CCC

Canadian Commercial Corporation
Corporation Commerciale Canadienne

Strategic Realignment

Annual Report

2005–06

60 yrs

Last year, the Canadian Commercial Corporation undertook a process of strategic realignment.

The organization’s objectives and operational approaches were reviewed. The outcome was a renewed commitment to CCC’s core business – connecting Canadian exporters to international public sector markets through government-to-government contracting in defence and developing country markets. Furthermore, there was a renewed focus on excellence in business, financial and risk management processes as key enablers of success. Finally, there is a deeper understanding that CCC’s future depends on the dedication and expertise of its employees, who work to help Canadian exporters.

CCC believes that excellence in international government-to-government contracting, combined with more effective and coherent collaboration with international trade partners, will significantly improve outcomes for Canadian exporters.

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Photo credits:

4. CIDA Photo: D. Trattles
5. Department of National Defence (DND)

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Message from the Chair

The past fiscal year was one of change for the Canadian Commercial Corporation. Acting on the strategic direction set by the Board of Directors, the organization engaged in a restructuring process, ensuring its ability to serve effectively, accountably and with sharp focus as Canada's international contracting agency.

Critical to this was the clear definition and reaffirmation of CCC's two business branches: Defence (which encompasses aerospace, defence and security) and International Development. These are the pillars on which the Corporation stands – pillars that were put in place 60 years ago when CCC was founded. As such, realignment is a return to core principles and competencies.

CCC achieved an operating surplus in 2005-06, the first time it has done so in the past three years. This is a most encouraging achievement and a harbinger of things to come.

2005-06 was the first full fiscal year in which the effects of CCC's new governance structure were felt. The Board focused on CCC's strategic direction and engaged in candid, constructive dialogue with CCC's executive. Board members demonstrated their ability to lead and to challenge – for the good of organizational effectiveness – while respecting the requirement for management to manage and act independently.

Much of the work done at the Board level pertained to matters of structure and process, which have a direct bearing on the ability of the organization to fulfill its mandate and achieve its objectives. Requirements of transparency, financial control, diligent reporting and officers' certification of results all depend on the existence of sound systems.

The Board approved an Enterprise Risk Management (ERM) framework for CCC in 2005-06, allowing executives to examine and start retooling business processes, and IT systems.

The Board also took steps last year to strengthen itself. Having followed a merit-based process for defining requirements when seeking new members, the Board secured ministerial approval to appoint two directors to fill vacant seats.

The Board recognizes its responsibilities to the Minister of International Trade and looks forward to sharing further insights into our business with the government through diligent reporting on our role and performance.

In the coming period, the Board is eager to see the outcomes of CCC's efforts. The Corporation anticipates continued success in terms of orders received, success in risk management, and systems-driven gains in efficiency and effectiveness. It is fitting that positive results should be expected for the year that CCC will celebrate its 60th anniversary.

I want to thank CCC's management and staff for their efforts over the course of the year. I would also like to thank former board member Neil Yeates for his valuable contribution to the Board of Directors during his term with us.

Alan Curleigh
Chair

Message from the President

'Clarity' was the keyword for CCC last year. Clarity of purpose. Clarity of focus. Clarity in defining the structures, systems and processes necessary for the Corporation to achieve its goals.

That clarity stems from a deliberate return to the mandate that was given originally to the Corporation in 1946.

In 2005-06, CCC posted record orders received and, for the first time in three years, achieved an operating surplus. Working with a federal government allocation of $16 million, CCC contracted $1.6 billion in export transactions last year – a good return on investment. In an organization of about 100 employees, that means over $1 million per month per employee.

The accomplishments of 2005-06 support our conviction that a tighter, sharper focus is conducive to growth.

Last year, the Corporation took several steps to improve its business processes, striving for excellence in financial, contract and enterprise risk management. We have also focused on addressing legacy project difficulties and ensuring they are accurately provisioned. Risk is part of our business. Going forward, CCC has identified effective risk management as a key priority.

I would like to thank the Board for the discipline and vision it brought to bear in realigning the Corporation's strategic direction.

A priority both for the Board and CCC's management team is strengthening our partnerships. Our Corporation is one component in a larger system of market access and trade facilitation. Understanding our role and value within that system will allow us to build better, more effective relationships with commercial and public-sector partners, particularly Foreign Affairs and International Trade Canada (FAITC), the Canadian International Development Agency (CIDA) and Export Development Canada (EDC).

In 2005-06, CCC devoted much effort to identifying and cultivating partnerships. Going forward we will be focused on measuring results.

The past year has been personally gratifying for me. It was my first as President of CCC, and my appreciation for the role and value of the Corporation has deepened. I have also gained great admiration for the people of CCC, whose dedication and hard work have propelled us through a time of considerable change.

Finally, it gives me great pleasure to look ahead to the coming year – in which CCC celebrates its 60th anniversary.

John McBride
President

2005-06 highlights

Orders received	$1.564 billion
Number of exporters contracting through CCC	162
Order received from the U.S.	$710 million
Orders received from 20 other countries	$854 million
Net Revenues	$10.1 million
Parliamentary appropriations	$16.2 million
Commercial trading transactions	$1.065 billion

Branch
International Development

Fact
CCC helps foreign governments procure essential goods from Canada

The story
CCC is in the final year of a Memorandum of Understanding with the Canadian International Development Agency (CIDA) to procure essential medications and medical devices for the government of Zambia. Through the project, called *Mankwala Ya Zambia* (Medicine for Zambia) products such as anti-infectives, antibiotics, antimoebics and analgesics are purchased from various Canadian suppliers for distribution in Zambia.

Who we are

CCC was created 60 years ago to support the development of trade between Canada and other countries – specifically, by helping Canadian exporters access markets abroad and by helping foreign buyers obtain goods from Canada.

CCC is a Crown corporation under schedule III part I of the *Financial Administration Act*. CCC reports to Parliament through the Minister of International Trade. It is funded through three distinct streams: appropriations, voted by the Parliament of Canada; interest income; and, fees generated by service offerings to exporters.

CCC is headquartered in Ottawa and employs approximately 100 personnel.

Answering the need

CCC's main business is government-to-government contracting and procurement in defence and developing country markets. CCC operates in markets where government-to-government contracts are required to supplement international trade rules or practices. In general, this means defence and developing country markets. Defence because these markets are exempt from multilateral trade agreements and are subject to national security and national preference considerations. Developing country markets because procurement and contracting practices are not always sufficiently robust to allow Canadian exporters to conclude successful trade transactions without assistance.

Where we fit

CCC operates within the International Trade portfolio. The Corporation works closely with Foreign Affairs and International Trade Canada (FAITC). CCC's procurement and contracting services complement the structured financial services and export insurance provided by EDC. CCC relies on the international and domestic front-line client and market intelligence services provided by International Trade Canada (ITCan) to Canadian exporters.

What we deliver

As Canada's international contracting agency, CCC offers three principal services: sovereign contracting; procurement services; and contract advice.

Sovereign contract service

CCC secures Canadian export deals by signing contracts with foreign governments on behalf of the government of Canada – on the best possible terms for all parties concerned. These government-to-government contracts are mirrored by back-to-back contracts with Canadian exporters who provide the goods or services required. The benefit of sovereign contracting is that CCC guarantees contract performance, reducing the buyer's risk of exposure to non-performance. The actual performance obligations of the contract remain with the exporter.

Procurement agent service

CCC procures goods and services on behalf of government buyers and multilateral organizations for international end use, managing both the contracting process and purchasing cycle.

Contract advisory services

CCC's contract specialists provide valuable guidance and advice on how to meet buyers' contractual requirements and navigate the procedures and rules associated with complex government-to-government markets. CCC also assists exporters by helping them structure transactions in ways that enhance the appeal of their offerings and by supporting the negotiation of the best possible terms and conditions.

Performance against objectives

CCC's business objectives in 2005-06 were identified in the *2005-06 to 2009-10 Corporate Plan* as:

1. Sharpening the commercial focus;
2. Achieving a growing diversified export contract portfolio;
3. Enhancing the corporate profile and increasing awareness; and
4. Improving the service delivery capacity.

As noted earlier, during 2005-06, the Corporation re-examined its focus and objectives. As a result, the objectives set out in the Corporation's 2006-07 to 2010-11 Corporate Plan will reflect a realignment of the previously stated objectives as follows:

1. **Sharpening the commercial focus:** With a clearer focus on core competencies, our commercial success will be measured against our results in defence and developing country markets. Furthermore, this objective, particularly with respect to optimizing CCC's fee structure, requires the application of a reliable and accurate cost-attribution model to define "self-sufficiency outside of the Defence Production Sharing Arrangement (DPSA)."
2. **Growing a diversified export portfolio:** As opposed to a general focus on diversification, success in the future will be measured by our ability to expand exports in our core markets.

