

CORPORATE PROFILE

STATUS

The Canadian Broadcasting Corporation, Canada's national public broadcaster, was created by an Act of Parliament on November 2, 1936, and now operates under the *1991 Broadcasting Act*. It is accountable to the Parliament of Canada through the Minister of Canadian Heritage, to whom it reports annually.

PROGRAM SERVICES

CBC program services include:

- two main television networks, one in English, one in French, which offer general and special interest programs,
- four main radio networks, two in English, two in French, which offer information and general interest programs as well as classical music and cultural programs,
- two all-news and information television networks, one in English, one in French, entirely financed by cable subscriptions and advertising revenue,
- radio and television services to the North in English, French and eight aboriginal languages.

CBC also provides, on behalf of the Government of Canada, an international shortwave radio service which broadcasts in seven languages.

DISTRIBUTION

CBC programs are distributed through satellite in combination with microwave and landline, feeding 90 CBC owned stations, 1,163 CBC rebroadcasters, 30 private affiliated stations and 293 affiliated or community rebroadcasters.

FINANCING

CBC is financed mainly through public funds, supplemented by advertising revenue on television and various other revenue sources.

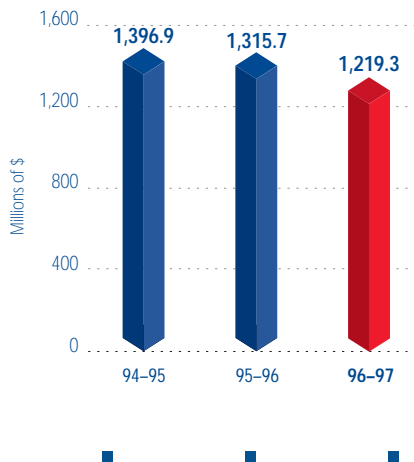
| | |
|--------|-----------|
| 64,224 | 18,851 |
| 5,090 | 447,771 |
| 5,416 | 1,219,056 |
| 1,115 | 29,869 |
| 739 | 1,248,925 |
| | 1,696,676 |

FINANCIAL HIGHLIGHTS

The Corporation's spending, excluding items netted out of revenue, downsizing and taxes, has been

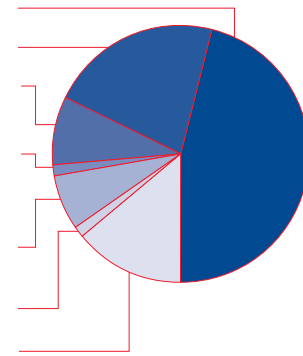
reduced by \$96.4 million (7.3%) from 1995–1996 levels, and \$177.6 million (12.7 %) from 1994–1995.

OPERATING EXPENDITURES*



1996–1997 EXPENSES* — \$ 1,219,260,000

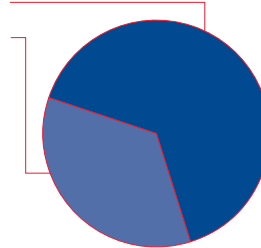
- 44.6% English Television
- 24.1% French Television
- 8.3% French Radio
- 1.4% Corporate Management
- 6.6% Transmission, Distribution and Collection
- 1.3% Payments to Private Stations
- 13.7% English Radio



1996–1997 TELEVISION SERVICES

\$908,904,000

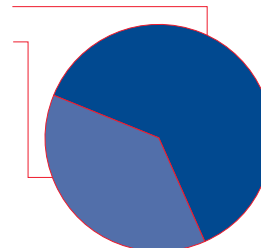
- 64.9% English Services
- 35.1% French Services



1996–1997 RADIO SERVICES

\$293,734,000

- 62.2% English Services
- 37.8% French Services



* Excluding items netted out of revenue, downsizing and taxes.



Guylaine Saucier

MESSAGE FROM THE CHAIR

We have come through fire. The effort within the CBC at every level to achieve an appreciation of the past, an understanding of the present and a vision of the future has been more intense over the past year than ever before. And no wonder, the financial challenges were the most severe we have ever faced.

To meet those challenges head on, we had to agree upon our vision. Why are we here at all? What do we contribute to the life of the nation? Will our contribution be required or even be possible in the future?

