FINANCIAL PAGES

Financial Highlights

2003-2004 – ACHIEVING CORPORATE PRIORITIES

High-quality, Distinctive Canadian Programming

› $60 million one-time funding for three consecutive years, used to renew programming vitality across all media lines.

Efficiency

› Change in operating lease terms and sale of parcels of land to generate additional cash flow to fund Canadian Broadcasting Centre annual lease payment of $33 million.

› Creation of a shared services organisation to implement modernised administrative practices and develop synergies among departments.

› The DROP project, replacement of terrestrial distribution circuits, generated annual savings of more than $5 million.

Strategic Partnerships

› Creation of strategic partnership with Sirius Satellite Radio Inc. and Standard Broadcasting Inc. to offer satellite radio to Canadians.

› Consolidation of media services under one roof in Québec and Edmonton for better synergies and sharing of technology, resources and programming content.

Collaboration

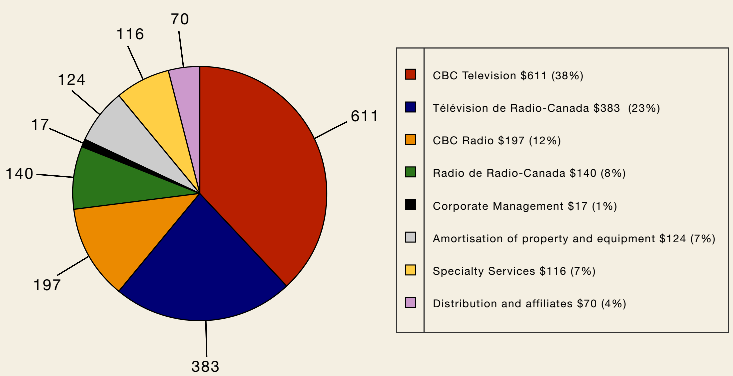
› Integration of Radio Canada International funding into annual operating appropriation will bring greater synergies.

REVENUES AND OPERATING SOURCES OF FUNDS CBC/RADIO-CANADA

(millions of dollars)

2003-2004 – OPERATING EXPENDITURES - 1,658 millions of $*

(millions of dollars)



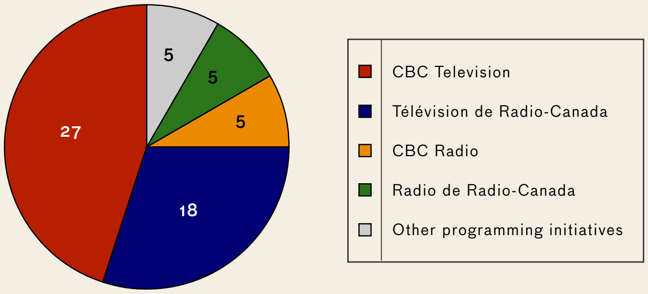
* Excluding recovery of income and large corporations taxes.

Management Discussion and Analysis

2003-2004 HIGHLIGHTS

› In addition to the $873 million parliamentary appropriation for operating expenditures, the Government of Canada granted CBC/Radio-Canada non-recurring funding of $60 million in 2003-2004, which has enabled the Corporation to continue to renew programming vitality across all media lines.

(millions of dollars)



› On April 1, 2003, CBC/Radio-Canada received authorisation from the Government of Canada to include funding for Radio Canada International in the approved parliamentary appropriation for operating expenditures. This decision will allow for better synergy of operations, especially within Radio de Radio-Canada.

› On June 5, 2003, CBC/Radio-Canada was authorised by the Canadian Radio-television and Telecommunications Commission (CRTC) to acquire the assets of 3899071 Canada Inc. (Country Canada). As of June 6, 2003, CBC/Radio-Canada is responsible for providing this specialty channel's digital television service. Country Canada financial results are now included in the results for Specialty Services (Note 5 to the Financial Statements).

› On September 27, 2003, CBC/Radio-Canada terminated its partnership with Publications Gesca ltée, under which a joint-venture publishing company, Les Éditions Voilà, had been formed for the purpose of producing a television program guide. The Corporation held a 50 per cent interest in the joint venture, representing a net equity investment of ($450,000) as of the date the partnership was dissolved.

› In November 2002, CBC/Radio-Canada began examining various options for enhancing the efficiency and quality of customer service provided by Human Resources (HR), Information Technology (IT) and Finance and Administration (F&A). One of the proposed solutions was to integrate management of these three units' diverse administrative operations into a single point of contact. In October 2003, the Corporation officially launched its Shared Services Organization (SSO) initiative, which consolidates all of CBC/Radio-Canada's administrative transactions into a bilingual "one-stop shop." Not only will the SSO provide HR, IT and F&A with a common technological platform, it will also allow each component to streamline and standardise some of its more cumbersome processes.

- In December 2003, the Corporation amended the terms of two operating leases for rental of land parcels occupied by the Canadian Broadcasting Centre. The terms of the new agreements require accounting for these leases as sales-type leases. In addition, the Corporation disposed of land parcels adjacent to the Canadian Broadcasting Centre. The gain from these transactions was $125 million. This amount will be received over 24.4 years, and an annual interest rate of 7.15 per cent is applicable. The amount will be used to finance payments of $33 million related to the capital lease arrangement for the Canadian Broadcasting Centre.

- The Corporation's contribution holiday with respect to its Pension Fund ended on December 31, 2003; as of January 1, 2004, therefore, the Corporation is contributing again to the Pension Fund, which will represent an additional expense of $43 million per year.

- During the 2002-2003 fiscal year, the Corporation embarked on major initiatives to consolidate CBC/Radio-Canada operations in Edmonton, Québec City and Ottawa. Consolidation of the Edmonton and Québec City operations in new, modern broadcasting centres was successfully completed during fiscal 2003-2004, with both projects being delivered on time and on budget. The Ottawa consolidation project will be completed as planned in fiscal 2004-2005.