Branch

Aerospace, Defence and Security

Fact

CCC responds rapidly to urgent requirements

The story

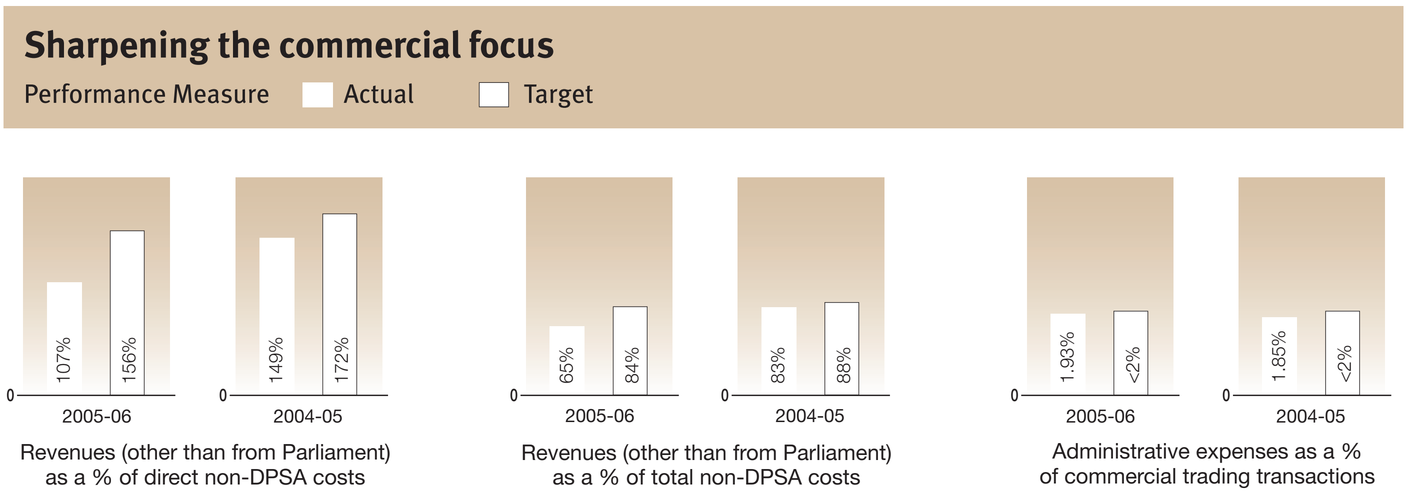
Sometimes there's just no time to wait. That was the case when the Canadian International Development Agency (CIDA) came to CCC early in the fall of 2004 urgently seeking air-transportation support for Canada's contribution to the African Mission in Sudan (AMIS). In just a matter of months CCC had found, contracted and engaged Skylink PAE Aviation Inc., to supply helicopters (totaling 25 by 2006), two fixed-wing aircraft, and crews for all to deliver personnel and cargo air services.

3. **Enhancing our corporate profile and increasing awareness:** This objective must be targeted at Canadian exporters for whom accessing defence and/or developing country markets are key elements of business strategy. Instead of general profile building, the Corporation will utilize its strategic partnerships to more effectively identify and engage its target audiences.
4. **Improving service delivery capacity:** Improving service delivery capacity requires a deliberate focus on fostering highly motivated and skilled personnel, as well as the implementation of robust business processes and meaningful performance measures.

Primary performance objectives

1. Sharpening the commercial focus

This 2005-06 result was significantly affected by additional contract costs related to contracts signed between 2000 and 2003. Having addressed these issues the Corporation is expecting significant improvement in future years.

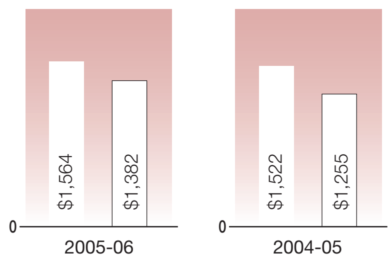


2. Growing a diversified export portfolio

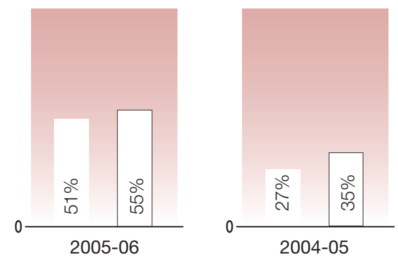
Total orders received at $1.564 billion were a record high for CCC. In addition, with the signing of the Quito airport project, orders outside the U.S. were also high in 2005-06.

Growing a diversified export portfolio

Performance Measure   Actual   Target



Volume of orders received (millions)



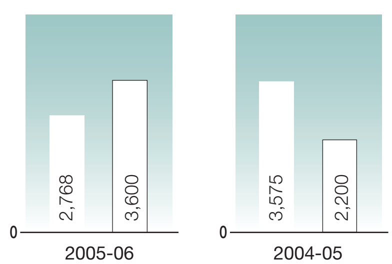
% of volume of orders received from countries other than U.S.

3. Enhancing our corporate profile and increasing awareness

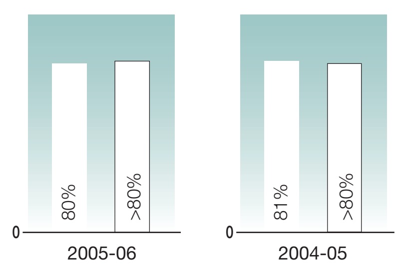
The following data measures use of the indirect (non-core) electronic business opportunity identification and matching service offered online through Industry Canada's SourceCan platform. In 2006-07 CCC will no longer use the indirect service measure associated with the SourceCan platform as an indicator of corporate profile and exporter awareness of CCC services. Instead, the Corporation will report on use of CCC's core contracting and procurement services.

Enhancing our corporate profile and increasing awareness

Performance Measure   Actual   Target



Number of Canadian companies using CCC services



% of Canadian companies using CCC services that are small and medium enterprises (SMEs)

4. Improving internal service delivery capacity

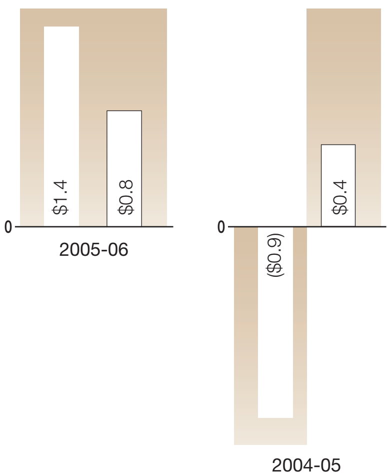
In 2005-06, CCC undertook a number of activities that will, over time, lead to an improvement in service delivery capacity. These include the Enterprise Risk Management (ERM) Framework, the revised learning policy, and an internal examination of the Enterprise Resource Planning (ERP) system.

Selected secondary performance measures

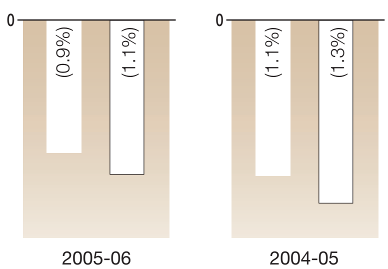
Secondary performance indicators reflect measurement objectives that cover several areas within the Corporation and include key financial and related operational performance indicators.

Selected secondary financial performance measures

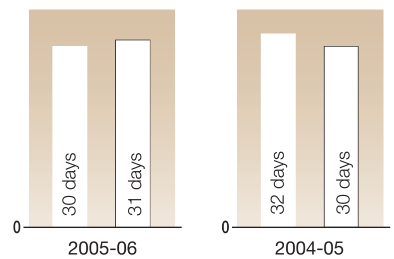
Performance Measure Actual Target



Net results of operations versus budget (millions)



Net results of operations (before parliamentary appropriation) compared to volume of orders received



Days required to make payments directly to exporters

Five-year historical review of key indicators

Key performance indicators measured between 2001-02 and 2005-06:

	2005-06	2004-05	2003-04	2002-03	2001-02
New orders received (millions)	$1,564	$1,522	$1,144	$952	$1,214
Revenues from non-parliamentary sources (millions)	$10.328	$9.917	$11.922	$9.458	$7.911
Revenues (before appropriations) as a % of total non-DPSA costs	65%	83%	105%	104%	N/A
Net results of operations (millions)	$1.4	($0.9)	($0.8)	$0.1	$2.5
Additional contract costs as a % of orders received	0.26%	0.33%	0.46%	0.21%	0.03%
Number of Canadian companies using CCC services	2,768	3,575	3,702	1,971	1,954
Percentage of clients who are SMEs	80%	81%	84%	82%	N/A

Management discussion and analysis

In 2005-06, CCC focused on its core business – government-to-government contracting and procurement in defence and developing country markets. Consistent with its return to core business, the organization restructured its operations into two business branches – Aerospace, Defence and Security, and International Development. Each branch was mandated to connect exporters to markets in their respective areas while ensuring on-going financial viability for the Corporation.

Branch

Aerospace, Defence and Security

Fact

CCC helps Canadian companies sell into the U.S. security market

The story

When Field Aviation and Bombardier sought to negotiate a contract for providing Dash 8 Multi-Role Surveillance Aircraft to ATK Mission Research Integrated Systems – a vendor in the U.S. Homeland Security market – the two Canadian companies called on CCC's expertise and role as manager of the Canada-U.S. Defence Production Sharing Arrangement (DPSA).

Aerospace, Defence and Security

The United Stated Department of Defense (U.S. DoD) business segment represents the single largest share of CCC's contract billings, amounting to approximately 67 percent. This market, accessed through the Canada-U.S. DPSA, performed strongly for CCC in 2005-06, as anticipated.

The U.S. DoD market fluctuates somewhat from year to year due to stockpiling trends and anomalies that arise from purchases on behalf of allied forces. CCC closed the 2005-06 fiscal year with approximately $625 million new orders received between Canadian companies and the U.S. DoD; this is $93 million lower than the previous year (which included a large purchase made by DoD on behalf of a U.S. ally).