Through energetic—sometimes passionate—debate, the answers came loud and clear. Our mandate, set out by Parliament over 60 years ago, is as relevant today as then. We are a public resource, owned by all Canadians. Our services in French and English inform, enlighten and entertain. We contribute to Canadians' shared national consciousness by celebrating Canada's cultural and regional diversity, building bridges between our official language communities and helping our citizens take full part in their country's life. We create, procure and present distinctive, high-quality Canadian programs and offer the best from around the world.

That simple mission statement is the very source of our vision, and from it springs a whole series of convictions that give shape to what we do. For instance, we believe that the CBC belongs to all Canadians, so we strive to provide programming that offers something special to each one of them. Every citizen has the right to find something of interest on our airwaves and we offer a range of programming that not only reflects popular culture but also appeals to more focused tastes.

Similarly, our mission demands that we celebrate Canada's cultural and regional diversity. Canada's regionalism is both a great strength and a defining reality, one which the national public broadcaster must reflect. Only CBC is required to serve every Canadian in every province and territory, so it's a task we take to heart. CBC must tell the regional story to the nation, a job that can't be done from afar. As the national public broadcaster, rooted in the regions, we are uniquely positioned to explore our diversity and examine the values we hold in common.

It is clearer now than ever before that our dependence on public funding brings with it a special need to treat our resources with extraordinary care. Canadians from coast to coast believe that national spending must be controlled. Public support has faded for activities whose immediate value is not apparent, while public scrutiny of any activity that costs money has increased.

How we spend and how much we spend are as important as what we choose to spend our money on. In a way, to be fully *culturally* Canadian we must also produce our programming in Canada, using Canadian resources to the greatest possible degree.

As a public resource, we must make sure that everything we produce, every asset we acquire, each new form of distribution we explore, each team we assemble, and each sale we make is wise ... and transparent. Our shareholders deserve no less.

We have often argued that, if the CBC was needed to give a voice to Canada in the 1930s, the need is even greater in the overheated and fragmented media world of the late 1990s. But just as the nation itself has grown more complex and more mature, the solutions and strategies the CBC adopts must be mature to suit a complex world. They must be flexible, innovative and, above all, realistic.

“How we spend and how much we spend are as important as what we choose to spend our money on.”

Our publics, both as audiences and taxpayers, have a right to a national public broadcaster whose journalism and entertainment are benchmarks for the industry. They have a right to ever-increasing standards, and they look to the CBC with expectations of both excellence and economy.

This year we put in place a process which will bring that excellence and economy closer together. The result, we are confident, will be a renewed, revitalized CBC, valuable and relevant to all Canadians.



GUYLAINE SAUCIER, C.M., F.C.A.
CHAIR OF THE BOARD

THE BOARD OF DIRECTORS 1996-1997

In accordance with the Broadcasting Act, the Board of Directors is responsible for the management of

the Corporation. The Board is made up of 12 members, including the Chair and the President and CEO.

Guyline Saucier, C.M., F.C.A.

Chair

Montreal, Quebec

2+, 3+, 4, 5+

Hon. Perrin Beatty, P.C.

President and CEO

Ottawa, Ontario

2, 4, 5

John A. Campion

Lawyer

Fasken Campbell Godfrey

Barristers and Solicitors

Toronto, Ontario

2, 4

Michel Doyon

Lawyer

Gagné, Letarte

Quebec, Quebec

1+, 2

Roy L. Heenan

Lawyer

Heenan Blaikie

Montreal, Quebec

4, 5

Jane Heffelfinger

Actress/Broadcaster

Monday Publishing

Victoria, British Columbia

1, 2

Sandra Kolber, C.M.

Writer/Film Consultant

Le Windsor

Montreal, Quebec

2

Clarence LeBreton

Director

Aquarium et Centre Marin de Shippagan

Shippagan, New Brunswick

1, 2, 5

Thompson MacDonald

President

Strategic Communications Consultants Ltd.

Calgary, Alberta

2, 6+

L. Richard O'Hagan

Special Advisor to the Chairman

Bank of Montreal

Toronto, Ontario

1, 2

Alain Paris, F.C.A.

Partner

KPMG

Montreal, Quebec

1+, 5, 6

Hon. A. Brian Peckford

President

Peckford Consulting Ltd.

