.

Management has a system of internal controls designed to provide reasonable assurance that the financial statements are accurate and complete in all material respects. This is supported by an internal audit group that reports to the audit committee, and includes communication to employees about policies for ethical business conduct. Management believes that the internal controls provide reasonable assurance that our financial records are reliable and form a proper basis for preparing the financial statements, and that our assets are properly accounted for and safeguarded.

The board of directors has appointed an audit committee, which is made up of unrelated and independent directors. The audit committee's responsibilities include reviewing the financial statements and other information in this annual report, and recommending them to the board of directors for approval. You will find a description of the audit committee's other responsibilities on page 104 of this annual report. The internal auditors and the shareholders' auditors have free and independent access to the audit committee.



Michael J. Sabia  
President and  
Chief Executive Officer



Siim A. Vanaselja  
Chief Financial Officer



Karyn A. Brooks  
Vice-President and  
Corporate Controller

March 10, 2004

## Auditors' report

## To the shareholders of BCE Inc.:

We have audited the consolidated balance sheets of BCE Inc. as at December 31, 2003 and 2002, and the consolidated statements of operations, (deficit) retained earnings and cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of BCE Inc.'s management. Our responsibility is to express an opinion on these consolidated 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 whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 BCE Inc. as at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003, in accordance with Canadian generally accepted accounting principles.



Deloitte & Touche LLP  
Chartered Accountants  
Montréal, Canada  
March 10, 2004

## CONSOLIDATED STATEMENTS OF OPERATIONS

For the year ended December 31 (in \$ millions, except share amounts)	Notes	2003	2002	2001
<b>Operating revenues</b>		<b>19,056</b>	19,186	18,796
Operating expenses		(11,630)	(11,831)	(11,857)
Amortization expense		(3,147)	(3,082)	(3,517)
Net benefit plans (cost) credit	22	(175)	33	121
Restructuring and other charges	4	(52)	(887)	(977)
Total operating expenses		(15,004)	(15,767)	(16,230)
<b>Operating income</b>		<b>4,052</b>	3,419	2,566
Other income	5	213	2,433	4,066
Impairment charge	6	–	(765)	–
Interest expense	7	(1,093)	(1,124)	(1,001)
<b>Earnings from continuing operations before income taxes and non-controlling interest</b>		<b>3,172</b>	3,963	5,631
Income taxes	8	(1,136)	(1,583)	(1,696)
Non-controlling interest		(191)	(602)	(289)
<b>Earnings from continuing operations</b>		<b>1,845</b>	1,778	3,646
Discontinued operations	9	(30)	629	(3,210)
<b>Net earnings</b>		<b>1,815</b>	2,407	436
Dividends on preferred shares		(64)	(59)	(64)
Premium on redemption of preferred shares	20	(7)	(6)	–
<b>Net earnings applicable to common shares</b>		<b>1,744</b>	2,342	372
<b>Net earnings (loss) per common share – basic</b>	10			
Continuing operations		1.93	2.00	4.43
Discontinued operations		(0.03)	0.66	(3.97)
Net earnings		1.90	2.66	0.46
<b>Net earnings (loss) per common share – diluted</b>	10			
Continuing operations		1.92	1.98	4.38
Discontinued operations		(0.03)	0.64	(3.92)
Net earnings		1.89	2.62	0.46
<b>Dividends per common share</b>		<b>1.20</b>	1.20	1.20
Average number of common shares outstanding – basic (millions)		920.3	847.9	807.9
The following is a reconciliation of net earnings to reflect the comparative impact of no longer amortizing goodwill and indefinite-life intangible assets effective January 1, 2002:				
Net earnings, as reported				436
Amortization expense on goodwill and indefinite-life intangible assets				971
Adjusted net earnings				1,407
Adjusted net earnings per common share:				
Basic				1.66
Diluted				1.64

## CONSOLIDATED STATEMENTS OF (DEFICIT) RETAINED EARNINGS

For the year ended December 31 (in \$ millions, except share amounts)	Notes	2003	2002	2001
<b>Balance at beginning of year, as previously reported</b>		<b>(6,149)</b>	712	1,339
Adjustment for change in accounting policies	1	(286)	(8,398)	(140)
<b>Balance at beginning of year, as restated</b>		<b>(6,435)</b>	(7,686)	1,199
Consolidation of variable interest entity	1	(25)	–	–
Net earnings		1,815	2,407	436
Dividends – Preferred shares		(64)	(59)	(64)
– Common shares		(1,105)	(1,031)	(969)
		(1,169)	(1,090)	(1,033)
Costs relating to the issuance of common shares, net of \$22 million of taxes		–	(62)	–
Premium on redemption of common and preferred shares	20	(7)	(6)	(108)
Other		(9)	2	–
<b>Balance at end of year</b>		<b>(5,830)</b>	(6,435)	494

## CONSOLIDATED BALANCE SHEETS

At December 31 (in \$ millions)	Notes	2003	2002
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		714	263
Accounts receivable	11	2,077	2,181
Other current assets		745	731
Current assets of discontinued operations	9	45	257
<b>Total current assets</b>		<b>3,581</b>	<b>3,432</b>
<b>Capital assets</b>			
Other long-term assets	12	21,189	20,380
Indefinite-life intangible assets	13	3,550	3,789
Goodwill	14	2,910	900
	15	7,825	9,471
Non-current assets of discontinued operations	9	276	1,134
<b>Total assets</b>		<b>39,331</b>	<b>39,106</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		3,691	3,712
Debt due within one year	16	1,537	1,957
Current liabilities of discontinued operations	9	27	191
<b>Total current liabilities</b>		<b>5,255</b>	<b>5,860</b>
Long-term debt	17	12,393	13,117
Other long-term liabilities	18	4,699	3,650
Non-current liabilities of discontinued operations	9	1	280
<b>Total liabilities</b>		<b>22,348</b>	<b>22,907</b>
Non-controlling interest		3,403	3,584
Commitments and contingencies	23		
<b>SHAREHOLDERS' EQUITY</b>			
Preferred shares	20	1,670	1,510
<b>Common shareholders' equity</b>			
Common shares	20	16,749	16,520
Contributed surplus		1,037	1,010
Deficit		(5,830)	(6,435)
Currency translation adjustment		(46)	10
<b>Total common shareholders' equity</b>		<b>11,910</b>	<b>11,105</b>
<b>Total shareholders' equity</b>		<b>13,580</b>	<b>12,615</b>
<b>Total liabilities and shareholders' equity</b>		<b>39,331</b>	<b>39,106</b>

On behalf of the board of directors:

*Tom C. Siskell*

Director

*[Signature]*

Director