DoD is CCC's number-one defence-sector buyer, and CCC is committed to maintaining a strong, relationship through the mechanism of the DPSA. This requires an on-going program of outreach and advocacy. By providing data on procurement that presents a clear picture of the healthy buy-sell dynamic between Canada and the U.S., CCC helps U.S. purchasers make well-informed decisions in this respect.

CCC developed opportunities last year to serve the Canadian and international defence markets through deals that consolidate the requirements of like minded countries which alone cannot generate orders of sufficient size to be affordable. This was the case in 2005-06 regarding the joint purchase of SIRIUS infrared defence systems by the navies of Canada and The Netherlands. CCC intends to apply this model to future joint procurement projects in order to grow business in this area.

CCC's Aerospace, Defence and Security Branch also worked last year to redefine its relationship with Public Works and Government Services Canada (PWGSC). PWGSC is a key partner with considerable purchasing expertise; through a Memorandum of Understanding and ongoing discussions, CCC aims to define and refine a mutually beneficial mode of working with PWGSC, whereby each can capitalize on the strengths of the other in serving defence-sector clients.

In the year ahead, CCC will expand its Aerospace, Defence and Security team to fill vacant positions and reach full capacity, and will continue to examine and advance opportunities to support Canada's Department of National Defence (DND) with sector-specific contracting services.

Developing country markets

CCC's International Development Branch was established in its present configuration in September 2005 – an amalgamation of CCC's International Procurement Services and other divisions of the Corporation.

The move to create the International Development Branch was tied directly to CCC's process of strategic realignment.

Upon creation, the task for the International Development Branch was to articulate a mission and vision in keeping with CCC's overall mandate – while at the same time continuing with business already underway and beginning to identify fresh opportunities.

From a strategic point of view, it was determined early on that partnerships with EDC, the Canadian International Development Agency (CIDA) and other such organizations that operate in the development sphere would be critical to CCC's success in this space. Efforts commenced almost immediately to fortify those partnerships that already existed and to identify new opportunities.

In addition to the efforts associated with establishing a new branch of operations, CCC completed a number of international projects over the course of the year, most notably concluding a four-year contracting process to participate in the construction of Quito airport in Ecuador (a project valued at $510 million) and finalizing a procurement contract for Canadian firms to provide water/hydroelectric-engineering services to the Dominican Republic. Impact assessments for a separate hydroelectric project in India were completed last year, paving the way for a Canadian supplier to upgrade an existing hydro facility in a contract valued at approximately $100 million.

A priority for the coming year, in addition to continuing staffing and partnership efforts, will be to define and implement a viable business model for the branch.

Business performance at a glance

The following table shows the actual results against targets (millions):

	2005-06 Actual	2005-06 Budget	2004-05 Actual	2004-05 Budget
Aerospace, Defence and Security				
DPSA	$625	$625	$763	$625
Major defence projects (including Light Armoured Vehicles)	$77	$200	$343	$200
Global aerospace and defence	$223	$145	$294	$145
Developing Country Markets				
Baseline*	$63	$95	$106	$ 95
Progress Payment Program**	$0	$55	$ 5	$ 55
ICB major projects	$576	$135	$ 11	$135
New orders received	**$1,564**	**$1,255**	**$1,522**	**$1,255**

* Supply and minor construction.
** The Progress Payment Program (PPP) was discontinued in 2005-06 in order to eliminate duplication with services offered by EDC.

Enablers

CCC has identified human resources and external partnerships as operational enablers essential to the successful execution of its strategic plans.

Internal capacity and human resources

In addition to direct staffing requirements, change management was a key focus for CCC over the course of 2005-06, given the activities around restructuring and strategic realignment carried out during the year. On the human resources front, CCC successfully completed negotiations with the Professional Institute of the Public Service of Canada (PIPSC), which represents the Corporation's employees. The new agreement is valid until 2007 and retroactive to the expiry of the prior agreement in 2004. To boost CCC's internal capacity, the Corporation updated its Learning Policy, which encourages employees to create professional-development curricula that map onto their specific goals and objectives.

CCC recognizes employees for their contributions twice a year. Service milestones are celebrated and peer awards are presented (for which employees are nominated by their colleagues). As well, significant achievements are recognized through a special Corporate Service award.

Branch
International Development

Fact
CCC helps non-governmental organizations procure effectively

The story
Since 1998, the CCC has procured vitamin A capsules to supply the Micronutrient Initiative (MI), an Ottawa-based not-for-profit organization dedicated to combating micronutrient malnutrition in the developing world. With the help of a grant from the Canadian International Development Agency (CIDA), MI meets over 75% of the world's need for vitamin A supplements, distributing them through UNICEF to more than 70 countries and saving more than two million lives in the process. Last year, CCC awarded Banner Pharmacaps and Accucaps Industries Ltd. the contracts for the 2006 supply, valued at some CDN$5.3 million.

Partnerships

In 2005-06, the Corporation undertook a thorough review of 43 existing partnerships which include, industry associations, business councils and relevant government players among which are CIDA, EDC, FAITC and the Defense Security Cooperation Agency (DSCA). Each was evaluated against a matrix of considerations derived directly from its strategic objectives. Based on the results of that review, CCC is assessing which of its partnerships are strongest, which require modification to align better with the organization's needs, and which should be terminated in keeping with the Corporation's strategic focus.

Corporate governance

As a Crown Corporation under schedule III part I of the *Financial Administration Act* (FAA) and wholly owned by the Government of Canada, CCC reports to Parliament through the Minister of International Trade. CCC is governed by a Board of Directors responsible for the affairs of the Corporation. The Board exercises its responsibilities in keeping with the general provisions of Part X of the FAA, as well as the provisions of the *Canadian Commercial Corporation Act*. CCC's financial statements are audited annually by the Auditor General of Canada (in addition to a "Special Examination" conducted every five years) and the Corporation is subject to the *Access to Information Act*.

About the Board

The Board of Directors comprises a Chairperson, the president, and nine directors appointed by the Minister of International Trade with approval from the Governor-in-Council. The Board approves the five-year corporate plan and the Annual Report, which are tabled in Parliament. The Board meets as required (usually quarterly) to review the Corporation's overall operation, receive committee reports, and discuss CCC's performance against objectives. The Board undertakes regular assessments of its effectiveness (and the contributions of each director) by means of an annual peer-review exercise designed to improve individual and collective performance. Over the course of the 2005-06 fiscal year, the Board of Directors paid particular attention to refocusing the Corporation's strategic direction, strengthening risk management practices and enhancing financial systems and controls. Furthermore, the Board agreed to strengthen its internal audit function to provide enhanced assurance capacity.

CCC's Board of Directors is led by an independent, non-executive Chair and conducts its oversight functions in concert with key Board committees as follows:

- **Audit:** deals primarily with matters related to sound financial and risk-management practices as well as accurate and ethical reporting and audit functions;
- **Governance:** develops and implements practices and procedures to ensure that the Board of Directors and the Corporation operate effectively and in accordance with a high standard of corporate governance;
- **Human Resources:** conducts candidate identification and recommendation for the positions of Board Chairperson, Directors and President; it also reviews together with the Chairperson the performance of the president, and reviews and recommends the appointment of corporate officers as well as compensation-related issues;
- **Commercial Initiatives:** oversees management's development of new commercial business initiatives, particularly all capital projects and those potential contracts valued in excess of $100 million.

Attendance:

The full Board met four times in 2005-06. All members were present at each meeting.

Board remuneration

Directors are paid an annual retainer and per diem.* Amounts are set by the Governor-in-Council pursuant to the *Financial Administration Act*:

- The Chair of the Board receives an annual retainer of $9,400 and a per diem of $375
- Other private sector directors receive an annual retainer of $4,700 and a per diem of $375
- Committee Chairs receive an additional retainer of $1,500
- Public service directors do not receive remuneration

*The per diem is paid for attending meetings, travel and review of materials. Directors are also reimbursed for expenses, including travel, accommodations and meals.

Refocusing CCC's strategic direction

In 2005-06, the Board of Directors and management articulated a more focussed overarching business objective: "helping Canadian exporters secure market access through excellence in the delivery of international contracting solutions in complex government-to-government markets". In addition, the Board identified the following four key enabling strategies:

- Assuring exemplary corporate governance;
- Fostering highly motivated and skilled personnel;
- Building effective partnerships; and
- Implementing robust business processes along with meaningful performance measures.

It was further determined that these strategies would be complemented by efforts to optimize CCC's financial resources by:

- Preserving the Corporation's capital;
- Growing fee bearing business volume;
- Reducing additional contract costs; and
- Streamlining overhead.

The refocused strategic direction has already begun to bear fruit as evidenced by the 2005-06 performance outcomes reflected in this report. It also constitutes the underpinning for the strategic thinking behind the 2006-07 to 2010-11 Corporate Plan.

Risk management practices and financial controls

The Corporation identified a need to strengthen its strategic risk management framework through the implementation of an ERM mechanism. This would systematically identify and prioritize risks to the Corporation and allocate resources accordingly. In 2005, CCC asked a professional consulting firm to conduct a gap analysis – the Risk Management Framework Project – related to risk identification, assessment, mitigation, implementation and communication practices. The aim was to produce a strategic framework for assigning roles and responsibilities associated with ERM. The report and its recommendations were delivered to the Corporation's cross-functional Risk Management Table at the end of 2005-06 fiscal year and subsequently adopted by the Board of Directors. The report will serve as a catalyst for completion of CCC's ERM architecture, which will be implemented in 2006-07.