Qualicum Beach, British Columbia

3, 4+, 5

W. Thomas R. Wilson

President and CEO

Oceanic Adventures International

Toronto, Ontario

2, 3, 5, 6

Committees of the Board

1 Audit Committee

2 Standing Committees on English and French
Language Broadcasting

3 Governance Committee

4 Human Resources and Compensation Committee

5 Transformation Committee

6 CBC Pension Board of Trustees

+ Committee Chair



IMPROVING CORPORATE GOVERNANCE

In 1995–1996, the Board undertook a thorough examination of its activities and decision-making processes, and adopted terms of reference which detailed its responsibilities and specified the areas requiring Board approval.

This year, the Board continued to evaluate its corporate governance processes, in light of the new federal government guidelines for Crown corporations.

This evaluation, combined with the previous year's review, led to the adoption of measures which greatly enhanced Board effectiveness. The first measure adopted was the establishment of an approval process and tracking mechanisms for the strategic direction and corporate plan of the Corporation.

“... the Board continued to evaluate its corporate governance processes, in light of the federal government guidelines for Crown corporations.”

In addition, the Board greatly improved the internal communication process, to ensure that directors have enough information to form their own judgments, independently from management.

As recommended in the federal government guidelines, the Board also developed a method of assessing the President and CEO's performance on a yearly basis.

To conduct its business in the most efficient manner, the Board relies on a number of committees whose size and mandate can vary from year to year. In 1996–1997, the number of committees was reduced from eight to five, and their mandates were established as follows:

The Audit Committee assists the Board in fulfilling its supervisory responsibilities by reviewing the financial information provided to Parliament and other stakeholders, the systems of corporate controls established by management and the Board, and the audit process.

It also provides management, the internal auditor and the external auditor with a direct link to the Board without conferring upon the Committee the ultimate decision-making powers of the Board or the responsibilities already delegated to management.

The English and French Language Broadcasting Committees ensure that the Board monitors the Corporation's fulfillment of its French and English language responsibilities and its overall mandate, and recommends policies that will help attain French and English language program objectives.

The Governance Committee provides a focus on Board governance to enhance corporate performance, assesses and makes recommendations regarding corporate values and Board effectiveness, and establishes a process for developing criteria for the selection of directors and communicating the criteria to the Minister of Canadian Heritage for consideration by the Governor in Council.

The Human Resources and Compensation Committee reviews, reports and, when appropriate, provides recommendations to the Board regarding human resources matters including, but not limited to, management recruitment and development, management succession, employee and management compensation programs, significant human resources policies and labour relations issues.

The Transformation Committee was appointed in December 1995 to provide support and guidance to CBC management during the Corporation's major transformation process over a two year period. It serves as the primary point of interface between the Board and management regarding transformation issues, ensuring that the Board's needs for information are met while minimizing the burden of ongoing and detailed reporting to the full Board by CBC management.

Corporate governance issues were also pursued by the CBC Pension Board of Trustees during 1996. A governance audit was undertaken, and governance practices updated as a result. The Fund's annual report provides further details, and is available by contacting the CBC Pension Fund. (Address on p.37)



Perrin Beatty

MESSAGE FROM THE PRESIDENT AND CEO

The CBC's 60th anniversary year provided both a time to reflect on our past and an urgent need to prepare for our future.

The most pressing challenge was a major cut in the resources provided to us by Parliament. The decisions of the 1996 federal budget, together with a shortfall in commercial revenues, deepened reductions to CBC's operating budget from a projected \$350 million to almost \$414 million.

Managing a reduction of almost a third of the Corporation's budget over a three year period cannot be done haphazardly. To maintain a high quality service in all parts of Canada and still make major savings beyond the \$227 million previously scheduled, the Corporation needed to set clear priorities. These six key principles will guide our future:

- The CBC will be the Canadian broadcaster telling Canadian stories throughout the day. As a first step in September, we replaced American commercial programming with Canadian shows and some of the best from around the world in our prime-time English Television schedule. In addition, I announced plans to Canadianize the daytime schedule by September 1998.
- Commercials will no longer drive scheduling decisions. In the future we will design our schedules based on the CBC's mandate and then aggressively market commercial availabilities instead of putting commercial needs first.
- We will treat our viewers and listeners as citizens, rather than simply as consumers. Our highest priority is providing programs that challenge, inform and entertain our audiences. As a public broadcaster, we have a special role to help Canadians better understand their country and their world.
- Sports will have an important role but, as contractual obligations permit, professional sports will be brought into better balance with the rest of our programming. Telling Canadian stories includes telling the stories of Canadian athletes and Canadian games, but we must offer a diverse range of programs.
- The CBC will continue to recognize the individual character of Canada's regions, offering local audiences journalism and entertainment that speak to regional as well as national realities. Our 1996 coverage of the Saguenay floods demonstrated the importance of a strong presence in every region.
- We will move aggressively into new media. Canadians—and particularly young Canadians—are receiving information and entertainment programming in new ways, using interactive media and the Internet. To discharge the CBC's mandate, we must keep pace with them.

