Financial Pages

Management Discussion and Analysis

STRATEGIC ORIENTATIONS

As Canada's national public broadcaster, CBC/Radio-Canada must provide Canadians with high-quality, distinctive Canadian programming in a fiscally responsible manner. To fulfill its mandate more effectively, the Corporation is leveraging existing assets in order to realise savings and generate revenues for re-investment in programming. These changes have led to corporate-wide cooperative action in the areas of real estate, transmission, affiliate relations, operations and maintenance, and technology. The following is an overview of these initiatives.

Real Estate

Through more efficient management of corporate real estate across the country, CBC/Radio-Canada's new Real Estate Division is already showing impressive results.

CBC/Radio-Canada has initiated a major amalgamation of its services in Ottawa, Edmonton and Québec City. By consolidating operations in these cities, the Corporation will be able to significantly reduce space requirements while increasing overall efficiency.

The Real Estate Division is renting out surplus space to third parties, which will help the Corporation generate additional cash flow over the next 15 years.

Transmission

The Corporation created a Transmission Division. One of its objectives is to generate new revenues by leasing CBC/Radio-Canada transmission facilities to other broadcasters and telecommunications providers.

Affiliate Relations

To provide regional audiences with greater access to CBC/Radio-Canada programming, the Corporation has begun to review all affiliate agreements and their underlying financial arrangements.

As part of this review, it entered into a new agreement with Cogeco Radio-Télévision inc., involving television affiliates in Trois-Rivières, Sherbrooke and Chicoutimi/Jonquière. In the same vein, CBC/Radio-Canada signed an agreement with CTV, whereby it acquired the transmission facilities of seven affiliate stations in Northern Ontario and Saskatchewan; the Corporation now provides full CBC/Radio-Canada service in these two areas.

Alternative Service Delivery Solutions

To optimise management of its operations and support activities, CBC/Radio-Canada is considering various solutions for guaranteeing delivery of its support services (Human Resources, Finance and Administration, and Information Technology). With this initiative, the Corporation wants to provide quality service while increasing productivity and bringing costs under control.

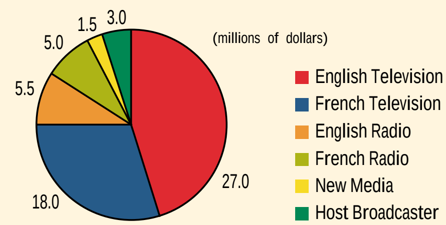
Technology

As a result of more strategic tracking and assessment of emerging technologies and their implications for its broadcasting operations, the Corporation continues to identify new ways to pursue efficiencies in infrastructure, systems and operations.

For example, by phasing out ground-based microwave and fibre-optic circuits and feeding all of our transmissions via satellite, CBC/Radio-Canada expects to reduce annual transmission costs by millions of dollars. Centralising master control operations in Toronto and Montréal will also save the Corporation millions of dollars each year.

2002-2003 HIGHLIGHTS

- On December 1, 2001, the Government of Canada granted CBC/Radio-Canada additional non-recurring funding of $60 million in 2002-2003, for the second year in a row. The funds were earmarked for program enhancement in CBC/Radio-Canada's various media components, and were allocated as follows in fiscal 2002-2003:



- On October 24, 2002, CBC/Radio-Canada was authorised by the Canadian Radio-television and Telecommunications Commission (CRTC) to acquire Corus Entertainment's 70 per cent stake in the Country Canada specialty channel. This makes CBC/Radio-Canada the sole shareholder of Country Canada. The consolidated financial statements include Country Canada results as of November 1, 2002.
- Effective April 1, 2002, the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) on corporate income tax. The impact of adopting these new rules is discussed in Note 2.
- The Corporation reviewed its estimation practices for the amortisation of vehicles and computers. The estimated useful life of these two asset categories was also revised. The effects of these changes are described in Note 8.

ANALYSIS OF FINANCIAL RESULTS

REVENUES

Compared to the previous year, advertising revenues and miscellaneous revenues decreased by $35 million and $9 million respectively.

Advertising revenues in fiscal 2001-2002 included revenue generated during the Salt Lake City Winter Olympics, which largely explains the drop in advertising revenues this year. On the other hand, English Television posted higher revenues owing to a more favourable economic climate than in 2001-2002.

Specialty channels saw an increase in cable revenues as a result of a growing subscriber base.