- The Distribution Relay Optimization Project (DROP) has resulted in savings of more than $5 million annually, following the cross-country replacement of the terrestrial distribution network by satellite-receiving facilities.

ANALYSIS OF FINANCIAL RESULTS

REVENUES

Compared to the previous year, advertising revenues remained relatively stable, while miscellaneous revenues increased by $21 million.

CBC Television recorded a significant increase in its advertising revenues, attributable to a generally favourable advertising market, especially during the 2003 National Hockey League playoffs. Télévision de Radio-Canada posted lower advertising revenues, explained by a significant ratings drop. The Corporation expects to reverse this trend thanks to the outstanding programming planned as part of the repositioning of Télévision de Radio-Canada during fiscal 2004-2005.

Specialty channels saw an increase in cable revenues, mostly attributable to a favourable advertising market for the Réseau de l'information (RDI) and an increase in the number of Galaxie subscribers.

Miscellaneous revenues grew in 2003-2004 thanks to CBC/Radio-Canada's role as host broadcaster of the Pan American Games in the Dominican Republic and of the World Road Cycling Championships in Hamilton, as well as to interest earned on the sale of land in Toronto.

EXPENSES

Operating expenses increased by $125 million.

The significant increase in expenses does not result from a change in programming activities; rather, it is largely explained by the sharp decrease in the capital markets, in 2002-2003, and the discount rate, which is reflected in the actuarial accounting of expenses for employee future benefits according to Canadian generally accepted accounting principles, and translates into additional expenses of $98 million in 2003-2004.

NON-OPERATING REVENUES

The Corporation generated $125 million in non-operating revenues.

The sale of land parcels, on which the Canadian Broadcasting Centre (Toronto) is located, as well as amendments to the terms of two operating leases for the land, which are now accounted for as sales-type leases, resulted in a gain of $125 million.

BALANCE SHEET ITEMS

Significant increase in long-term assets during 2004 attributable to a long-term receivable.

In 2003-2004, the item “Prepaid expenses” includes amounts for advance payment of broadcast rights for the Athens Olympic Games in August 2004. These prepaid expenses were reported under the item “Deferred charges and long-term investments” in 2003.

The Corporation has a long-term receivable following the sale of land in Toronto. The sales proceeds will be received over 24.4 years and an annual interest rate of 7.15 per cent is applicable.

Accounting for real estate leases as sales-type leases results from amendments to the terms of two operating leases for rental of land parcels in Toronto. The new leases will generate revenues of more than $71 million (net of interest), to be paid over the next 24.4 years.

The items “Pension plans asset” and “Employee-related liabilities” reflect the application of rules respecting employee future benefits. Under these rules, actuarial accounting must be used to determine assets and liabilities relative to the Pension Fund and to other employee future benefits. The sharp drop in market value of the Pension Fund that occurred in 2002 will thus be amortised over many years as a result of these rules.

FISCAL 2004-2005 AND SUBSEQUENT YEARS

› On December 10, 2003, CBC/Radio-Canada, Sirius Satellite Radio Inc. and Standard Broadcasting Inc. announced the creation of a joint venture to offer satellite radio service to Canadians. They also announced the imminent filing of an application with the CRTC for authorisation to distribute satellite radio service in Canada. The partnership, which also requires Treasury Board approval, could result in a major, profitable investment for CBC/Radio-Canada in 2004-2005.

› The XXVIII Summer Olympics will be held in Athens in August 2004. CBC/Radio-Canada will be there to provide Canadians with high-quality coverage, and will act as host broadcaster for the Games' softball and boxing tournaments.

› To properly fulfill its mandate, stand up to increasingly fierce competition, and offset rising costs, CBC/Radio-Canada must have the necessary resources and fiscal manoeuvrability to achieve its strategic objectives. Stable multi-year funding as well as separate additional funding are required if the Corporation is to properly reflect the Canadian experience, deliver dynamic programming (e.g., through production of high-quality, distinctive Canadian programs), and enhance its regional and national programming, pursuant to the recommendations made by the Standing Committee on Canadian Heritage in its report *Our Cultural Sovereignty: The Second Century of Canadian Broadcasting*.

FINANCIAL RESULTS HIGHLIGHTS FROM THE PAST FIVE YEARS

For the year ended March 31	**2004**	**2003**	**2002**	**2001**	**2000**
			(millions of dollars)		
Government funding					
Parliamentary appropriations	873	877	780	794	764
Non-recurring funding for programming initiatives	60	60	60	-	-
Revenue					
Advertising and program sales	282	284	319	349	329
Miscellaneous	95	73	82	65	79
Specialty Services	132	123	118	108	97
Allocation of funds					
Television and Radio services costs	1,330	1,198	1,151	1,043	1,052
Specialty Services expenses	116	117	104	100	93

Management's Responsibility for the Financial Statements

The financial statements and all other information presented in the Annual Report are the responsibility of management and have been reviewed and approved by the Board of Directors of the Corporation. These financial statements, which include amounts based on management's best estimates as determined through experience and judgement, have been properly prepared within reasonable limits of materiality and are in accordance with Canadian generally accepted accounting principles.

Management of the Corporation maintains books of account, records, financial and management control, and information systems, which are designed to provide reliable and accurate financial information on a timely basis. These controls provide reasonable assurance that assets are safeguarded, that resources are managed economically and efficiently in the attainment of corporate objectives, that the operations of the Corporation are carried out effectively and that transactions are in accordance with the *Broadcasting Act* and the by-laws of the Corporation.

The Corporation's Internal Auditor has the responsibility for assessing the Corporation's systems, procedures and practices. The Auditor General of Canada conducts an independent audit of the annual financial statements and reports on her audit to the Board of Directors of the Canadian Broadcasting Corporation and the Minister of Canadian Heritage.