Risk management

Given the nature of CCC's business – to help Canadian exporters access complex international public-sector markets where government-to-government contracts are required to supplement international trade rules or practices – risk management is of obvious and paramount importance.

Throughout 2005-06, CCC continued to implement its ERM program. The Board approved an ERM framework that visibly and clearly identifies strategic, operational and contract-related risks that impinge on the Corporation's defined objectives. Implementation of the program will begin in 2006-07.

ERM oversight

CCC's Board of Directors will ensure the currency and effectiveness of CCC's ERM program through regular reviews. Management will continue to develop and refine risk-management structures, policies and procedures, recommending them to the President and subsequent presentation to the Board.

As a proactive mechanism for managing and discussing risk, CCC established a Risk Table last year – a senior-management committee focused on risk-related issues. The Risk Table meets monthly to:

a) Review risk-related policies and compliance measures
b) Act as the ERM steering committee
c) Monitor additional contract and related costs
d) Review new business offerings from a risk perspective
e) Review Post-Contract Management audit results
f) Review quarterly risk reporting prior to submission to Board
g) Report periodically to CCC Executive Committee and Board on risk-management activities
h) Review project-specific risk issues as required

In 2005-06, all areas of CCC were reviewed to identify and define their specific risk-management functions and responsibilities.

Facing the risks

CCC has identified – and is vigilantly responding to – several categories and types of risk as outlined below.

Strategic risks

These have been identified by management and the Board as having the potential to interfere with achievement of CCC's corporate objectives. They include:

Mandate risks

CCC's success depends on its ability to support the government's trade agenda and to provide clients with valuable services. These services must not overlap with other government initiatives or Crown corporation activities. CCC must also meet all government regulations set out in the various acts governing Crown corporations*. The Commercial Initiatives Committee of CCC's Board of Directors is tasked with ensuring that these criteria are met for all products and services.

Branch
Aerospace, Defence and Security

Fact
CCC supports joint procurement between DND and allied militaries

The story
Canada and The Netherlands needed to outfit their naval frigates with SIRIUS infrared defence systems. The most cost-effective for both governments was to consolidate their orders through a single contract. Enter the CCC. We negotiated the contract, calling on our partner, Public Works and Government Services Canada (PWGSC), to act as the purchasing agent. Project value? CDN$180,000,000.

*The Governance Committee attends to corporate compliance issues related to Part X of the Financial Administration Act.

Organizational risks

Management must ensure that the Corporation's structure directly supports its pursuit of its objectives. CCC began to restructure its Defence activities in 2005-06 and will finish that work in the present fiscal year, separating pre-and post-contracting responsibilities to increase efficiency and improve accountability.

Reputational risks

These can arise from events that tarnish CCC's brand, or from poor communication with the Corporation's stakeholders. To mitigate such risks, the Corporation initiated the development of a comprehensive corporate communication strategy to actively maintain positive stakeholder relations and reinforce CCC's brand.

Business Environment risks

Changes in the economy, shifting business needs, and evolving insurance and banking practices affect Canadian exporters' use and value-perception of CCC's services. The Board and management consider these trends when outlining priorities in CCC's corporate plan.

Operational risks

Each business unit within the Corporation manages the risk of loss resulting from inadequate or failed internal processes, people and systems. The risk owners are the Vice-Presidents of the business and functional units. The ERM team provides oversight and support where needed.

People risks

A stable work environment is critical to a successful human resources plan. During the year, management and the Professional Institute of the Public Service finalized negotiations on a new labour agreement – in force until June 2007 and retroactive to the expiry of the old agreement in June 2004. Training also plays an important role in employee development and maintaining a high-quality workforce. Responsibility for developing and implementing training programs was transferred in 2005-06 from Corporate Services to CCC's business and functional units with professional support from human resources, ensuring that training programs meet the needs of the various teams.

Branch

International Development

Fact

CCC helps build procurement capacity abroad

The story

When CCC was contracted to procure equipment and provide training on behalf of the Canadian International Development Agency (CIDA) for the 5th *Jeux de la Francophonie* in Niamey, Niger, the corporation worked closely with local non-governmental organizations to deliver necessary services in support of the event. As well, the CCC procured locally for a portion of the project provided training to help local staff improve their knowledge of – and skills in – logistics, communications, health and security.

Information risks

Last year, the Corporation began a review of its information technology platform – resulting in the Board's approval of a major overhaul for the 2006-07 fiscal year. This renewal will improve efficiencies and reduce software complexity, simplifying future enhancements and maintenance.

Process risks

Two important process reviews commenced in 2005-06: 1) an external firm was engaged to review CCC's adherence to its post-contract management policies; and 2) the corporation's internal auditor was asked to perform a review of its pre-contract due diligence process. The results of both will be delivered to management and the Board early in 2006-07.

Pre/post-procurement and contracting risks

CCC is sensitive to the need to protect taxpayers by effectively managing risk in its business transactions, specifically its export contracts and other procurement activities. The following are being addressed:

Contract risks

CCC currently has approximately $1.9 billion in outstanding contractual obligations with foreign buyers. The terms and conditions of these contracts are a major source of CCC's overall risk; negotiating acceptable contractual terms and conditions is therefore key to overall risk management. Through negotiations, the Corporation minimizes its own risk – and in doing so reduces the risk for exporters as well, because their obligations to the Corporation mirror those under CCC's foreign contract.

Examples of contractual risks faced by CCC include: liquidated damages, timing of foreign payment flows in relation to exporter production cash flows, the location and basis of acceptance of goods or services, location of and basis for dispute resolution, and timing of foreign-party contractual obligations versus those of exporters. CCC passes all the obligations of the foreign contract to Canadian exporters via a back-to-back matching domestic contracts.

Branch

Aerospace, Defence and Security

Fact

CCC uses the tools at its disposal to deliver Canadian products to the world

The story

Through the Canada-U.S. Defence Production Sharing Arrangement (DPSA), the CCC makes it possible for Canadian companies to sell into the U.S. Department of Defense. But sometimes that's just the beginning. Last year, CCC provided contract support to I.M.P. Aerospace of Halifax, helping that company secure a US$59 million contract for helicopter maintenance and support services with the U.S. military and, through it, to an ally, Egypt, as well.

Performance risks

These are associated with the potential failure of Canadian exporters to supply goods and services as contracted. Prior to entering into contracts, CCC conducts an extensive due diligence review of exporters' managerial, technical and financial capabilities and evaluates the risk related to a given foreign contract. In the case of DPSA projects, PWGSC conducts this risk assessment on behalf of CCC. Depending on the results, CCC may require additional assurances such as performance securities or contract modifications.

Last year, CCC withdrew the PPP since it duplicated offerings of EDC and, as a result, attracted mainly high-risk clients. This has reduced the number of high-risk clients using CCC services and improved the overall financial health of CCC's project portfolio.

Once a contract is signed, CCC actively monitors and manages the risks associated with post-commitment transactions. CCC's Post-Contract Management Manual outlines the proper contract-management practices and procedures.

Foreign credit risks

Foreign credit risk refers to the possibility that a foreign party will not honour its obligation to pay for goods or services as contracted with the Corporation. CCC's credit-risk policy determines the amount and extent to which it will entertain this risk on its own account. Generally, CCC accepts transactions with AAA credit-rated governments and commercial parties. In cases where the credit rating is lower than AAA, CCC mitigates its exposure by passing payment risks onto an appropriate third party.

Export contract foreign-exchange risks

The foreign currencies associated with contracts can fluctuate in relation to the Canadian dollar over the term of a contract, resulting potentially in lower Canadian-dollar revenues for exporters. CCC ensures that this risk resides with the exporter through its back-to-back contracting mechanism. CCC pays exporters only in the base currency of the foreign contract.