Miscellaneous revenues in 2001-2002 included revenues generated through CBC/Radio-Canada's host broadcasting activities during the 8th IAAF (International Amateur Athletic Federation) World Championships in Edmonton, which accounts mainly for the variation with fiscal 2002-2003.

EXPENSES

Expenses according to Canadian generally accepted accounting principles increased by $37 million.

With additional temporary funding granted in 2002-2003, CBC/Radio-Canada was able to revitalise programming in all of its media lines, and thus maintain its commitment to offer distinctive, top-quality Canadian programming.

The increase in Specialty Services expenses may be attributed to increased coverage of international events, particularly the conflict in Iraq.

The reduction in payments to affiliates reflects the Corporation's affiliation strategy. This year, CBC/Radio-Canada successfully terminated agreements with a number of affiliates, which accounts for the decrease in expenses.

BALANCE SHEET ITEMS

Increase in assets of $13 million.

The item "cash, cash equivalents and short-term investment" consists of cash, cash equivalents and securities from the short-term money market fully insured by the Government of Canada.

The decrease in accounts receivable is attributable to the increased receivables in 2001-2002 resulting from the Salt Lake City Winter Olympics in February 2002.

The item "deferred charges and long-term investments" includes CBC/Radio-Canada's share of the following Specialty Services: ARTV and The Documentary Channel. These Specialty Services were created in partnership with key industry players and other leading agencies in order to provide Canadian viewers with a new and innovative television experience. Details of these investments can be found in Note 10.

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

FISCAL 2003-2004 AND SUBSEQUENT YEARS

- CBC/Radio-Canada received Governor in Council authorisation to include, in its approved parliamentary appropriation, a sum of $15.5 million for Radio Canada International (RCI). In recent years, CBC/Radio-Canada had received separate funding for RCI through a contribution agreement with the Government of Canada.
- The Government of Canada has confirmed that CBC/Radio-Canada will receive $60 million in additional funding over the next two fiscal years (2003-2004 and 2004-2005). These funds will be invested in programming by our Radio, Television and Web components.

Management's Responsibility for the Consolidated Financial Statements

The consolidated 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 consolidated financial statements, which include amounts based on management's best estimates as determined through experience and judgment, 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 and of its wholly owned subsidiary are carried out effectively and that transactions are in accordance with the *Broadcasting Act* and the by-laws of the Corporation and with the charter and the by-laws of its wholly owned subsidiary.

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 consolidated financial statements and reports on her audit to the Canadian Broadcasting Corporation and the Minister of Canadian Heritage.

The Board of Directors' Audit Committee, which consists of six members, none of whom is an officer of the Corporation, reviews and advises the Board on the consolidated 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 4, 2003

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 consolidated balance sheet of the Canadian Broadcasting Corporation as at March 31, 2003 and the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 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, except for the change in the method of accounting for income taxes as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part III of the *Broadcasting Act* and the by-laws of the Corporation and the charter and the by-laws of its wholly owned subsidiary.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
June 4, 2003

Consolidated
Balance Sheet

As at March 31	2003	2002
	(thousands of dollars)	
ASSETS		
Current		
Cash, cash equivalents and short-term investments (Note 18)	192,180	154,730
Accounts receivable	138,147	188,195
Program inventory	92,176	102,541
Prepaid expenses	42,134	37,814
	464,637	**483,280**
Capital assets (Note 8)	1,007,448	1,016,465
Deferred charges and long-term investments	35,262	18,290
Pension Plans asset (Note 12)	49,005	25,495
	1,556,352	**1,543,530**
LIABILITIES		
Current		
Accounts payable and accrued liabilities	157,381	167,215
Employee-related liabilities (Note 12)	136,715	128,091
Obligations under capital leases (Note 13)	5,503	5,111
	299,599	**300,417**
Long-term		
Employee-related liabilities (Note 12)	105,562	97,578
Obligations under capital leases (Note 13)	361,523	367,026
Deferred capital funding (Note 11)	641,517	654,457
	1,108,602	**1,119,061**
EQUITY		
Equity	148,151	124,052
	1,556,352	**1,543,530**

Commitments and contingencies (Notes 14 and 15)

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

Approved on behalf of the Board of Directors:

