Management Discussion and Analysis

Government funding

On a net basis, government funding increased by $46.3 million in fiscal 2001-2002.

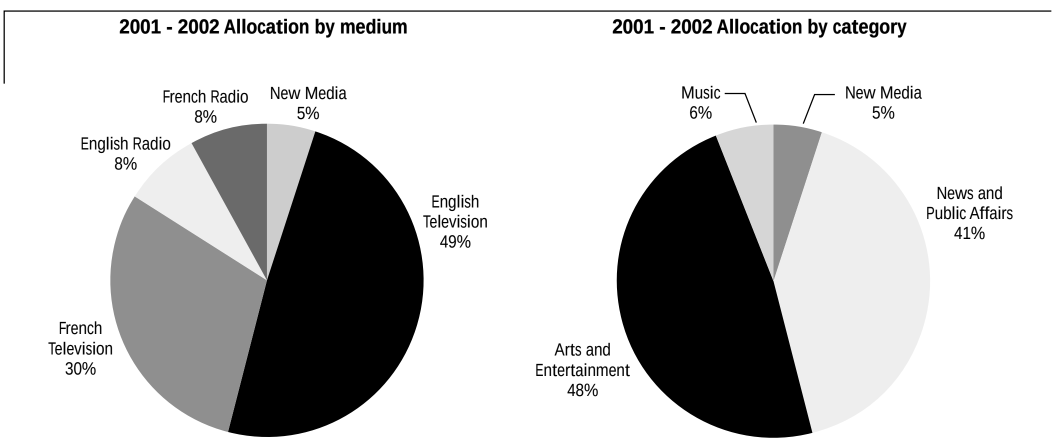
The bulk of this increase can be attributed to a federal government grant of non-recurring funding of $60 million. This additional funding was distributed among the media and was used to increase cross-cultural productions and coproductions, develop new talent and enhance programming initiatives.

Results

According to Canadian generally accepted accounting principles, the net results for the fiscal year is $11.4 million.

CBC/Radio-Canada receives part of its funding from the Canadian government. The elements figuring in the operating statement may be funded by the Canadian government during different fiscal years. CBC/Radio-Canada, therefore, shows different net operating results – a deficit for the year of $14.9 million in government funding terms (a cumulative surplus of $23.8 million, if the surplus carried over from the previous year is included) – whereas according to Canadian generally accepted accounting principles, the net results reflect a net surplus for the year of $11.4 million. Reconciliation of this variance is found in Note 3b).

ALLOCATION OF ADDITIONAL $60 MILLION



Revenues

Advertising revenues decreased by $31 million from the previous year. Miscellaneous revenues, however, increased by $21.9 million.

Advertising revenues were down by $31 million, compared to the previous year, because of the strategy to decommercialise certain programs, market fragmentation, increased competition and the effects of the September 11th attacks on the market.

CBC/Radio-Canada nevertheless experienced an increase in its miscellaneous revenues. This is linked in large part to the host-broadcaster activities of CBC/Radio-Canada during the 8th IAAF (International Amateur Athletic Federation) World Championships in Edmonton.

Expenses

Expenses according to Canadian generally accepted accounting principles increased by $103.3 million.

With additional temporary funding granted by the federal government, CBC/Radio-Canada was able to inject additional funds into operations in 2001-2002, and thus continue its commitment to offer distinctive top-quality programming. All the additional funds received were invested in Radio, Television programming and New Media.

The increase in specialty services expenses may be attributed to additional revenues that were reinvested in the programming of these services.

The net surplus linked to the application of the Canadian Institute of Chartered Accountants (CICA) rules respecting employee future benefits decreased by $43.2 million from last year ($25.7 million in 2002 versus $68.9 million in 2001).

Balance sheet items

Increase in assets of $49.5 million.

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

The decrease in program inventory is attributed to the broadcast of the second part of the series *Canada: A People's History / Le Canada : Une histoire populaire.*

The item “deferred charges and other assets” increased further to the initiatives by CBC/Radio-Canada, creating new partnerships with the private sector, notably by investing in new specialty channels such as *ARTV*, *The Documentary Channel* and *Country Canada*.

The items “pension plan assets” and “employee-related liabilities (long-term)” reflect the application of CICA rules respecting employee future benefits.