Finance

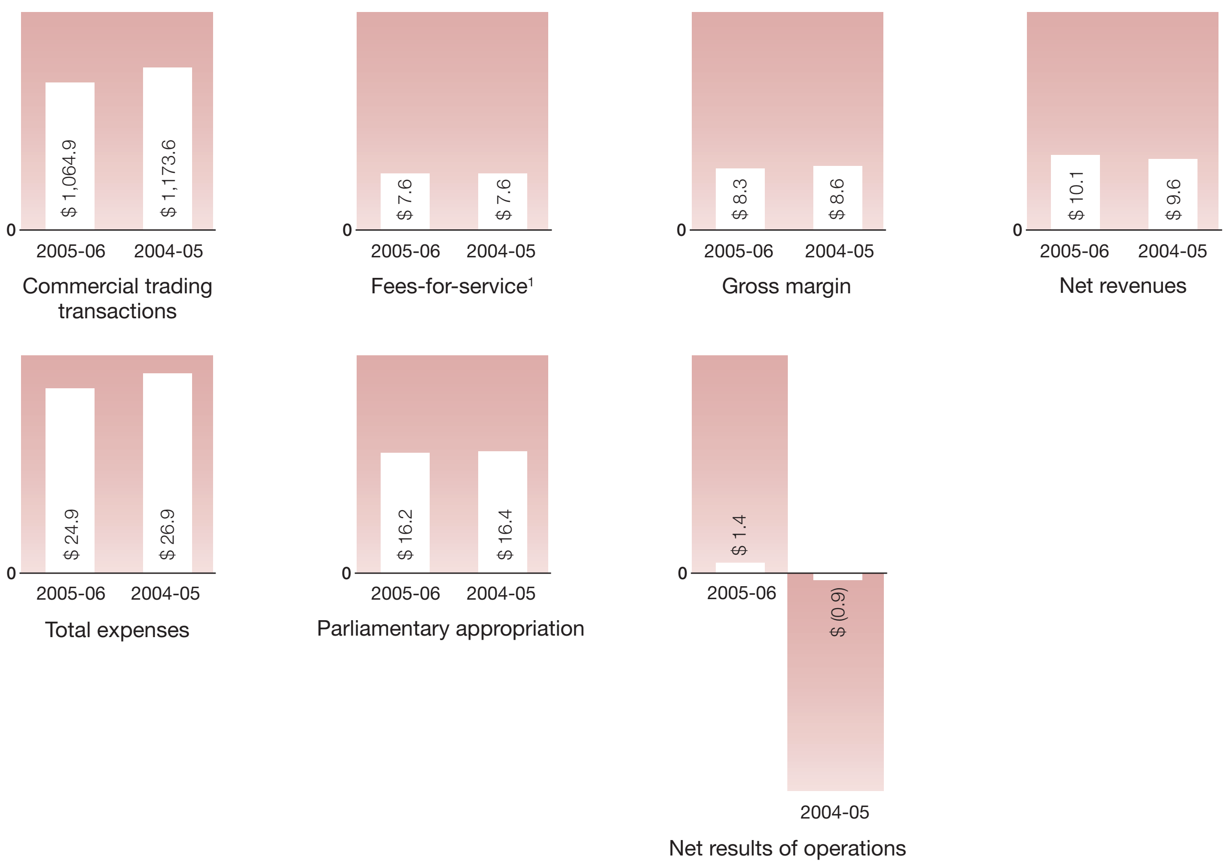
Financial highlights

The 2005-06 fiscal year was marked by the Corporation's return to profitability for the first time in three years. Notwithstanding the impact of an unfavourable level of additional contract and related costs, the Corporation not only matched its record level of fees for services, that was achieved last year, but was also able to minimize administrative expenses through a year of transition. In addition, the Corporation efficiently managed its accounts receivable resulting in higher cash balances and a 64% increase in interest income that was also aided by higher average interest rate yields.

A more detailed discussion of the Corporation's 2005-06 financial highlights follows:

Income statement discussion

Summary results of operations (millions)



1 Fees-for-service are part of Commercial trading transactions and form the main component of Gross margin and Net revenues.

Branch
International Development

Fact
CCC works with Canadian partners to close deals abroad

The story
The Instituto Nacional de Cooperacion Educativa (INCE) is Venezuela's largest apprenticeship training organization. Canada's Lab-Volt (Quebec) Ltd., a leading supplier of training laboratories and technologies, was the ideal choice to modernize INCE's facilities. Export Development Canada (EDC) came to the table with 85% of the export financing required; CCC pulled together the contracted architecture of the deal through its sovereign contract service, acting as prime contractor. Together, they helped Lab-Volt close a deal worth US$37.4 million – the biggest in the company's history.

Commercial trading transactions include the Corporation's billings for work performed on outstanding signed contracts, fees-for-service and income generated from discounting exporters' receivables. The value of these transactions was slightly lower this year than last, mainly the result of the effects of a higher valued Canadian dollar that discounted project values and returns that had been contracted in U.S. dollars. For the third consecutive year, the Corporation achieved record-breaking orders received activity, however, due to the signing of two significant contracts late in the year, work performed (that would generate contract billings) related to these contracts had not commenced by year end.

Net revenues, comprised of the total of gross margin, net interest income, and gain (loss) on foreign exchange, increased by $0.5 million compared to last year due exclusively to the greater interest income earned during 2005-06. The Corporation managed to improve its collection of accounts receivable that contributed to higher than planned cash balances. This coupled with higher interest yield rates contributed to the Corporation earning its highest level of interest income in the last four years, despite the higher valued Canadian dollar.

Total expenses decreased by $2.0 million year-over-year, with administrative expenses $1.1 million lower than last year and additional contract and related costs decreasing by $0.9 million. Some of the major items comprising the administrative expenditures were:

- The Corporation's workforce consisting largely of highly skilled full-time employees, complemented by consultants and temporary hires to fill assignments requiring specific expertise cost $10.2 million, approximately $0.2 million higher than last year.
- PWGSC fees for service amounted to $5.2 million annually on the core activities under the DPSA. Over and above this amount, $0.2 million was paid for PWGSC involvement on special projects (outside core services), the same amount as in 2004-05.
- Rent for the premises amounted to almost $1.2 million, slightly higher than the amount expended in 2004-05 by $0.2 million.
- Travel, principally for operations requirements to secure or manage the over $1.0 billion in international contracts, amounted to $0.7 million, $0.3 million lower than the amount spent in 2004-05.
- Computer hardware, software and support costs not including full-time employees that are included in the workforce were $0.9 million, $0.2 million lower than the amount expensed last year.
- Communication and publication costs amounted to $0.3 million, $0.6 million lower than the previous year.
- The amortization of capitalized assets associated with the Corporation's overhaul of its computer system and leasehold improvements, totalled $0.8 million, slightly higher than the amount in 2004-05.
- Other expenses, including training, telecommunications, courier and translation were $0.4 million lower than in 2004-05.

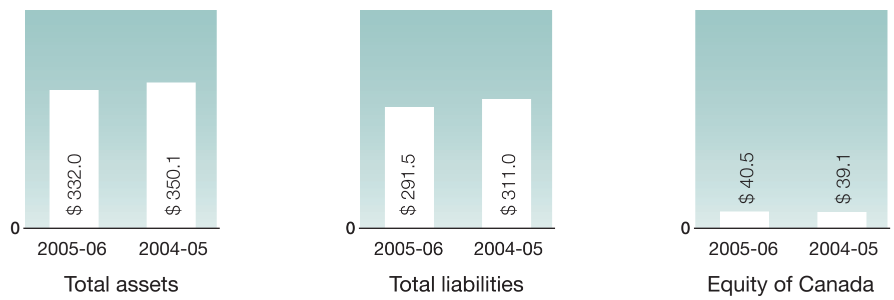
Additional contract and related costs of $4.3 million, were less than the $5.2 million recorded in the previous year. The amount was determined based on the reassessment of estimated costs to settle problem or disputed contracts existing from previous years.

The Corporation closely monitors its administrative expenditures and uses the ratio of administrative expenditures to commercial trading transactions to measure its administrative expenditure efficiency, with an objective not to exceed 2 percent – a figure that was achieved this year and last.

In 2005-06, at $16.2 million, the Corporation received less appropriation from Parliament than in the previous year. The reduction of $218,000 represented the Corporation's contribution to the Government-Wide Expenditure Review Committee (ERC) for the year. The Corporation is scheduled to contribute an additional $218,000 for a total reduction of $436,000 in 2006-07 and another $220,000 for a total reduction of $656,000 in 2007-08 and thereafter.

Balance sheet discussion

Summary financial position (millions)



Total assets of $332.0 million at March 31, 2006, were marginally lower than the previous fiscal year-end.

As an international trade intermediary, CCC for the most part offsets its trading-related assets with matching liabilities. Accounts receivable from foreign customers and progress payments to Canadian exporters are largely offset by accounts payable and accrued liabilities to Canadian exporters, as well as by progress payments from foreign customers.

In certain circumstances, however, the Corporation does have a need for other sources of working capital to bridge timing differences between its payables and receivables. CCC's statutory power to borrow commercially up to $90 million provides it with useful flexibility to manage such variations.

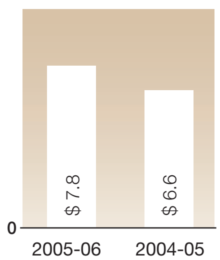
CCC's capital assets increased by a net $586,000 in 2005-06. A total of $1.4 million, capitalized for leasehold improvements, was offset by amortization costs of $0.8 million.

The Corporation's provision for additional contract and related costs increased by approximately $1.6 million during the year. A net increase to the provision of $4.2 million was offset by $2.3 million in cash disbursements related to settlements of contracts not fulfilled by Canadian exporters and $0.3 million in reductions to other assets.

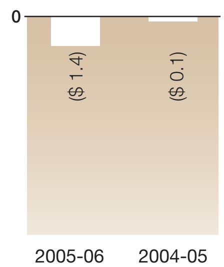
The value of the equity investment of the Government of Canada in CCC was slightly higher in 2005-06 at approximately $40.5 million. The Corporation's equity backstops the normal commercial risks inherent in its contract portfolio of undelivered contracts totalling approximately $1.9 billion at year-end.

Changes in cash flow discussion

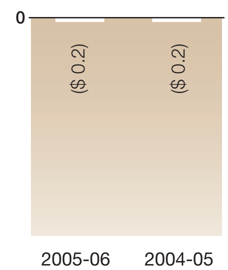
Summary of cash flow – Cash provided (used) by (millions)



Operating activities



Investing activities



Effect of exchange rate changes on cash and cash equivalents

Cash and short-term deposits at March 31, 2006 increased by $6.2 million compared to the previous year. This can be identified under two key activity areas:

Operating activities

For 2005-06, the Corporation provided $7.8 million in cash from its operating activities, as compared to the $6.6 million provided by operating activities in 2004-05.