Director

Director

Consolidated Statement of Operations and Equity

For the year ended March 31

	2003	2002
	(thousands of dollars)	
REVENUE		
Advertising and program sales	284,410	319,257
Specialty Services (Note 6)	123,271	117,722
Miscellaneous	73,154	82,383
	480,835	519,362
EXPENSE		
Television and Radio service costs	1,197,501	1,150,557
Specialty Services (Note 6)	117,277	104,076
Transmission, distribution and collection	59,176	61,850
Radio Canada International	14,470	16,626
Payments to private stations	11,140	16,760
Corporate Management	15,461	15,402
Amortisation of capital assets	117,695	130,806
	1,532,720	1,496,077
Operating loss before Government funding and taxes	(1,051,885)	(976,715)
Government funding		
Parliamentary appropriation for operating expenditures (Note 4)	937,432	840,404
Funding reserved for Radio Canada International (Note 5)	15,501	15,418
Amortisation of deferred capital funding (Note 11)	118,049	130,953
	1,070,982	986,775
Net results before taxes	19,097	10,060
Recovery of income and large corporations taxes (Note 7)	(1,002)	(1,332)
Net results for the year	20,099	11,392
Equity, beginning of year	124,052	108,660
Working Capital Funding (Note 4)	4,000	4,000
Equity, end of year	148,151	124,052

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

Consolidated Statement of Cash Flow

For the year ended March 31

	2003	2002
	(thousands of dollars)	
Cash Flow from (used in)		
Operating Activities		
Net results for the year	20,099	11,392
Loss on disposal of capital assets	757	1,849
Items not involving cash:		
Amortisation of capital assets	117,695	130,806
Equity in income of companies subject to significant influence	(7)	695
Variance of deferred charges	(8,340)	580
Amortisation of deferred capital funding	(118,049)	(130,953)
Pension plans asset	(23,510)	(25,495)
Employee-related liabilities [current]	1,542	(3,932)
Employee-related liabilities [long-term]	7,984	(196)
Net change in working capital balances excluding cash, cash equivalents and short-term investments (Note 17)	50,827	(12,404)
	48,998	(27,658)
Financing Activities		
Parliamentary appropriations (Note 4)		
Capital funding	105,090	138,481
Working capital funding	4,000	4,000
Government funding for capital purchases for RCI	19	102
Capital portion of lease payments	(5,111)	(4,747)
	103,998	137,836
Investing Activities		
Acquisition of capital assets	(123,976)	(129,216)
Proceeds on disposal of capital assets	17,055	7,463
Deferred charges	(7,425)	(3,654)
Business acquisition (Note 9)	(1,200)	–
Long-term investment	–	(4,070)
	(115,546)	(129,477)
Increase (Decrease) in cash, cash equivalents and short-term investments	37,450	(19,299)
Cash, cash equivalents and short-term investments, beginning of year	154,730	174,029
Cash, cash equivalents and short-term investments, end of year	192,180	154,730

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

Notes to the Consolidated Financial Statements for the Year Ended March 31, 2003

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. CHANGE IN ACCOUNTING POLICY

Effective April 1, 2002, the Corporation adopted, prospectively, the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. The adoption of the asset and liability method of tax allocation had no effect on the financial statements.

Under the new recommendations, the asset and liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation. Future tax expense was based on items of income and expense that were reported in different years in the consolidated financial statements and tax returns and measured at the tax rate in effect in the year the difference originated.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a. Consolidation

The consolidated financial statements include the accounts of CBC/Radio-Canada and its wholly owned subsidiary, 3899071 Canada Inc. (*Country Canada*), from the date of its acquisition.

b. 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 Consolidated Statement of Operations and Equity. Parliamentary appropriations for depreciable capital expenditures are recorded as deferred capital funding on the Consolidated Balance Sheet, and are amortised on the same basis and over the same periods as the related capital assets. Parliamentary appropriations for working capital and non-depreciable capital assets are credited to Equity.

c. Cash Equivalents and Short-term Investments

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. 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. Program Inventory, Film and Script Rights

(i) Program Inventory

Programs completed and in process of production or available for sale are recorded 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.

(ii) Film and Script Rights

The Corporation enters into contracts for film and script rights. The payments made under the terms of each contract are recorded as assets in the accounts. The cost of film and script rights is charged to operations in accordance with the approved program schedule or when deemed unusable.

e. Capital Assets

Capital assets are recorded at cost, less accumulated amortisation. The cost of assets constructed by the Corporation includes material, direct labour and related overhead. Assets 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 assets 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
Snowmobiles, all-terrain vehicles	8 years
Utility vehicles, vans	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 to a maximum period of five years. Amounts included in uncompleted capital projects are transferred to the appropriate capital asset classification upon completion, and are then amortised according to the Corporation's policy.

f. 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.

g. Long-term Investments

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 income 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 that are subject to joint control are combined with the Corporation's results.

h. 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 (13.5 years).