At CBC, we celebrate what it is to be Canadian, and Parliament provides us with resources to tell Canadian stories with authenticity, relevance and a finely-developed sense of entertainment.

Despite substantial cuts to regional operations, we have not closed stations. French Radio will maintain regional production in competitive markets and increase regional contributions to the networks. English Radio, revered by its audiences, will provide a distinctive, high-quality, balanced service with two strong non-commercial core networks.

French Television, watched by more than 90 percent of francophones, continues to broadcast throughout Canada, with Vancouver, Edmonton and Regina contributing additional input to national programming. In addition, our francophone audiences across the country convinced us to preserve a regional information program in each western province despite budget cuts.

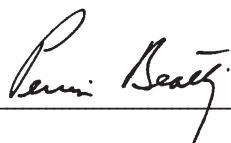
English Television now has a Canadianized prime time, featuring Canadian shows like *The Newsroom*, *North of 60*, *This Hour Has 22 Minutes*, and *The Royal Canadian Air Farce*. We replaced two and a half hours of U.S. commercial programming with all-Canadian products that would not benefit from simultaneous substitution or from Hollywood's publicity machinery. The reaction from the public was gratifying, since prime time audiences were actually maintained.

Despite ten years of significant improvements in both quality and efficiency, we were forced in 1996–1997 to confront the toughest decisions in six decades of broadcasting. We re-examined our entire schedule. We sold our head office and reduced its staff by almost two thirds. We reached new collective agreements with our English file unions and began a similar process with their French file counterparts. Hardest of all, we began the painful process of bringing employment levels into line with reduced resources.

“If 1996–1997 brought the Corporation more than its fair share of challenges and pain, there were also intimations of a brighter future.”

If 1996–1997 brought the Corporation more than its fair share of challenges and pain, there were also intimations of a brighter future. The Canada Television and Cable Production Fund provided vital financing for Canadian programming and, in December, the government renewed its commitment to Radio Canada International. In February, the government promised a further \$10 million annually for the CBC's radio services effective April 1, 1997, and guaranteed stable funding for the Corporation for five years starting April 1, 1998. Most important of all, the steadfast support of individual Canadians from all parts of the country provided enormous encouragement when it was most needed.

The Canadian Broadcasting Corporation was created to give Canada a voice of its own on the airwaves of North America. Over the decades, our services have made a deep and lasting difference to a changing Canada, both reflecting those changes and helping to bring them about. Despite all the sacrifices smaller budgets require, the Corporation is determined to play an even more critical role in Canada's future.



PERRIN BEATTY, P.C.
PRESIDENT AND CEO



INTERNAL AND EXTERNAL CHALLENGES

Over the past decade, the CBC has had to meet some of the greatest challenges in its 60-year history: external challenges resulting from changes in the broadcasting industry, and internal challenges resulting largely from the gradual reduction of its parliamentary appropriation.

The Corporation is meeting these challenges head on and the resulting operational improvements are yielding an organization whose efficiency can be compared favourably with other public or private sector enterprises or organizations.

MANAGEMENT EFFICIENCIES

In September 1996, the Board of Directors approved a number of sweeping measures to help the Corporation meet the remaining \$127 million of a financial shortfall totalling \$414 million from 1994–1995 to 1997–1998. These measures affect every aspect of the CBC's operations, including staff. To minimize layoffs, the Corporation offered a number of incentives and pursued the implementation of its voluntary separation program. By March 31, 1997, the Corporation had reduced its workforce by 1,297 employees over March 31, 1996.

CBC WORKFORCE — AS OF MARCH 31

| | 1996 | 1997 | Variance | % |
|-----------------|--------|--------|----------|--------|
| Regular | 8,181 | 7,311 | (870) | (10.6) |
| Temporary | 763 | 609 | (154) | (20.2) |
| Contract | 2,003 | 1,384 | (619) | (30.9) |
| Casual | 1,026 | 1,372 | 346 | 33.7 |
| Total Workforce | 11,973 | 10,676 | (1,297) | (10.8) |

With the help of external consultants, the Corporation completed a thorough strategic review of all its activities. Part of this process included the development of strategic options for the individual media components and for the Corporation as a whole. The preferred options were then presented to the Board for approval.