Excluding the positive impact of cash received from the parliamentary appropriation, annual cash flow from the Corporation's mandated service would otherwise produce negative cash flows due to the payment policies in its DPSA business, where the Corporation pays Canadian exporters in 30 days from receipt of invoice irrespective of when it receives payment from the U.S. Government. Excluding the impact of the parliamentary appropriation, cash flows would have been negative $7.2 million in 2005-06 compared to negative $9.8 million in 2004-05. Also in 2005-06, lower amounts were disbursed in settlement of contracts not fulfilled by Canadian exporters.

Cash provided by the parliamentary appropriation amounted to $15.0 million for the year ended March 31, 2006. This was lower than $16.4 million received in 2005 because of $1.2 million included in receivable from the Government of Canada and $0.2 million due to the Government-Wide ERC initiative referenced in the income statement discussion.

Investing activities

During the year, the Corporation re-negotiated its lease agreement for office space and in the process performed leasehold improvements amounting to $1.4 million that will be amortized over the remaining life of the lease agreement.

Comparison with 2004-05 to 2008-09 Corporate Plan

2005-06 was a positive year for the Corporation from a revenue generation perspective. CCC exceeded its gross revenue target of $9.5 million by $0.8 million, as Canadian exporters confirmed the value they place on CCC's services and expertise in developing successful projects. Specifically, the Corporation surpassed its $7.3 million fee-for-service revenue target, generating $7.6 million in its fourth year of implementation, matching highest level of fee-for-service revenues achieved last year. Net interest revenue results were greater than planned by more than $0.6 million, due primarily to improved receivable collection efforts that reduced the Corporation's commercial borrowing costs and enabled the Corporation to sustain greater than planned cash balances to invest throughout the year.

While foreign exchange translation losses were held to a minimum by specific programs designed to control such losses, the Corporation posted a larger foreign exchange translation loss than budgeted, due to a greater than expected appreciation of the Canadian dollar versus the U.S. dollar throughout the year. The Canadian dollar strengthened as compared to its U.S. dollar counterpart from 0.8267 U.S. (1.2096 CAD) at March 31, 2005, to 0.8562 U.S. (1.1680 CAD).

Additional contract and related costs exceeded budgeted levels (based on historical trends) by $1.4 million. This resulted from problems related to a small number of SME facilitated contracts signed prior to 2003 that have further evolved from the previous year, however, are resolved or very close to being resolved. The Corporation will continue its efforts to strengthen its internal processes to ensure that optimal risk management and monitoring are in place for all contracts.

Management responsibility for financial statements

The financial statements of the Canadian Commercial Corporation and all information in this annual report are the responsibility of management. The statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments, where appropriate. Financial information presented elsewhere in the annual report is consistent with the statements.

In support of its responsibility, management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information that assets are safeguarded and controlled, and that transactions of the Corporation are in accordance with the *Financial Administration Act* and regulations and, as appropriate, the *Canadian Commercial Corporation Act* and the by-laws of the Corporation.

The Audit Committee oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The Audit Committee meets with management and the internal and external auditors to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

The Corporation's external auditor, the Auditor General of Canada, audits the financial statements in accordance with Canadian generally accepted auditing standards, and expresses her opinion on the financial statements.

John McBride
President and CEO

Michel Houle, CMA
Vice-President, Risk and
Financial Services and CFO

Ottawa, Canada
May 19, 2006

Auditor's report

To the Minister of International Trade

I have audited the balance sheet of the Canadian Commercial Corporation as at March 31, 2006 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Commercial Corporation Act* and the by-laws of the Corporation.

Douglas Timmins

Douglas G. Timmins, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 19, 2006

Balance Sheet

As at March 31 (in thousands of dollars)	2006	2005
Asset		
Cash and cash equivalents (Note 4)	$ 62,650	$ 56,453
Accounts receivable (Note 5)	179,266	201,329
Receivable from the Government of Canada (Note 14)	1,149	6
Advances to Canadian exporters	28,411	22,284
Progress payments to Canadian exporters	58,297	68,335
	329,773	348,407
Capital assets (Note 6)	2,238	1,652
	$ 332,011	$ 350,059
Liabilities		
Account payable and accrued liabilities (Note 5)	$ 182,838	$ 192,041
Advances from foreign customers	44,397	42,385
Progress payments from foreign customers	56,833	70,735
Provision for additional contract and related costs (Note 9)	6,431	4,804
	290,499	309,965
Employee future benefits (Note 7)	977	981
	291,476	310,946
Contractual obligations, contingencies and commitments (Note 8, 10 and 15)		
Equity of Canada		
Contributed surplus (Note 1)	28,000	28,000
Retained earnings	12,535	11,113
	40,535	39,113
	$ 332,011	$ 350,059

The accompanying notes are an integral part of the financial statements.

Approved:

Alan R. Curleigh
Chair, Board of Directors

John Duffy, CA
Chair, Audit Committee

Statement of Operations and Retained Earnings

For the year ended March 31 (in thousands of dollars)	2006	2005
Revenues		
Commercial trading transactions (Note 11)	$ 1,064,941	$ 1,173,605
Less: cost of commercial trading transactions	1,056,634	1,165,012
Gross margin	8,307	8,593
Net interest income	2,020	1,230
Loss on foreign exchange	(224)	(226)
Net revenues	10,103	9,597
Expenses		
Additional contract and related costs (Note 9)	4,272	5,182
Administrative expenses (Note 12)	20,590	21,671
Total expenses	24,862	26,853
Net results of operations before Parliamentary appropriations	(14,759)	(17,256)
Parliamentary appropriations (Note 14)	16,181	16,405
Net results of operations	1,422	(851)
Retained earnings at begining of year	11,113	11,964
Retained earnings at end of year	$ 12,535	$ 11,113

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

For the year ended March 31 (in thousand of dollars)	2006	2005
Cash flows from operating activities		
Receipts from foreign customers	$ 1,066,807	$ 1,156,026
Interest received	2,020	1,230
Fees for service and other income received	8,307	8,593
Payments to Canadian exporters	(1,064,347)	(1,154,357)
Administrative payments	(20,035)	(21,268)
Parliamentary appropriations	15,038	16,399
Cash provided by operating activities	7,790	6,623
Cash flows from investing activities		
Purchase of capital assets	(1,369)	(100)
Cash used in investing activities	(1,369)	(100)
Effect of exchange rate changes on cash and cash equivalents	(224)	(226)
Increase in cash and cash equivalents	6,197	6,297
Cash and cash equivalents at beginning of year	56,453	50,156
Cash and cash equivalents at end of year	$ 62,650	$ 56,453

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

March 31, 2006

1. Nature, organization and funding

The Canadian Commercial Corporation (the "Corporation") was established in 1946 by the *Canadian Commercial Corporation Act* (the "Act") and is an agent Crown corporation listed in Part 1 of Schedule III of the *Financial Administration Act*.

The Corporation generally acts as the prime contracting agency when foreign governments, international organizations, or foreign private sector buyers wish to purchase products and services from Canada through the Canadian Government. The Corporation enters into contracts with these foreign customers and into corresponding supply contracts with Canadian exporters.

Parliament has provided the Corporation with $28 million as contributed surplus. Annually, the Corporation's operations are funded primarily through a combination of parliamentary appropriations, interest income, cost recovery, fees for service and discounting revenues.

The Corporation is not subject to the provisions of the *Income Tax Act*.

2. Significant accounting policies

These financial statements were prepared in accordance with Canadian generally accepted accounting principles. A summary of significant policies follows:

(a) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The most significant management estimates are the provision for additional contract and related costs and the provision for employee future benefits. Actual results could differ significantly from those estimates as factors impacting the ability of Canadian exporters to fulfill their contracts change or there are changes in the Corporation's discount rate and rate of compensation increases.

(b) Contracts

The Corporation records its commercial trading revenues, and related costs, when a delivery has taken place thus passing title of the purchased goods to the foreign customer, or, in the case where the contract provided for progress payments, upon acceptance by the Corporation for work performed.

Progress payments, where allowed, represent payments from foreign customers and payments to Canadian exporters on contracts associated with the work performed on a contract leading up to delivery. Usually these payments represent up to 75 percent of costs incurred. Since title has not yet passed to foreign customers, the Corporation recognizes the progress payments made to Canadian exporters as an asset and the progress payments received from foreign customers as a liability. Progress payment assets and liabilities are reduced upon completion of delivery and acceptance by the foreign customer.

Advances from foreign customers and advances to Canadian exporters represent a down payment made at the outset of the contract before any work has been performed. The Corporation recognizes the advances made to Canadian exporters as an asset and the advances received from foreign customers as a liability. Advances made and received are reduced upon completion of delivery and acceptance by the foreign customer.

Prior to the amendment of the *Canadian Commercial Corporation Act* on April 19, 2002, the Corporation was only allowed to recover costs directly incurred upon securing specific international contracts. Amounts recovered on international contracts signed prior to this date are recognized in commercial trading revenues as earned when:

(1) deliveries have been made by the Canadian exporter; or
(2) substantial work has been performed by the Canadian exporter in the case of progress payments.

Upon the coming into force of this amendment to the Act, the Corporation was permitted to charge commercial fees for services. Commercial fees generated on international contracts signed on or subsequent to April 19, 2002 are recognized in commercial trading revenues when services are rendered.

The Corporation also offers, in certain circumstances, early payment on amounts owing to Canadian exporters in exchange for a fee. This discounting revenue is determined by applying a set percentage ranging from 0.03%, for one day of advance payment, to 1.32%, for forty days of advance payment.