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

i. Employee Future Benefits other than Pension

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

The cost of these benefits, other than vacation pay, 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.

i. Employee Future Benefits other than Pension (continued)

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 (13.5 years). The transitional obligations 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.

Vacation pay is calculated at the salary levels in effect at the end of the year for all unused vacation pay benefits accruing to employees.

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.

j. 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 consolidated 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 likely than not, a valuation allowance is provided.

k. Miscellaneous Revenue

The Corporation generates revenue other than revenue derived from advertising or program sales. These revenues are recorded as miscellaneous revenue in the Consolidated Statement of Operations and Equity. These revenues include revenue from leasing of space, facilities and services; activities as host broadcaster; commercial productions; banking activities; disposal of capital assets; and other miscellaneous activities.

l. Measurement Uncertainty

The preparation of consolidated 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 consolidated financial statements and the reported amounts of income and expenses for the year. Employee-related liabilities, estimated useful lives of capital assets and contingent liabilities are the most significant items where estimates are used. Actual results could differ from those estimated.

4. PARLIAMENTARY APPROPRIATIONS

a. Parliamentary Appropriations Approved and Received

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

	2003	2002
	(thousands of dollars)	
Operating Funding		
Approved annual funding	864,891	855,574
Additional non-recurring funding for programming initiatives (Note 4d)	60,000	60,000
Transfer to capital funding – Supplementary Estimates B[1]	(7,459)	(15,170)
Frozen allotment used (reprofiled in future years)	20,000	(60,000)
Operating Funding Received	937,432	840,404
Capital Funding		
Approved annual funding	97,631	100,311
Transfer from operating funding – Supplementary Estimates B[1]	7,459	15,170
Frozen allotment used (re-profiled in future years)	–	23,000
Capital Funding Received	105,090	138,481
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 re-profiled from one fiscal year to another through Appropriation Acts tabled in the House of Commons.

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

The Corporation receives a significant portion of its funding through Parliamentary appropriations, which is based primarily on cash flow requirements. Expenses recognised in the Consolidated Statement of Operations and Equity in one year may be funded through Parliamentary appropriations in different 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:

	2003	2002
	(thousands of dollars)	
Net results for the year	20,099	11,392
Items not generating operating funds:		
Amortisation of deferred capital funding	(118,049)	(130,953)
Income items relating to capital assets	757	1,849
Other	(1,829)	184
	(119,121)	(128,920)
Items not requiring operating funds:		
Amortisation of capital assets	117,695	130,806
CBC/Radio-Canada Pension Plans and other employee future benefits	(15,526)	(25,664)
Vacation Pay	1,542	(3,932)
Program inventory costs	3,864	8,139
Other	2,061	(3,728)
	109,636	105,621
Net results of operations on a Government funding basis (including interest generated from the disposal of joint business ventures)	10,614	(11,907)
Less: Interest generated from the disposal of joint business ventures	(2,493)	(3,011)
Net results of operations on a Government funding basis (excluding interest from the disposal of joint business ventures)	8,121	(14,918)
Government funding surplus, beginning of year	23,769	38,687
Government funding surplus, end of year	31,890	23,769

c. Net Results for Capital

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

	2003	2002
	(thousands of dollars)	
Capital funding received (Note 4a)	105,090	138,481
Capital funding for Radio Canada International	19	102
Capital funding	105,109	138,583
Proceeds on disposal of capital assets	17,055	7,463
Total capital funding for the year	122,164	146,046
Acquisition of capital assets	(123,976)	(129,216)
Capital portion of lease payments	(5,111)	(4,747)
Capital funding surplus (deficit) for the year	(6,923)	12,083
Less: Proceeds generated from the disposal of a building	(7,500)	–
Capital funding surplus (deficit) for the year (excluding proceeds generated from the disposal of a building)	(14,423)	12,083
Capital funding surplus, beginning of year, Government funding basis	19,476	7,393
Capital funding surplus, end of year, Government funding basis	5,053	19,476

d. Additional Non-recurring Funding for Programming Initiatives

On December 10, 2001, the Government of Canada announced additional non-recurring funding of $60 million for CBC/Radio-Canada for the 2002-2003 fiscal year (2002 – $60 million). These funds are being used across all media particularly for the enhancement of programming initiatives.