As a result, key changes were made in CBC's management accountability framework. The role of the corporate centre was redefined, certain functions were decentralized, and regional operations were integrated into the media lines. Modifications were made to CBC's business planning process, with the focus on key objectives and the development of meaningful action plans and performance indicators. CBC is also proceeding with a performance evaluation plan that will ultimately be applied across all management levels. Capital planning was integrated with annual business planning. To reinforce producer accountability for both direct and indirect program costs, financial management initiatives such as English Television's "All Cash" system and French Television's "Devis budgétaire" were implemented. As well, with the development of full cost reporting, the quality of program cost information was improved and will be further enhanced as CBC proceeds with the re-engineering of its finance systems.

The new English file collective agreements, signed in 1996, better correspond to CBC's operational realities and will permit more efficient use of resources. New agreements with some unions in the French file have been reached.

Benchmarks were established for all major support areas, and the resulting cost reduction plans are now being implemented. Actions were taken to implement user pay and related initiatives in a number of support areas.

Initiatives were taken to rationalize program production capacity across the country. In the Montreal production centre, for example, certain plant functions were transferred to user groups, program production processes were reviewed and plant resources streamlined. In Toronto, the implementation of several initiatives is generating savings in plant operations. Benchmarks for the use of resources were established and actual performance against those benchmarks is being tracked.

The Corporation's bi-media committee, established to improve the coordination of CBC's journalistic activities, presented its recommendations. Action was taken on a number of the committee's recommendations, such as increased collaboration between news and current affairs and the co-location of certain operations. Also, planning is progressing for a universal news system which will enhance the sharing of information among the four media components.

"... the resulting operational improvements are yielding an organization whose efficiency can be compared favourably with other public and private sector enterprises or organizations."

CHANGES IN THE BROADCASTING ENVIRONMENT

Television

The television industry in Canada and North America is becoming more and more competitive; there is increased competition for audiences, for commercial revenues, and for staff resources.

Fragmentation continues to be the most influential factor in the competition for audiences to CBC's programming. As of September 4, 1996, when the Canadian Radio-television and Telecommunications Commission (CRTC) issued 23 new licences, the Canadian television industry included 43 Canadian specialty services, six Canadian pay television services and five Canadian pay-per-view services.

Twenty of those 23 new licences went to existing broadcasters. Specialty channels offer broadcasters new revenues, partnership options, shelf space, scheduling flexibility and options for spreading costs further.

New technologies such as digital video compression (DVC) and direct-to-home (DTH) satellite systems promise not only a greater expansion in domestic services of all kinds, but also a huge influx of non-Canadian services, authorized or not.

As satellite technologies, globalization and other developments open up distribution channels, the economics of television production in Canada will become even more difficult. These trends present both problems and strategic opportunities for the CBC.

Expansion of distribution channels will increase competition because of audience fragmentation. From an industrial perspective, the trend towards less and less identifiably Canadian production in the private sector is likely to create an even greater need for CBC to provide a unique and valued service to Canadians.

Within the Canadian market, sources of revenue for television programming are shifting as expected. Increasingly, the video sector is generating revenue from "transactional sources" (subscriptions and pay television) while growth in advertising revenue remains flat and public funding declines. Given the Corporation's reliance on the latter, and its relatively small presence in the specialty service business, these trends do not give the CBC an advantage. Based on 1994 research, for every dollar of revenue generated by the Canadian television industry, the CBC received only 19 cents, of which 13 cents came from its public funding.

In the French television environment, the purchase by Vidéotron of all the assets of CFCF-TV has created in Quebec a powerful private television conglomerate consisting of two conventional networks (TVA and TQS), two production companies, one post production house and a headline news cable channel—all of these vertically integrated with the hugely dominant cable multi-service operator (MSO), Vidéotron. The integration of CFCF-TV with Vidéotron will ensure favourable distribution terms and support for any new business ventures generated by the programming arm. The TVA network also owns seven regional stations in Quebec. However, as a condition to the purchase of CFCF-TV, and to avoid excessive concentration in the market, CRTC ordered Vidéotron to sell all of its TQS assets within a six month period from the time of its decision in February 1997. Cogeco indicated an interest in purchasing TQS. However, some weeks after the end of the fiscal year, Quebecor tabled a purchase offer for TQS, subject to CRTC approval.