The Board of Directors' Audit Committee, which consists of five members, none of whom is an officer of the Corporation, reviews and advises the Board on the financial statements and the Auditor General's report thereto. The Audit Committee oversees the activities of Internal Audit and meets with management, the Internal Auditor and the Auditor General on a regular basis to discuss the financial reporting process as well as auditing, accounting and reporting issues.

Ottawa, Canada
June 8, 2004

President and CEO

Vice-President and Chief Financial Officer

Auditor's Report

To the Board of Directors of the Canadian Broadcasting Corporation
And the Minister of Canadian Heritage

I have audited the balance sheet of the Canadian Broadcasting Corporation as at March 31, 2004 and the statements of operations and equity and cash flow 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, 2004 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 *Broadcasting 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 III of the *Broadcasting Act* and the by-laws of the Corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
June 8, 2004

Balance Sheet

As at March 31

	2004	2003
	(thousands of dollars)	
ASSETS		
Current		
Cash and cash equivalents	132,690	115,580
Short-term investments (Note 7)	56,324	76,600
Accounts receivable	134,025	138,147
Program inventory	108,174	92,176
Prepaid expenses	66,817	42,134
Net investment in sales-type leases (Note 9)	1,605	-
	499,635	**464,637**
Property and equipment (Note 8)	994,332	1,007,448
Notes receivable (Note 10)	58,506	-
Deferred charges and long-term investments	17,832	35,262
Pension plans asset (Note 13)	-	49,005
Net investment in sales-type leases (Note 9)	68,214	-
	1,638,519	**1,556,352**
LIABILITIES		
Current		
Accounts payable and accrued liabilities	134,150	157,381
Employee-related liabilities (Note 13)	152,049	136,715
Obligation under capital lease (Note 14)	5,926	5,503
	292,125	**299,599**
Long-term		
Employee-related liabilities (Note 13)	155,014	105,562
Obligation under capital lease (Note 14)	355,597	361,523
Deferred capital funding (Note 12)	650,959	641,517
	1,161,570	**1,108,602**
EQUITY		
Equity	184,824	148,151
	1,638,519	**1,556,352**

Commitments and contingencies (Notes 15 and 16)

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

Approved on behalf of the Board of Directors:

Carole Taylor
Director

Director

Statement of Operations and Equity

For the year ended March 31

	2004	2003
	(thousands of dollars)	
Revenue		
Advertising and program sales	281,950	284,410
Specialty Services (Note 5)	132,107	123,271
Miscellaneous	94,561	73,154
	508,618	**480,835**
Expense		
Television and Radio services costs	1,330,029	1,209,970
Specialty Services (Note 5)	116,446	117,277
Transmission, distribution and collection	61,770	59,077
Payments to private stations	9,002	11,140
Corporate management	16,855	17,561
Amortisation of property and equipment	123,855	117,695
	1,657,957	**1,532,720**
Operating loss before non-operating revenues, government funding and taxes	**(1,149,339)**	**(1,051,885)**
Government funding		
Parliamentary appropriation for operating expenditures (Note 3)	932,695	937,432
Funding reserved for Radio Canada International (Note 4)	-	15,501
Amortisation of deferred capital funding (Note 12)	120,174	118,049
	1,052,869	**1,070,982**
Net results before non-operating revenues and taxes	**(96,470)**	**19,097**
Non-operating revenues		
Gain from sales-type leases	65,935	-
Gain on disposal of property	58,940	-
	124,875	**-**
Net results before taxes	**28,405**	**19,097**
Recovery of income and large corporations taxes (Note 6)	4,268	1,002
Net results for the year	**32,673**	**20,099**
Equity, beginning of year	**148,151**	**124,052**
Working capital funding (Note 3)	4,000	4,000
Equity, end of year	**184,824**	**148,151**

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

Statement of Cash Flow

For the year ended March 31

	2004	2003
	(thousands of dollars)	
Cash flows from (used in)		
Operating Activities		
Net results for the year	32,673	20,099
Items not involving cash:		
(Gain) loss on disposal of property and equipment	(58,072)	757
(Gain) from sales-type leases	(65,935)	-
Amortisation of property and equipment	123,855	117,695
Recovery of income tax and tax on large corporations	(4,268)	(1,002)
Equity in income of companies subject to significant influence	(285)	(7)
Amortisation of deferred charges	570	(8,340)
Amortisation of deferred capital funding	(120,174)	(118,049)
Change in employee-related liabilities [current]	(1,188)	1,542
Change in employee-related liabilities [long-term]	49,451	7,984
Change in pension plans asset	49,005	(23,510)
Net change in non-cash working capital balances (Note 18)	(18,775)	30,259
	(13,143)	**27,428**
Financing Activities		
Parliamentary appropriations (Note 3):		
Capital funding	129,616	105,090
Working capital funding	4,000	4,000
Government funding for capital purchases for RCI	-	19
Repayment of capital lease obligation	(5,503)	(5,111)
	128,113	**103,998**
Investing Activities		
Acquisition of property and equipment	(125,556)	(123,976)
Capital recovery from notes receivable	6,320	-
Capital recovery from sales-type lease investments	1,799	-
Proceeds from disposal of property and equipment	2,433	17,055
Acquisition of business	-	(1,200)
Change in deferred charges	17,144	(7,425)
	(97,860)	**(115,546)**
Increase in cash and cash equivalents	**17,110**	**15,880**
Cash and cash equivalents, beginning of year	**115,580**	**99,700**
Cash and cash equivalents, end of year	**132,690**	**115,580**
Consist of:		
Cash	6,195	5,211
Cash equivalents	126,495	110,369

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

Notes to the Financial Statements for the Year Ended March 31, 2004

1. AUTHORITY AND OBJECTIVE

CBC/Radio-Canada was first established by the 1936 *Canadian Broadcasting Act* and continued by the 1958, 1968 and 1991 Broadcasting Acts. The Corporation is an agent of Her Majesty and all property acquired by the Corporation is the property of Her Majesty.