Finally, the Corporation is responsible for ensuring that the terms of the contract with the foreign customer are fulfilled regardless of the quality of performance by the Canadian exporter. If the Canadian exporter fails to fulfill its domestic contract obligations to the Corporation, the Corporation may encounter additional contract and related costs. These costs and the associated provision are determined on a contract-by-contract basis, and include completion, re-procurement, associated legal and other costs that are based on quotes or estimates. These costs are recorded in the statement of operations in the year in which the non-performance is identified and the additional costs to be incurred by the Corporation are reasonably determinable.

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Revenues and expenses are translated at the average monthly exchange rate. Any gains or losses on foreign currencies are recorded as a gain or loss on foreign exchange on the Statement of Operations and Retained Earnings.

Working capital is maintained in currencies other than Canadian dollars to facilitate cash flows between foreign customers and Canadian exporters.

(d) Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits and temporary investments, maturing in less than three months from acquisition date.

(e) Capital assets

Capital assets include costs associated with the design and development of information systems and leasehold improvements that are recorded when significant. Information systems are amortized after technological feasibility is established on a straight-line basis over the estimated useful life of five years. Leasehold improvements are amortized on a straight-line basis over the remaining life of the lease agreement.

(f) Parliamentary appropriations

Parliamentary appropriations that are not in the nature of contributed surplus are recorded as funding in the year for which they are appropriated, except for appropriations restricted by legislation and related to expenses of future periods which are deferred and recognized as funding in the period in which the related expenses are incurred. Appropriations used for the purchase of capital assets are deferred and amortized into income on the same basis as the related asset.

(g) Employee future benefits

i) Pension benefits

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Corporation's contributions reflect the full cost as employer. This amount is currently based on a multiple of an employee's required contributions and may change over time depending on the experience of the Plan. The Corporation's contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Corporation. The Corporation is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

ii) Employee severance benefits

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. The cost of the benefits earned by employees is actuarially determined using the projected benefit method prorated on services. The valuation of the liability is based upon a current market-related discount rate and other actuarial assumptions, which represent management's best long-term estimates of factors such as future wage increases and employee resignation rates. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the average remaining service period of active employees. The average remaining service period of active employees covered by this plan is 12 years (2004 – 12 years). These benefits represent the only obligation of the Corporation that entails settlement by future payment.

The last full actuarial evaluation was done March 31, 2006 and the next one is scheduled for March 31, 2008.

3. Fair value of financial instruments

The fair value of cash and cash equivalents, accounts receivable, advances to Canadian exporters, progress payments to Canadian exporters, accounts payable and accrued liabilities, advances from foreign customers and progress payments from foreign customers, since they have short maturities, are equivalent to their carrying amounts.

4. Cash and cash equivalents

As at March 31, 2006, cash and cash equivalents included (in thousands of dollars):	2006		2005	
	Original currency	Canadian dollars	Original currency	Canadian dollars
Canadian dollars	36,318	$ 36,318	35,824	$ 35,824
U.S. dollars	22,282	26,026	$ 14,392	17,408
Australian dollars	140	117	2,811	2,627
British pound sterling	–	–	174	397
Eastern Caribbean dollars	434	189	434	197
		$ 62,650		$ 56,453

The Corporation invests in short-term deposits in Canadian banks. At March 31, 2006, the average term to maturity of short-term deposits was 1 day (2005 – 1 day). The portfolio yield to maturity at March 31, 2006, was 4.13% (2005 – 2.54%). Cash and cash equivalents are recorded at cost, which approximates fair value.

Of the cash and cash equivalents, $16,725,000 (2005 – $19,992,000) represents funds received from foreign customers which will be remitted to Canadian exporters at later dates in accordance with contracts. Where contracted, these funds may accrue interest to the credit of the Canadian exporter or foreign customer.

5. Accounts receivable and accounts payable and accrued liabilities

Accounts receivable are based on normal international trade terms and are generally non-interest bearing. The maturity profile of the Corporation's accounts receivable was as follows:

(in thousands of dollars)	2006	2005
‹ 1 year	$ 174,222	$ 198,136
› 1 and ‹ 3 years	$ 4,851	$ 3,193
› 3 and ‹ 5 years	$ 193	$ –

Accounts payable are due on normal trade terms, except for accounts payable to certain small-medium enterprises with contracts signed prior to January 2001. Where these contracts have not been completed, related accounts payable are paid within 15 days. The maturity profile of the Corporation's accounts payable was as follows:

(in thousands of dollars)	2006	2005
‹ 1 year	$ 178,432	$ 189,114
› 1 and ‹ 3 years	$ 4,406	$ 2,927

6. Capital assets

Year ended March 31 (in thousands of dollars)			2006	2005
	Cost	Accumulated amortization	Net book value	Net book value
Information systems	$ 3,683	$ 2,768	$ 915	$ 1,652
Leasehold Improvements	1,369	46	1,323	–
	$ 5,052	$ 2,814	$ 2,238	$ 1,652

Included in administrative expenses was $783,000 (2005 – $717,000) of amortization.

7. Employee future benefits

(a) Pension benefits

The Corporation and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The Corporation's and employees' contributions to the Public Service Pension Plan for the year were as follows:

(in thousands of dollars)	2006	2005
Corporation's contribution	$ 808	$ 756
Employees' contributions	$ 335	$ 339

(b) Severance benefits

The Corporation provides severance benefits to its employees based on years of service and final salary. This benefit plan is unfunded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Benefits will be paid from future appropriations. Information about the plan, measured as at the balance sheet date, is as follows:

(in thousands of dollars)	2006	2005
Accrued benefit obligation		
Balance at beginning of year	$ 999	$ 951
Current service cost	71	68
Interest cost	60	57
Benefits paid	(135)	(70)
Actuarial (gain) losses	166	(7)
Balance at end of year	$ 1,161	$ 999
Accrued benefit obligation at end of the year	$ 1,161	$ 999
Unamortized net actuarial losses	(184)	(18)
Accrued benefit liability at end of year	$ 977	$ 981

Accrued benefit obligation as of March 31		
Discount rate	6.15%	6.05%
Rate of compensation increase	2.50%	1.50%
Benefit costs for year ended March 31		
Discount rate	6.15%	6.05%
Rate of compensation increase	2.50%	1.50%

8. Contractual obligations, borrowings and risk management

(a) Contractual obligations

The Corporation is obligated to complete numerous contracts with foreign customers. As of March 31, 2006 the total contract portfolio value remaining to be fulfilled approximates $1.9 billion (2005 – $1.4 billion). The profile of the Corporation's total contract portfolio was as follows:

(in thousands of dollars)	2006	2005
‹ 1 year	$ 1,050,695	$ 694,016
› 1 and ‹ 3 years	$ 583,163	$ 442,190
› 3 and ‹ 5 years	$ 191,533	$ 245,367
›5 years	$ 35,281	$ –

The Corporation has contractual recourse to Canadian companies to fulfill its contractual obligations. Depending upon the results of its due diligence, the Corporation may supplement this recourse through the provision of commercial securities including holdbacks, bank guarantees, surety bonds, parent guarantees, insurance assignments, property liens, personal guarantees and shareholder cash held in trust with the Corporation.

(b) Borrowings and other credit arrangements

The *Canadian Commercial Corporation Act* permits the Corporation to borrow from the Consolidated Revenue Fund or enter into other credit arrangements or indemnities from other sources for an amount not to exceed $90 million.

The Corporation opened a revolving credit facility providing access to funds in the amount of $40 million Canadian or its U.S. dollar equivalent. Indebtedness under this agreement is unsecured and this credit facility has no expiry date. As at March 31, 2006, there were no draws on this line of credit (2005 – nil).

Under the Progress Payment Program, the Corporation indemnified participating banks for amounts they had advanced to Canadian exporters. The Corporation may claim title to the works in progress should a Canadian exporter fail to complete a contract. The amount of outstanding indemnities as of March 31, 2006 was $431,000 (2005 – $731,000) and were related to transactions due to be completed in the next year. During the year, the Corporation confirmed its intention to exit from the Progress Payment Program. However, there remain two lines of credit outstanding that will be repaid before March 31, 2007.

Besides claiming title to the works in progress, the Corporation may supplement this recourse depending upon the results of its due diligence through the provision of commercial securities including parent guarantees, insurance assignments, property liens, personal guarantees and shareholder cash held in trust with the Corporation.

Under a specific series of financing contracts, included in accounts payable and accrued liabilities, the Corporation owed $35,836,000 as of March 31, 2006 (2005 – $26,754,000). These contracts bear interest at the cost of funds plus 0.25% and the Corporation has offered as security certain foreign accounts receivable under certain conditions. The Corporation, however, also has access to a number of commercial securities should the foreign party fail to repay these receivables. The amount of outstanding accounts receivable offered as securities under these arrangements as of March 31, 2006 was $36,681,000 (2005 – $30,771,000) and was profiled as follows:

(in thousands of dollars)	2006	2005
‹ 1 year	$ 31,989	$ 27,578
› 1 and ‹ 3 years	$ 4,692	$ 3,193

(c) Risk management

In addition to the risk management practices related to the Corporation's contractual obligations, the Corporation generally manages foreign customer credit risk by extending open account terms to parties with a credit rating of at least AAA, and seeks security where the rating falls below this threshold. During the year, 93.50% of the Corporation's commercial trading transactions were with AAA customers.

To address foreign exchange risks, contracts with foreign customers and corresponding contracts with Canadian exporters are generally transacted in the same currency. The Corporation uses this strategy to effectively transfer the currency risk to the Canadian exporter.