Generally speaking, the ever expanding number of French-language specialty channels and the increase in available English-language programming from cable or satellite will fragment the market. Specialty channels already attract 15% of the French-language market and over 20% of the English-language market. The recent licensing by the CRTC of Le Canal Nouvelles, Le Canal Vie, Musimax and Teletoon will only exacerbate this long-term trend for existing broadcasters.

In summary, while the anglophone market demands that CBC English Television achieve distinctiveness through Canadianization, the francophone market demands a public broadcaster that represents a broad-based and popular alternative to an increasingly monopolistic private sector.

Radio

While television broadcasters are facing a highly fragmented market, radio broadcasters in Canada are still recovering from the severe downturn in profitability precipitated by the recession of the early 1990s and are still experiencing considerable financial difficulty. The industry has gone through major restructuring in the effort to regain profitability in both French and English markets. Some stations have gone off the air while others have amalgamated; almost all private radio broadcasters have reorganized their operations and shifted their programming focus in pursuit of elusive advertising dollars. This has led to the virtual disappearance of radio journalism, particularly in Quebec where that field is now almost exclusively occupied by CBC French radio.

Digital radio is becoming a reality as the first Canadian broadcasting stations were licensed in early 1997 and commercially available receivers are expected in spring 1998.

The CBC Board of Directors unanimously approved an implementation plan for digital radio. According to this plan, the CBC French and English radio networks should provide digital radio services to 75% of all Canadians within the next five years. The first digital radio programs should be broadcast in the Montreal and Toronto areas in late 1997.

New Media

In response to Canadians' growing desire to inform and entertain themselves through new media, the Corporation has developed a strategy and dedicated modest but recurring funds to develop a mandate for the new media area. With 32% of Canadian households equipped with computers and half of them with modems (1996), there is definitely market potential for new media, the World Wide Web in particular, in Canada. The CBC's mandate is to provide Canadians with "a wide range of programming that informs, enlightens and entertains." New media and the digitization of production open up a multitude of new opportunities for the Corporation. (See New Media, New Services, p.32)

Impact on CBC

Many of the trends noted above will increase the impact of budget reductions on CBC's radio and television operations.

The newly announced Television and Cable Production Fund will help restore some of CBC's ability to work with the independent production sector in the development of new French- and English-language programming. But CBC will do so in a broadcast marketplace that is experiencing more and more new domestic entrants, in addition to non-Canadian services whose eventual arrival in Canada will be greatly facilitated by new digital technologies.

RELATIONS WITH THE CRTC

Applications for Transfer to the FM Band

In fall 1996, the Corporation submitted an application to the CRTC seeking transfer to the FM band of certain AM stations: CBF (French) and CBM (English) in Montreal, CBV (French) in Quebec City and CBL (English) in Toronto.

To listeners in those regions, the shift to FM will mean an improved signal and better access to CBC's unique and diversified programming.

Because its programming is different, CBC does not really compete with private broadcasters for ratings. Also, the shift to FM would have no effect on advertising, since CBC radio networks do not air commercials.

The CRTC heard the applications for CBF and CBM Montreal and CBV Quebec City in March 1997 and for CBL Toronto in April 1997.

Galaxie Nearing Launch

In December 1995, the CRTC issued a broadcasting license to CBC to operate a pay audio program service, Galaxie.

An alternative to conventional radio, Galaxie will offer 30 continuous music channels broadcasting top-quality audio 24 hours a day without talk or commercials.

The Galaxie service will be totally independent. Its mission is to generate new revenues for CBC's radio networks. An initial subscriber base of 140,000 is expected by the end of the first year of operation. This figure should exceed one million by the end of the fifth year.

In order to attract as many subscribers as possible, Galaxie will be offered via all available means of distribution: direct broadcasting services (DBS), cable, digital multipoint distribution systems (MDS), local multipoint communication systems (LMCS). By the end of the fiscal year, the Corporation had signed an agreement with a direct broadcasting service that will carry Galaxie on its basic tier as early as fall 1997. Similar agreements were close to being reached with other Canadian direct broadcasting services.