As the national public broadcaster, CBC/Radio-Canada provides Radio and Television services in both official languages incorporating predominantly and distinctively Canadian programs to reflect Canada and its regions to national and regional audiences.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies.

a. Parliamentary Appropriations and Deferred Capital Funding

The Corporation receives most of its funding from the Government of Canada. Parliamentary appropriations for operating expenditures are recorded in the Statement of Operations and Equity. Parliamentary appropriations for depreciable capital expenditures are recorded as deferred capital funding on the Balance Sheet, and are amortised on the same basis and over the same periods as the related property and equipment. Parliamentary appropriations for working capital and non-depreciable property are credited to Equity.

b. Cash Equivalents

Cash equivalents, which are carried at cost as they are intended to be held to maturity, are comprised of marketable securities and bonds with original maturity dates of less than 90 days.

c. Short-term Investments

Short-term investments, which are carried at cost as they are intended to be held to maturity, consist of marketable securities and bonds with original maturity dates in excess of three months and current maturities of less than 12 months from the balance sheet date.

d. Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect at the balance sheet date or, when hedged, at rates prescribed by foreign currency contracts. Revenue and expense items and non-monetary assets and liabilities are translated at average exchange rates during the year. All exchange gains or losses are included in determining net income for the current year.

e. Derivative Financial Instruments

The Corporation uses derivative financial instruments such as forward contracts to manage the risk of loss due to adverse movements in foreign exchange. The Corporation's policy is not to utilise derivative financial instruments for trading or speculative purposes. Foreign exchange forwards are contractual obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement at a predetermined future date.

A derivative must be designated and effective to be accounted for as a hedge. Effectiveness is achieved if the cash flow or fair values of the derivative substantially offset the cash flow of the hedged position and the timing is similar. Gains or losses related to derivatives that are hedges are recognised at the same time as the related hedged financial instruments are settled.

f. Program Inventory

Programs completed, in process of production or available for sale are stated at cost. Cost includes the cost of materials and services, and labour and overhead expenses applicable to programs. Program costs are charged to operations as the programs are broadcast, deemed unusable, or sold.

The Corporation enters into contracts for independent productions, film and script rights. The payments made under the terms of each contract are recorded as prepaid expenses and recorded as program inventory when the following criteria are met: cost is determined, material is accepted and program is available for broadcast. Cost is charged to operations in accordance with the approved program schedule, when deemed unusable or sold.

g. Property and Equipment

Property and equipment are recorded at cost, less accumulated amortisation. The cost of assets constructed by the Corporation includes material, direct labour and related overhead. Property and equipment acquired under capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Amortisation is calculated on the straight-line method using rates based on the estimated useful life of the property and equipment as follows:

› Buildings	33 years
› Technical equipment	
Transmitters and towers	20 years
Other	5 years
› Furnishings and office equipment	10 years
› Computers	
Mainframe computers (hardware and software)	5 years
Microcomputers (hardware and software)	3 years
› Automotive	
Automobiles, cars and minivans	5 years
Utility vehicles, vans	8 years
Snowmobiles, all-terrain vehicles	10 years
Television and radio news trucks, 5-ton and 10-ton heavy trucks	12 years
Specialised vehicles	20 years

Leasehold improvements are capitalised and amortised over the remaining terms of the respective leases. Amounts included in uncompleted capital projects are transferred to the appropriate property and equipment classification upon completion, and are then amortised according to the Corporation's policy.

h. Sales-type Leases

Assets leased under terms that transfer substantially all of the benefits and risks of ownership to the lessee are accounted for as sales-type leases.

Finance income from sales-type leases is recognised in a manner that produces a constant rate of return on the investment in the leases. The investment in the leases for purposes of income recognition is composed of net minimum lease payments and unearned finance income.

i. Deferred Charges

Initial costs incurred as a result of an operating lease are amortised over the period of the lease. Other deferred charges are amortised over the period of the respective agreements.

j. Long-term Investments

Investments in entities over which the Corporation does not exercise significant influence are recorded using the cost method. Investments in entities over which the Corporation exercises significant influence are accounted for using the equity method. Under this method, the Corporation's investment is increased or decreased according to the undistributed net gain or loss since acquisition. Investments in entities over which the Corporation exercises joint control are accounted for using the proportionate consolidation method. Under this method, the pro-rata share of assets, liabilities, revenues and expenses of entities that are subject to joint control is combined with the Corporation's results.

k. Pension Cost and Obligation

The Corporation provides pensions based on length of service and final average earnings as classified under defined benefit retirement pension arrangements.

The cost of pension benefits earned by employees is determined on an actuarial basis using the projected benefit method pro-rated on service and management's best assumptions such as the expected long-term rate of return on plan assets, rate of compensation, inflation, retirement ages of employees, and mortality of members.

The pension costs are determined using the cost of employee pension benefits for the current year's service, the interest expense on the accrued benefit obligation, the expected investment return on the actuarial value of plan assets, the amortisation of the transitional asset/obligation, the amortisation of net actuarial gains and losses, and the amortisation of past service costs. The market-related value of plan assets is used for the purpose of calculating the expected return on plan assets.

The transition asset/liability, the net actuarial gains and losses and the adjustments arising from plan amendments are amortised over the estimated average remaining service life of the employee group.

The difference between the accumulated pension gain and the employer's contributions to the Pension Fund is reflected in the Balance Sheet as an employee-related asset (liability).

l. Employee Future Benefits Other than Pensions

The Corporation provides employee future benefits such as severance pay and other benefits such as continuation of benefits coverage for employees on long-term disability, post-retirement life insurance and workers' compensation.

The cost of these benefits is determined on an actuarial basis using the projected benefit method pro-rated on years of service and management's best assumptions such as salary increases, inflation, retirement ages of employees, mortality of members, and expected health care costs.