5. FUNDING FOR RADIO CANADA INTERNATIONAL

Radio Canada International is funded under the terms of a contribution agreement with the Government of Canada.

	2003	2002
	(thousands of dollars)	
Operating funding	15,501	15,418
Capital funding	19	102
	15,520	15,520

6. SPECIALTY SERVICES

The Corporation operates CBC Newsworld, the Réseau de l'information (RDI) and Galaxie 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. At March 31, 2003, the accumulated excess revenues over expenses carried forward to future years' activities for CBC Newsworld totalled $2.2 million ($11.7 million for 2002) and $321,000 for RDI ($274,000 for 2002).

	2003				2002			
	Revenue	Expenses	Repayments to CBC Main Service[1]	Net	Revenue	Expenses	Repayments to CBC Main Service[1]	Net
	(thousands of dollars)							
CBC Newsworld	69,172	(73,125)	(5,515)	(9,468)	66,592	(62,565)	(2,509)	1,518
RDI	40,824	(38,507)	(2,270)	47	40,308	(36,587)	(3,506)	215
Galaxie	13,275	(5,645)	(130)	7,500	10,822	(4,924)	(775)	5,123
	123,271	(117,277)	(7,915)	(1,921)	117,722	(104,076)	(6,790)	6,856

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.

7. 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:

	2003	2002
	(thousands of dollars)	
Current income tax recovery	(1,002)	(1,332)
Future income tax	–	–
	(1,002)	(1,332)

7. 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 36.02 per cent (2002 – 38.02 per cent) to net results before taxes. The reasons for the differences are as follows:

	2003	2002
	(thousands of dollars)	
Income tax expense at Federal statutory rate	6,879	3,825
Increase (decrease) resulting from:		
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	(554)	(1,168)
Other net amounts	(726)	555
Change in valuation allowance	(5,599)	(3,212)
Large Corporations Tax recovery	(1,002)	(1,332)
	(1,002)	(1,332)

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future liabilities at March 31, 2003 and 2002 are presented below:

	2003	2002
	(thousands of dollars)	
Future tax assets:		
Accrued liabilities	7,268	6,584
Employee-related liabilities	34,329	31,732
Loss carry-forward	7,825	8,532
	49,422	46,848
Less: valuation allowance	(5,874)	(11,472)
	43,548	35,376
Future tax liabilities:		
Program inventory	801	1,073
Pension plan	15,936	8,291
Capital assets	26,552	25,613
Other	259	399
	43,548	35,376
Net future tax assets (liabilities)	–	–

At March 31, 2003, the Corporation has a loss carry-forward for tax purposes of $20.0 million (2002 – $23.7 million), which begins to expire in 2007.

8. CAPITAL ASSETS

	Cost	Accumulated Amortisation	2003 Net Book Value	2002 Net Book Value
	(thousands of dollars)			
Land	34,161	–	34,161	34,685
Buildings	364,276	(208,379)	155,897	170,186
Technical equipment	1,156,621	(861,652)	294,969	292,764
Furnishings, office equipment and computers[1]	110,189	(74,329)	35,860	32,216
Automotive[1]	47,481	(34,501)	12,980	10,845
Leasehold improvements	8,021	(4,952)	3,069	2,855
Property under capital lease[2]	512,178	(153,315)	358,863	374,243
Uncompleted capital projects	111,649	–	111,649	98,671
	2,344,576	(1,337,128)	1,007,448	1,016,465

1. A change in the estimated useful life of certain categories of vehicles from 5 years to 8, 10, 12 or 20 years and from 5 years to 3 years for computers has had no significant impact on amortisation expenses in 2003.
2. Current year amortisation expenses of $15.4 million (2002 – $15.4 million) relating to the property under capital lease is included in the amortisation of capital assets on the Consolidated Statement of Operations and Equity.

9. BUSINESS ACQUISITION

On November 1, 2002, the Corporation acquired an additional 70 per cent interest in 3899071 Canada Inc. (Country Canada), a Canadian digital specialty television service, for $1,200,000. The Corporation now has 100 per cent interest in Country Canada. This transaction has been accounted for using the purchase method. The Consolidated Financial Statements include the accounts of Country Canada and its operating results since November 1, 2002.