9. Provision for additional contract and related costs

The Corporation may incur additional contract and related costs should Canadian exporters fail to fulfil the terms of their contracts. The Corporation has recorded an expense of $4,272,000 (2005 – $5,182,000) related to the additional contract and related costs, leaving a balance of $6,431,000 as of March 31, 2006 (2005 – $4,804,000), representing management's best estimate of the additional costs which will likely be incurred by the Corporation to meet its contractual obligations.

10. Contingencies

The Corporation is the claimant or defendant in certain pending claims and lawsuits. While the damages being claimed by the plaintiffs are significant, management believes, based on advice from legal counsel, that the potential liabilities of the Corporation and consequent damages or awards arising from such liabilities are, at present, not determinable.

Amounts payable, if any, will be recorded in the year in which they can be determined.

In respect of a prior judgment that was rendered against the Corporation and Public Works and Government Services Canada (PWGSC) by the Ontario Court Superior Division for an amount of $30 million plus interest from October 1985, the date the cause of the action arose, the Court of Appeal for Ontario released their decision on July 5, 2005, and set aside the previous trial judgment and dismissed the claimant's action. The claimant proceeded to apply for an application for leave to appeal with the Supreme Court of Canada. On February 16, 2006, the Supreme Court of Canada dismissed the claimant's application for leave to appeal.

11. Commercial trading transactions

Commercial trading transactions arising from the Corporation's facilitation of sales of Canadian goods to foreign customers, which includes governments, international agencies and other buyers throughout the world, were as follows:

Year ended March 31 (in thousands of dollars)	**2006**	**2005**
U.S. government and other buyers	$ 837,916	$ 818,820
Other foreign governments and buyers	227,025	354,785
	$ 1,064,941	$ 1,173,605

Commercial trading transactions were comprised of contract billings of $1.1 billion (2005 – $1.2 billion) and fees for services and other income of $8,307,000 for the year ended March 31, 2006 (2005 – $8,593,000).

Orders received are distinct from commercial trading transactions. Orders received describe the value of contracts and amendments signed during the year which amounted to $1.6 billion for the year ended March 31, 2006 (2005 – $1.5 billion).

12. Administrative expenses

Administrative expenses included the following:

Year ended March 31 (in thousands of dollars)	2006	2005
Workforce compensation	$ 10,205	$ 10,050
Contract management services (2005 net of $433,000 in recovered costs re. Note 14(a))	5,380	5,380
Rent	1,158	966
Software, hardware and support	902	1,118
Amortization	783	717
Travel and hospitality	699	1,021
Other expenses	537	587
Human resource training and other initiatives	369	616
Communication and publications	312	939
Telecommunications, courier and translations	245	277
	$ 20,590	$ 21,671

13. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

(a) Public Works and Government Services Canada

Public Works and Government Services Canada provides contract management and other administrative services to the Corporation at negotiated rates, based in part on the amount of contracts procured, and provides certain functions at cost.

For the year ended March 31, 2006, the cost of these services amounted to $5,503,000 (2005 – $5,935,000) and is included in administrative expenses.

In one circumstance, Public Works and Government Services Canada provided the Corporation with contract management services at no additional cost. It was not practicable to determine the cost of these services. Accordingly, the value of these services was not recorded in the Corporation's accounts.

(b) Department of Justice

The Department of Justice provides legal services to the Corporation and represents it in certain matters. The Corporation pays for these legal services and expenses incurred in connection with specific actions. For the year ended March 31, 2006, the cost of such legal fees and expenses in the amount of $391,000 (2005 – $402,000) was included in administrative expenses, and the amount of $224,000 (2005 – $232,000) was included in additional contract and related costs.

(c) Privy Council Office

The Corporation allows its employees to participate in interchange employee programs with other departments or agencies. For the year ended March 31, 2006 the Corporation recovered salaries and benefits charges of $94,000 (2005 – $167,000).

(d) Other

The Corporation has also entered into commercial trading transactions with the following related government entities:

(in thousands of dollars)	2006	2005
Canadian International Development Agency	$ 38,213	$ 12,921
Department of National Defence	$ 12,886	$ 16,816
Natural Resources Canada	$ 1,345	$ 1,324
Environment Canada	$ 498	$ 416
Consulting and Audit Canada	$ 248	$ 805
Industry Canada	$ 54	$ –
Crown Assets Distribution Centre	$ 50	$ –

As a result of all related party transactions, the amounts due from and to these parties were $13,100,000 (2005 – 6,495,000) and $199,000 (2005 – $6,908,000) and were included in accounts receivable and accounts payable respectively.

14.Parliamentary appropriations

During the year, the Parliament of Canada authorized appropriations for the Corporation in the amount of $16,181,000 (2005 – $16,405,000). As of March 31, 2006, an amount of $1,149,000 (2005 – $6,000) had not been drawn down and is included in receivable from the Government of Canada.

15.Commitments

In October 2005, the Corporation entered into a fifteen-year lease agreement for office space scheduled to expire at the end of September 2020. Future minimum payments by fiscal year on the operating lease for premises over the next five years are as follows:

(in thousands of dollars)	
2006-07	$ 1,282
2007-08	1,296
2008-09	1,311
2009-10	1,326
2010-11	1,342
2011 and after	17,353

16. Comparative Figures

Certain 2004-05 figures have been reclassified to conform with the current year presentation.

CCC Board of Directors

Bottom Row, L-R

Ken Sunquist
Assistant Deputy Minister
World Markets Branch
International Trade Canada

Martine Corriveau-Gougeon
President
Gestion Corriveau-Gougeon Inc.

Andrew Saxton
Chairman
King George Financial Corporation

Second Row, L-R

Norman A. Turnbull, CA
President
NAT Expertise/Conseil

Alan R. Curleigh
Chair of the Board
Canadian Commercial Corporation

John McBride
President
Canadian Commercial Corporation

Peter M. Wright
President
Patterson Palmer Hunt Murphy

John Duffy, CA
Chief Financial Officer and Vice President, Finance
Neate Roller Limited

Not pictured

David W. Stapley
President, DRS Technologies., and Senior Vice President, International Business Development, Government Relations, DRS Technologies Inc.

CCC Officers

John McBride
President

Emechete Onuoha
Vice President, Corporation Development

Pierre Lemay
Vice President, International Development Branch

Michel Houle, CMA
Vice President, Risk and Financial Services

Robert Ryan
Vice President, Aerospace, Defence and Security

Tamara Parschin-Rybkin, QC
Corporate Counsel and Corporate Secretary

Glossary of terms

Additional contract costs:
Costs incurred by the Corporation to meet its contractual obligations to foreign buyers when suppliers are unable to meet their contractual commitment to CCC. This may include the cost of reprocurement or the cost of compensation.

Appropriations:
Funding CCC receives from the Government of Canada to manage DoD/NASA prime contracts.

Billings:
Work performed on a contract in the form of deliveries or progress payments.

Capital projects:
A project where a significant portion of the work is performed by a Canadian exporter, or by its subcontractor, in a foreign country and/or the contract contains a significant supply risk associated with the long-term sale of commodities.

Contract amendment:
Variation to the original signed contract.

Contract billings:
The total amount the Corporation invoiced to foreign customers for the delivery of products and services.

Contract performance guarantee:
An assurance provided to the foreign buyer that CCC, as an agency of the Government of Canada, will perform the contract in accordance with its terms and conditions.

Contract risk:
Possibility that a party to the contract may not meet the terms and conditions of the contract.

Credit risk:
Possibility of a contract party failing to meet its financial/payment commitments.

Defence Production Sharing Arrangement (DPSA):
Agreement signed in 1956 between Canada and the United States to allow Canadian industry to compete with U.S. firms for defence contracts on a commercial basis.

Enterprise Risk Management:
A continuous, proactive and systematic process to understand, manage and communicate risk from an organization-wide perspective.

Fees-for-service:
Direct and indirect costs including risk premium and appropriate service fees charged to Canadian exporters or foreign buyers using CCC services.

Gain/Loss on foreign exchange translation:
Gain/loss resulting from the movement in the exchange rate, which affects the Canadian value of the Corporation's foreign exchange holdings.

Procurement agent:
This is CCC's role when it sources products and services on behalf of Canadian government departments and foreign government buyers.

Progress payments:
Payments from foreign customers and to Canadian exporters on contracts where the partial recoupment of costs associated with the work performed on a contract leading up to delivery is allowed.

Small- and medium-sized enterprises (SMEs):
Canadian entities with annual sales of less than $25 million.

Sovereign contract:
Legally binding agreement between the Corporation (on behalf of the Government of Canada) and Canadian exporters or foreign buyers, with respect to the supply of a product and/or service.

Value of orders received
Represents the total value of contracts and amendments signed during the year, and are distinct from billings that reflect the value of work that is performed on directly facilitated exports. Billings measure the actual deliveries being made or relate to in-progress work that has been completed after a contract has been signed and is effective.

1			2
3	3		

Cover photo credits:

1. Department of National Defence (DND)
2. Department of National Defence (DND)
3. IDRC Photo: D. Mowbray

The CCC story

CCC helps Canadian exporters access complex international public sector markets where government-to-government contracts are necessary to supplement trade rules and practices.

Our main business is government-to-government contracting and procurement in defence and developing country markets.

CCC strives to be a trusted centre of contracting expertise and to cultivate effective, practical international trade partnerships to achieve results for Canadian exporters.

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