For severance pay, the transitional obligation and the net actuarial gains or losses are amortised over the average remaining service life of the employee group. The transitional obligation and the net actuarial gains or losses for post-retirement life insurance, continuation of benefits for employees on long-term disability and workers' compensation are amortised over the applicable remaining service lifetime of the plan members.

Since a major portion of the liabilities for these items represents costs, which will be funded mainly from appropriations received from the Government of Canada in the future, these items do not have an impact on the Corporation's current net results of operations on a government funding basis.

m. Income Taxes

The Corporation follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognised for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The rates used to calculate the future income tax assets and liabilities are the enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. If realisation of future income tax assets is considered more unlikely than likely, a valuation allowance is provided.

n. Revenue Recognition

(i) Advertising and Program Sales

Revenues from the sale of advertising airtime are recognised when the advertisement has been broadcast. Revenues from the sale of programs by the Main Channels to third-party broadcasters are recognised when the sale of goods or the rendering of services is completed.

(ii) Specialty Services

Revenues from Specialty Services include the sale of advertising airtime, subscriber revenues, and the sale of programs by the Specialty Channels to third-party broadcasters. Revenues from the sale of advertising airtime are recognised when the advertisement has been broadcast. Revenues from program sales and subscriber fees are recognised when the sale of goods or the rendering of services is completed.

(iii) Miscellaneous Revenues

Miscellaneous revenues include revenues from the leasing of space, facilities and services; activities such as host broadcaster; commercial productions sales; interest revenues; the gains on disposal of property and equipment; and other miscellaneous activities. They are recognised when the sale of goods or the rendering of services is completed.

o. Measurement Uncertainty

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 at the date of the financial statements and the reported amounts of revenues and expenses for the year. Employee-related liabilities, estimated useful lives of property and equipment and contingent liabilities are the most significant items where estimates are used. Actual results could differ from those estimated.

p. Hedging Relationship

The Canadian Institute of Chartered Accountants issued Accounting Guideline 13, *Hedging Relationships*, which will become effective for the Corporation on April 1, 2004. This guideline establishes certain qualifying conditions for the use of hedge accounting, which are more stringent and formalised than those under current standards. Commencing April 1, 2004, all derivative financial instruments that do not qualify for hedge accounting will be carried at fair value in the balance sheet, and changes in their fair value will be recorded in the statement of income.

3. PARLIAMENTARY APPROPRIATIONS

a. Parliamentary Appropriations Approved and Received

Parliamentary appropriations approved and the amounts received by the Corporation during the year are as follows:

	2004	2003
	(thousands of dollars)	
Operating Funding		
Approved annual funding	829,059	864,891
Additional non-recurring funding for programming initiatives (Note 3d)	60,000	60,000
Transfer from (to) capital funding – Supplementary Estimates B[1]	3,636	(7,459)
Frozen allotment used (reprofiled from previous years)	40,000	20,000
Operating Funding Received	**932,695**	**937,432**
Capital Funding		
Approved annual funding	133,252	97,631
Transfer (to) from operating funding – Supplementary Estimates B[1]	(3,636)	7,459
Capital Funding Received	**129,616**	**105,090**
Working Capital Funding	**4,000**	**4,000**

[1] In the event that significant changes in current year requirements occur, appropriations are transferred from one vote to another or reprofiled from one fiscal year to another through Appropriation Acts approved by Parliament.

b. Reconciliation of Net Results of Operations to Government Funding Basis

The Corporation receives a significant portion of its funding through Parliamentary appropriations, based primarily on cash flow requirements. Expenses recognised in the Statement of Operations and Equity in one year may be funded through Parliamentary appropriations in other years. Accordingly, the Corporation's net results of operations for the year on a government funding basis differ from those on a Canadian generally accepted accounting principles basis. The differences are outlined below:

	2004	2003
	(thousands of dollars)	
Net results for the year	**32,673**	**20,099**
Items not generating operating funds:		
Amortisation of deferred capital funding	(120,174)	(118,049)
(Gain) generated from sales-type leases	(65,935)	-
(Gain) loss on disposal of property and equipment	(58,072)	757
Other	(1,843)	(1,829)
	(246,024)	**(119,121)**
Items not requiring operating funds:		
Amortisation of property and equipment	123,855	117,695
CBC/Radio-Canada pension plans and other employee future benefits	98,456	(15,526)
Vacation pay	(1,188)	1,542
Program inventory costs	729	3,864
Other	(2,565)	2,061
	219,287	**109,636**
Results of operations on a government funding basis	**5,936**	**10,614**
Less: Interest generated from the disposal of joint business ventures	(2,473)	(2,493)
Less: Interest generated from the sale of land and sales-type leases	(5,194)	-
Add: Use of proceeds, generated in a previous fiscal year, from the sale of joint business venture	5,093	-
Net results of operations on a government funding basis	**3,362**	**8,121**
Government funding surplus, beginning of year	**31,890**	**23,769**
Government funding surplus, end of year	**35,252**	**31,890**

c. Net Results for Capital Funding

The purchase of property and equipment is financed by Parliamentary appropriations. Additions to property and equipment recorded in the current year under Canadian generally accepted accounting principles may be funded by Parliamentary appropriations in different years. The differences are outlined below:

	2004	2003
	(thousands of dollars)	
Capital funding received (Note 3a)	129,616	105,090
Capital funding for Radio Canada International	-	19
Capital funding	**129,616**	**105,109**
Proceeds from the disposal of property and equipment	142,449	17,055
Total capital funding for the year	**272,065**	**122,164**
Acquisition of property and equipment	(125,556)	(123,976)
Capital portion of lease payments	(5,503)	(5,111)
Capital funding surplus (deficit) for the year	**141,006**	**(6,923)**
Less: Proceeds from the disposal of a building	-	(7,500)
Less: Proceeds from the disposal of land	(131,916)	-
Add: Use of proceeds generated from the sale of a building	7,500	-
Capital funding surplus (deficit) for the year (excluding proceeds from the disposal of land and a building)	**16,590**	**(14,423)**
Capital funding surplus, beginning of year, government funding basis	**5,053**	**19,476**
Capital funding surplus, end of year, government funding basis	**21,643**	**5,053**

d. Additional Non-recurring Funding for Programming Initiatives

On April 3, 2003, the Government of Canada approved additional non-recurring funding of $60 million for CBC/Radio-Canada for the 2003-2004 fiscal year (2002-2003 – $60 million). These funds are being used across all media for the enhancement of programming initiatives in particular.