The acquisition price consists of:

	(thousands of dollars)
Acquisition price	1,200
Accounts receivable	299
Program inventory	623
Deferred charges	391
Accounts payable	(413)
Goodwill	300
	1,200

10. LONG-TERM INVESTMENTS

a. Long-term Investments – Equity Method

The Corporation has the following interest in two specialty channels:

	2003	2002
	(dollars)	
ARTV – participation at 37%	3,855,000	3,616,000
The Documentary Channel – participation at 29%[1]	–	29

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. Long-term Investments – Joint Venture

CBC/Radio-Canada also has a partnership with Publications Gesca ltée, whereby CBC/Radio-Canada has a 50 per cent interest in *Voilà !* At March 31, 2003, the Corporation has net equity of $(225,000) in 2003 (2002 – $136) in this joint venture which is accounted for using the proportionate consolidation method.

11. DEFERRED CAPITAL FUNDING

	2003	2002
	(thousands of dollars)	
Balance, beginning of year	**654,457**	**646,827**
Government funding for capital expenditures (Note 4c)	105,109	138,583
Amortisation of deferred capital funding	(118,049)	(130,953)
Balance, end of year	**641,517**	**654,457**

12. PENSION PLANS ASSET AND EMPLOYEE-RELATED LIABILITIES

Employee-related liabilities are as follows:

	2003	2002	2003	2002
	Current		**Long-term**	
	(thousands of dollars)			
Employee future benefits other than pension	2,806	11,330	105,284	97,300
Vacation pay	39,577	38,035	–	–
Workforce reduction (Note 12b)	910	2,910	–	–
Salary-related liabilities	93,422	75,816	278	278
	136,715	**128,091**	**105,562**	**97,578**

a. CBC/Radio-Canada Pension Plans and Other Employee Future Benefits

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 10 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:	2003	2002
Expected long-term rate of return on plan assets	6.75%	6.75%
Discount rate – beginning of year	6.00%	6.00%
Discount rate – end of year	5.75%	6.00%
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 4 years; 4.5% thereafter

Annual amount:	2003	2002
	(thousands of dollars)	
Employee contributions	22,991	22,848
Benefit payments for the year – pension plans	163,351	167,678
Benefit payments for the year – other employee future benefits	11,294	7,987

a. CBC/Radio-Canada Pension Plans and Other Employee Future Benefits (continued)

	2003		2002	
	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	3,139,218	–	3,657,481	–
Accrued benefit obligation, end of year	3,557,003	153,409	3,330,698	140,063
Surplus (deficit), end of year	**(417,785)**	**(153,409)**	**326,783**	**(140,063)**
Accrued benefit liability (asset), beginning of year	**(25,495)**	**97,300**	**10,742**	**86,727**
Employee future benefits expenses (revenues):				
Current service cost	62,458	6,669	57,714	6,331
Interest on accrued benefit obligation	197,505	8,471	190,995	8,128
Expected return on actuarial value of assets	(241,340)	–	(232,188)	–
Amortisation of past service costs	9,597	–	9,597	–
Amortisation of transitional obligation (asset)	(92,996)	3,618	(92,996)	3,618
Amortisation of actuarial losses	42,112	520	31,415	483
Employee future benefits expenses (revenues) for the year	**(22,664)**	**19,278**	**(35,463)**	**18,560**
Corporation pension plan contributions	**–**	**–**	**–**	**–**
Benefit payments of unfunded plans	**(846)**	**(11,294)**	**(774)**	**(7,987)**
Accrued benefit liability (asset), end of year	**(49,005)**	**105,284**	**(25,495)**	**97,300**

At March 31, 2003, the accrued benefit obligation for the CBC/Radio-Canada Pension Plan and for the unfunded benefit pension arrangements represents respectively $3,519.9 million (2002 – $3,296.5 million) and $37.1 million (2002 – $34.2 million).

The amortisation of past service costs is due to an amendment to the CBC/Radio-Canada Pension Plan, which has resulted in a refund of a portion of contributions to plan members. As of March 31, 2003, the unamortised amount of past service costs is $100.8 million (2002 – $110.4 million).

The unamortised portion of the actuarial losses represents, as of March 31, 2003, $1,343.3 million (2002 – $658.6 million) for CBC/Radio-Canada Pension Plans and $15.4 million (2002 – $6.5 million) for other employee future benefits.