4. RADIO CANADA INTERNATIONAL

a. Funding for Radio Canada International

On April 1, 2003, the Government of Canada approved the integration of Radio Canada International (RCI) funding into CBC/Radio-Canada operating appropriations. In 2002-2003, Radio Canada International was funded under the terms of a contribution agreement with the Government of Canada.

	2004	2003
	(thousands of dollars)	
Operating funding	-	15,501
Capital funding	-	19
	-	**15,520**

b. Operating Expenditures

In 2003-2004, the expenditures relating to Radio Canada International were integrated with Television and Radio service costs in the Statement of Operations and Equity. The 2002-2003 results have been reclassified accordingly.

5. SPECIALTY SERVICES

a. Country Canada

From November 1, 2002 to June 5, 2003, 3899071 Canada Inc. (Country Canada) was a wholly-owned subsidiary of the Corporation.

On June 5, 2003, the CRTC approved an application by CBC/Radio-Canada for authority to acquire the assets of 3899071 Canada Inc. (Country Canada). The results of Country Canada were consolidated with the financial results of CBC/Radio-Canada until that date. Effective June 5, 2003, the assets and liabilities were transferred to CBC/Radio-Canada. Since June 6, 2003, CBC/Radio-Canada has been responsible for providing the digital specialty television service known as Country Canada and, as of that date, revenues and expenses of Country Canada have been recorded as Specialty Services results. On March 3, 2004, 3899071 Canada Inc. was dissolved.

b. Incremental Revenues and Expenses

The Corporation operates CBC Newsworld, the Réseau de l'information (RDI), Galaxie, and Country Canada under license conditions that require the reporting of incremental costs and revenues. As stipulated in their license agreement, CBC Newsworld and RDI use previous years' accumulated excess revenues over expenses to fund current year activities. As at March 31, 2004, the accumulated excess revenues over expenses carried forward to future years' activities for CBC Newsworld totalled $4.3 million ($2.2 million for 2003) and $2.2 million for RDI ($321,000 for 2003).

	2004				2003			
	Revenues	Expenses	Repayments to CBC Main Service[1]	Net	Revenues	Expenses	Repayments to CBC Main Service[1]	Net
	(thousands of dollars)							
CBC Newsworld	70,559	(66,942)	(1,533)	2,084	69,172	(73,125)	(5,515)	(9,468)
RDI	43,608	(39,892)	(1,842)	1,874	40,824	(38,507)	(2,270)	47
Galaxie	16,254	(6,694)	-	9,560	13,275	(5,645)	(130)	7,500
Country Canada[2]	1,686	(2,918)	-	(1,232)	-	-	-	-
	132,107	**(116,446)**	**(3,375)**	**12,286**	**123,271**	**(117,277)**	**(7,915)**	**(1,921)**

[1] Capital expenditures for the acquisition of equipment to introduce, maintain and expand the Specialty Services are made by CBC/Radio-Canada from its capital appropriation with an approved corporate repayment plan for recovery from the Specialty Services' revenues. Those repayments are funded from the accumulated excess revenues over expenses.

[2] Country Canada's loss was funded by proceeds from the sale of joint ventures.

6. INCOME TAX AND TAX ON LARGE CORPORATIONS

The Corporation is a prescribed Federal Crown Corporation under Part LXXI of the *Income Tax Regulations* and is subject to the provisions of the *Income Tax Act* (Canada). The Corporation's activities are not subject to provincial taxes. The recovery of income and large corporations taxes is comprised of:

	2004	2003
	(thousands of dollars)	
Current income tax recovery	(4,268)	(1,002)
Future income tax	-	-
	(4,268)	**(1,002)**

6. INCOME TAX AND TAX ON LARGE CORPORATIONS (continued)

Recovery of income and large corporations taxes differs from the amount that would be computed by applying the Federal statutory income tax rate of 34.02 per cent (2003 – 36.02 per cent) to net results before taxes. The reasons for the differences are as follows:

	2004	2003
	(thousands of dollars)	
Income tax expense at Federal statutory rate	9,663	6,879
Increase (decrease) resulting from:		
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	694	(554)
Non-taxable portion of capital gains on sales of capital assets	(15,511)	-
Other net amounts	(8,410)	(726)
Change in valuation allowance	13,564	(5,599)
Large corporations tax recovery	(4,268)	(1,002)
	(4,268)	**(1,002)**

The tax effects of temporary differences that gave rise to significant portions of the future tax assets and future liabilities as at March 31, 2004 and 2003 are presented below:

	2004	2003
	(thousands of dollars)	
Future tax assets:		
Accrued liabilities	6,703	7,268
Pension plan asset	11,501	-
Employee-related liabilities	38,602	34,329
Loss carry-forward	10,599	7,825
Other	31	-
	67,436	**49,422**
Less: valuation allowance	(19,438)	(5,874)
	47,998	**43,548**
Future tax liabilities:		
Accounts receivable	942	-
Program inventory	482	801
Pension plan asset	-	15,936
Net investment in sales-type leases	19,200	-
Property and equipment	19,871	26,552
Notes receivable	7,376	-
Other	127	259
	47,998	**43,548**
Net future tax asset (liability)	-	-

As at March 31, 2004, the Corporation had a loss carry-forward for tax purposes of $32.6 million (2003 – $26.8 million), which begins to expire in 2007.