The unamortised portion of the transitional asset as of March 31, 2003 is $977.3 million (2002 – $1,070.3 million) for the CBC/Radio-Canada Pension Plans and ($32.7) million (2002 – ($36.3) million) for other employee future benefits.

b. Workforce Reduction

Since 2000-2001, the Corporation has been implementing a workforce reduction plan. The results are in line with the plan.

13. OBLIGATIONS UNDER CAPITAL LEASES

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

	(thousands of dollars)
2004	33,039
2005	33,039
2006	33,039
2007	33,039
2008	33,039
2009 to 2027	644,256
Total future minimum payments	**809,451**
Deduct: imputed interest (7.53%) and executory costs	442,425
Obligation under capital lease	**367,026**
Less: current portion	5,503
Long-term portion	**361,523**

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 $27.7 million. At the end of the lease, the Corporation will own the building.

14. COMMITMENTS

a. Program-related and Other

As at March 31, 2003, commitments for sports rights amounted to $417.7 million; procured programs, film rights and co-productions amounted to $36.8 million and capital assets amounted to $2.8 million for total commitments of $457.3 million.

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)
2004	58,931
2005	58,285
2006	55,001
2007	49,890
2008	48,408
2009 to 2024	185,154
Total future payments	**455,669**

15. 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 estimate. 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.

16. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership with other Government departments, agencies and Crown Corporations and with private companies. 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 4.

17. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	2003	2002
	(thousands of dollars)	
Cash flows provided by (used for):		
Accounts receivable	50,048	(72,099)
Program inventory[1]	9,848	14,951
Prepaid expenses	(2,635)	9,394
Accounts payable and accrued liabilities	(13,516)	18,896
Employee-related liabilities	7,082	16,454
	50,827	**(12,404)**

1. Excluding $0.5 million (2002 – 4.4 million) of amortisation of capital assets in 2003.

18. FINANCIAL INSTRUMENTS

Cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, and obligations under capital leases are valued at cost, which approximates fair value.

Cash, cash equivalents and short-term investments consist of $5.2 million of cash (2002 – $(5.8) million), $110.4 million of cash equivalents (2002 – $93.9 million) and $76.6 million of short-term investments (2002 – $66.6 million). The Corporation invests in the short-term money market and all securities are limited to those that are 100 per cent guaranteed by the Government of Canada. The average yield of the portfolio held as of March 31, 2003, is 2.81 per cent (2002 – 1.98 per cent) for cash equivalents and 3.10 per cent (2002 – 2.06 per cent) for short-term investments. The average term to maturity is 22 days (2002 – 14 days) and 87 days (2002 – 55 days), respectively.

The Corporation uses financial instruments such as forward contracts to reduce the risk of loss due to adverse movements in foreign exchange. Foreign exchange forward contracts worth $22 million (2002 – $8 million) were outstanding at the end of the year. Gains or losses on financial instruments are recognised in earnings over the period the hedged items are recognised in earnings.

19. COMPARATIVE FIGURES

Certain of the 2002 comparative figures have been reclassified to conform to the current year's presentation.

FIVE YEAR FINANCIAL REVIEW

Summary – Source and Use of Funds*

For the year ended March 31

	2002-2003	2001-2002	2000-2001	1999-2000	1998-1999
			(millions of dollars)		
Sources of funds					
Parliamentary appropriation for operating expenditures	937.4	840.4	794.0	764.7	759.5
Self-generated revenues					
Advertising and program sales	284.4	319.3	350.3	328.7	329.7
Miscellaneous	73.2	82.4	60.5	78.8	63.9
Total self-generated revenues	357.6	401.7	410.8	407.5	393.6
Total sources of funds	1,295.0	1,242.1	1,204.8	1,172.2	1,153.1
Application of funds					
Television and radio services	1,197.5	1,150.6	1,046.3	1,051.7	1,072.1
Transmission, distribution and collection	59.2	61.9	57.8	63.3	62.2
Payment to private stations	11.1	16.8	14.3	13.0	12.5
Corporate Management	15.5	15.4	15.9	15.3	16.2
Income taxes and taxes on large corporations	(1.0)	(1.3)	2.7	2.8	2.7
Total application of funds	1,282.3	1,243.4	1,137.0	1,146.1	1,165.7

*Excluding Specialty Services, amortisation of capital assets, amortisation of deferred capital funding and non-operating revenue.