7. SHORT-TERM INVESTMENTS

	2004	2003
	(per cent)	
Average yield	2.18	3.10
	(days)	
Average term	71	87

The Corporation invests in the short-term money market and securities bought are limited to those that are 100 per cent guaranteed by the Government of Canada.

8. PROPERTY AND EQUIPMENT

			2004	2003
	Cost	Accumulated amortisation	Net book value	
	(thousands of dollars)			
Land	22,177	-	22,177	34,161
Buildings	371,293	(217,466)	153,827	155,897
Technical equipment	1,229,460	(907,402)	322,058	294,969
Furnishings, office equipment and computers	120,387	(87,526)	32,861	35,860
Automotive	49,684	(35,709)	13,975	12,980
Leasehold improvements[1]	30,018	(7,877)	22,141	3,069
Property under capital lease[2]	511,635	(168,614)	343,021	358,863
Uncompleted capital projects	84,272	-	84,272	111,649
	2,418,926	**(1,424,594)**	**994,332**	**1,007,448**

[1] A change in the estimated useful life for leasehold improvements, from remaining terms of the respective leases up to a maximum period of five years, to remaining terms of the respective leases has had no significant impact on amortisation expense in 2004.

[2] Current year amortisation expense of $15.4 million (2003 – $15.4 million) relating to the property under capital lease is included in the amortisation of property and equipment on the Statement of Operations and Equity.

9. NET INVESTMENT IN SALES-TYPE LEASES

a. Amendment to Land Leases

On December 1, 2003, the Corporation amended the terms of two operating leases for the rental of land in Toronto. The changes in the terms of the agreements require that these leases be accounted for as sales-type leases. The fair value of the land totalled $71.2 million. The credit risk is normal.

b. Income from Sales-type Leases

CBC/Radio-Canada's net investment in sales-type leases includes the following:

	(thousands of dollars)
Total minimum lease payments receivable	142,254
Unearned income	(72,435)
	69,819
Current portion	(1,605)
Long-term portion	**68,214**

Future minimum lease payments receivable under the sales-type leases are as follows:

	(thousands of dollars)
2005	6,050
2006	6,050
2007	6,050
2008	6,050
2009	6,050
2010 to 2027	112,004
Total future minimum lease payments receivable	**142,254**

10. NOTES RECEIVABLE

On December 1, 2003, the Corporation sold land owned in Toronto. Proceeds from these transactions total $68.8 million and represent fair value.

The Corporation has three long-term notes receivable following these sales. The sales proceeds will be received over 24.4 years at an annual interest rate of 7.15 per cent. The credit risk is normal.

Future minimum payments receivable under the term of the sales are as follows:

	(thousands of dollars)
2005	5,567
2006	5,567
2007	5,567
2008	5,567
2009	5,567
2010 to 2027	101,123
Total future minimum payments - notes receivable	**128,958**
Deduct: imputed interest	(65,089)
Notes receivable	**63,869**
Less: current portion (included in accounts receivable)	(5,363)
Long-term notes receivable	**58,506**

11. LONG-TERM INVESTMENTS

a. Long-term Investments – Equity Method

The Corporation has the following interest in two specialty channels:

	2004	2003
	(thousands of dollars)	
ARTV – participation at 37%	3,879	3,855
The Documentary Channel – participation at 29%[1]	-	-

[1] CBC/Radio-Canada has not recorded a portion of *The Documentary Channel*'s losses since the Corporation will not assume any financial risk relating to *The Documentary Channel*.

b. Termination of Partnership

On September 27, 2003, CBC/Radio-Canada terminated its partnership with Publications Gesca ltée under which the Corporation had a 50 per cent interest in Les Éditions Voilà. At the date of termination, the Corporation had a net shareholder's deficiency of ($225,000) (2003 – ($225,000)). On September 27, 2003, Les Éditions Voilà was dissolved.

12. DEFERRED CAPITAL FUNDING

	2004	2003
	(thousands of dollars)	
Balance, beginning of year	**641,517**	**654,457**
Government funding for capital expenditures (Note 3c)	129,616	105,109
Amortisation of deferred capital funding	(120,174)	(118,049)
Balance, end of year	**650,959**	**641,517**

13. PENSION PLANS ASSET AND EMPLOYEE-RELATED LIABILITIES

Employee-related liabilities are as follows:

	2004	2003	2004	2003
	Current		Long-term	
	(thousands of dollars)			
Accrued pension benefit liability	-	-	35,367	-[1]
Employee future benefits other than pensions	-	2,806	118,423	105,284
Vacation pay	45,474	44,780	-	-
Workforce reduction	2,130	910	946	-
Salary-related liabilities	104,445	88,219	278	278
	152,049	**136,715**	**155,014**	**105,562**

[1] As at March 31, 2003, there was a pension plans asset balance of $49 million.

The Corporation maintains a contributory defined benefit pension plan, the CBC/Radio-Canada Pension Plan, covering substantially all employees of the Corporation. Retirement benefits are based on the length of pensionable service and on the average of the best five consecutive years of pensionable salary in the last ten years of employment. Employees are required to contribute a percentage of their pensionable salary to the plan, with the Corporation providing the balance of the funding, as required, based on actuarial valuations, which are made at least on a triennial basis (latest evaluation made in December 2002). The Corporation also maintains unfunded non-contributory defined benefit pension arrangements.

Assumptions – annual rates:	**2004**	**2003**
Expected long-term rate of return on plan assets	6.75%	6.75%
Discount rate – beginning of year	5.75%	6.00%
Discount rate – end of year	4.75%	5.75%
Long-term rate of compensation increase, excluding merit and promotion	4.00%	4.00%
Health care trend	8.5% for 5 years; 4.5% thereafter	8.5% for 5 years; 4.5% thereafter

Annual amount:	**2004**	**2003**
	(thousands of dollars)	
Employee contributions	28,001	22,991
Benefit payments for the year – pension plans	173,384	163,351
Benefit payments for the year – other employee future benefits	8,489	11,294

	2004		2003	
	CBC/ Radio-Canada pension plans	Other employee future benefits	CBC/ Radio-Canada pension plans	Other employee future benefits
	(thousands of dollars)			
Fair-market value of plan assets, end of year	3,607,713	-	3,139,218	
Accrued benefit obligation, end of year	(4,251,100)	(175,795)	(3,557,003)	(153,409)
Deficit, end of year	**(643,387)**	**(175,795)**	**(417,785)**	**(153,409)**
Unrealised gains	(58,324)	-	-	-
Unamortised past service costs	91,173	-	100,769	-
Unamortised net actuarial losses	1,459,429	28,308	1,343,275	15,445
Unamortised transitional (asset) obligation	(884,258)	29,064	(977,254)	32,680
Accrued benefit asset (liability), end of year	**(35,367)**	**(118,423)**	**49,005**	**(105,284)**
Accrued benefit asset (liability), beginning of year	**49,005**	**(105,284)**	**25,495**	**(97,300)**
Employee future benefits revenues (expenses):				
Current service cost	(66,981)	(7,650)	(62,458)	(6,669)
Interest on accrued benefit obligation	(202,248)	(9,018)	(197,505)	(8,471)
Expected return on actuarial value of assets	207,281	-	241,340	-
Amortisation of past service costs	(9,597)	-	(9,597)	-
Amortisation of transitional asset (obligation)	92,996	(3,618)	92,996	(3,618)
Amortisation of actuarial losses	(115,290)	(1,342)	(42,112)	(520)
Employee future benefits revenues (expenses) for the year	**(93,839)**	**(21,628)**	**22,664**	**(19,278)**
Corporation pension plan contributions	**8,598**	**-**	**-**	**-**
Benefit payments from unfunded plans	**869**	**8,489**	**846**	**11,294**
Accrued benefit asset (liability), end of year	**(35,367)**	**(118,423)**	**49,005**	**(105,284)**

As at March 31, 2004, the accrued benefit obligation for the CBC/Radio-Canada Pension Plan and for the unfunded benefit pension arrangements represented respectively $4,204.6 million (2003 – $3,519.9 million) and $46.5 million (2003 – $37.1 million).

14. OBLIGATION UNDER CAPITAL LEASE

The capital lease is for premises occupied by the Corporation in Toronto. Future minimum lease payments and obligations are as follows:

	(thousands of dollars)
2005	33,039
2006	33,039
2007	33,039
2008	33,039
2009	33,039
2010 to 2027	611,217
Total future minimum payments	**776,412**
Deduct: imputed interest (7.53%) and executory costs	(414,889)
Obligation under capital lease	**361,523**
Less: current portion	(5,926)
Long-term portion	**355,597**

The Corporation owns the land on which the Canadian Broadcasting Centre in Toronto is located. Interest expense relating to the Canadian Broadcasting Centre lease, which is included in current year expenditures, is $27.4 million. At the end of the lease, the Corporation will own the building.

15. COMMITMENTS

a. Program-related and Other

As at March 31, 2004, commitments for sports rights amounted to $354.0 million (2003 – $417.7 million); procured programs, film rights and co-productions amounted to $44.2 million (2003 – $36.8 million) and property and equipment amounted to $7.0 million (2003 – $2.8 million) for total commitments of $405.2 million (2003 – $457.3 million). Payments under these contracts are expected to be made over the next six years.

b. Operating Leases

The operating leases consist mainly of property leases, network distribution leases and equipment leases. Future annual payments related to operating leases are as follows:

	(thousands of dollars)
2005	76,892
2006	64,368
2007	54,696
2008	52,974
2009	23,868
2010 to 2024	228,009
Total future payments	**500,807**

16. CONTINGENCIES

Various claims and legal proceedings have been asserted or instituted against the Corporation. Some demand large monetary damages or other relief and they could result in significant expenditures. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. A provision for these expenditures has been recorded based on management's best estimates. It is reasonably possible that the Corporation may have to settle some of these claims for amounts in excess of established provisions in the near term. Any such costs will be charged to operations as incurred.

17. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to other government departments, agencies and Crown corporations and to private companies in which the Corporation has long-term investments. The Corporation enters into transactions with these related parties in the normal course of business on normal trade terms applicable to all individuals and enterprises. Funding received from the Government of Canada is outlined in Note 3.

18. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	2004	2003
	(thousands of dollars)	
Cash flows provided by (used for):		
Short-term investments	20,276	(21,570)
Accounts receivable[1]	11,968	51,050
Program inventory[2]	(16,979)	9,848
Prepaid expenses	(26,368)	(2,635)
Accounts payable and accrued liabilities	(24,194)	(13,516)
Employee-related liabilities	16,522	7,082
	(18,775)	**30,259**

[1] Excluding $3.6 million of notes receivable from the sale of land and excluding $4.3 million (2003 – $1.0 million) of recovery of income and large corporations taxes in 2004.

[2] Excluding $0.981 million (2003 – $0.5 million) of amortisation of property and equipment in 2004.

19. FINANCIAL INSTRUMENTS

Cash equivalents, short-term investments, accounts receivable, current portion of sales-type leases, accounts payable and accrued liabilities, and current portion of the obligation under capital lease are valued at cost, which approximates fair value.

The Corporation uses derivative financial instruments such as forward contracts to manage the risk of loss due to adverse movements in foreign exchange. Foreign exchange forward contracts with a notional principal amount of $68.5 million (2003 – $22.0 million) were outstanding at the end of the year. The remaining term to maturity of these contracts is under two years.

20. COMPARATIVE FIGURES

Certain of the 2003 figures have been reclassified to conform to the current year's presentation.