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 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 for the provision of 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 operations 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 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
May 17, 2002

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, 2002 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 misstatements. 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, 2002 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
May 17, 2002

Statement of Operations and Equity

For the year ended March 31	2002	2001
	(thousands of dollars)	
Revenue		
Advertising and program sales	319,257	350,259
Specialty services (Note 5)	117,722	107,672
Miscellaneous	82,383	60,461
	519,362	518,392
Expense		
Television and radio service costs	1,150,557	1,046,266
Specialty services (Note 5)	104,076	93,423
Transmission, distribution and collection	61,850	57,838
Radio Canada International	16,626	15,774
Payments to private stations	16,760	14,282
Corporate Management	15,402	15,907
Amortisation of capital assets	130,806	149,294
	1,496,077	1,392,784
Operating loss before government funding, non-operating revenue and taxes	(976,715)	(874,392)
Government Funding		
Parliamentary appropriation for operating expenditures (Note 3)	840,404	794,058
Funding reserved for Radio Canada International (Note 4)	15,418	15,520
Amortisation of deferred capital funding (Note 9)	130,953	147,301
	986,775	956,879
Operating results before non-operating revenue and taxes	10,060	82,487
Non-operating revenue		
Gain on disposal of joint business ventures	–	68,145
Net results before taxes	10,060	150,632
Provision for (recovery of) income and large corporations taxes (Note 6)	(1,332)	2,688
Net results for the year	11,392	147,944
Equity, beginning of year	108,660	(43,284)
Working Capital Funding (Note 3)	4,000	4,000
Equity, end of year	**124,052**	**108,660**

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

Balance Sheet

As at March 31	2002	2001
	(thousands of dollars)	
ASSETS		
Current		
Cash and short-term investments (Note 16)	154,730	174,029
Accounts receivable	188,009	116,096
Program inventory	102,541	121,933
Prepaid expenses	37,814	47,208
	483,094	459,266
Capital assets (Note 7)	1,016,465	1,022,927
Deferred charges, investments and others	18,476	11,841
Pension plans asset (Note 10)	25,495	–
	1,543,530	**1,494,034**
LIABILITIES		
Current		
Accounts payable and accrued liabilities	167,215	148,319
Employee-related liabilities (Note 10)	128,091	115,569
Obligations under capital leases (Note 11)	5,111	4,747
	300,417	268,635
Long-term		
Employee-related liabilities (Note 10)	97,578	97,774
Obligations under capital leases (Note 11)	367,026	372,138
Deferred capital funding (Note 9)	654,457	646,827
	1,119,061	1,116,739
EQUITY		
Equity	124,052	108,660
	1,543,530	**1,494,034**

Commitments and contingencies (Notes 12 and 13)

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

Approved on behalf of the Board of Directors:

Director

Director

Balance Sheet

Statement of Cash Flow

For the year ended March 31	2002	2001
	(thousands of dollars)	
Cash Flow from (used in)		
Operating Activities		
Net results for the year	11,392	147,944
(Gain) on disposal of joint business ventures	–	(68,145)
Loss on disposal of capital assets	1,849	66
Items not involving cash:		
Amortisation of capital assets	130,806	149,294
Amortisation of deferred charges and other	1,276	5,119
Amortisation of deferred capital funding	(130,953)	(147,301)
Pension plans asset	(25,495)	–
Employee-related liabilities [current]	(3,932)	(6,352)
Employee-related liabilities [long-term]	(196)	(63,469)
Share of joint business ventures	–	(8,504)
Net change in working capital balances excluding cash and short-term investments (Note 15)	(12,218)	2,363
	(27,471)	11,015
Financing Activities		
Parliamentary appropriations (Note 3):		
Capital funding	138,481	104,017
Working capital funding	4,000	4,000
Government funding for capital purchases for RCI	102	5,000
Capital portion of lease payments	(4,747)	(4,459)
	137,836	108,558
Investing Activities		
Proceeds on disposal of capital assets	7,463	2,368
Acquisition of capital assets	(129,216)	(103,658)
Acquisition of long-term investments (Note 8)	(4,257)	–
Deferred charges	(3,654)	(2,402)
Proceeds on disposal of joint business ventures	–	76,649
	(129,664)	(27,043)
Increase (Decrease) in cash and short-term investments	(19,299)	92,530
Cash and short-term investments, beginning of year	174,029	81,499
Cash and short-term investments, end of year	**154,730**	**174,029**

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

Notes to the Financial Statements

For the year ended March 31, 2002

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 on 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 capital assets. Parliamentary appropriations for working capital and non-depreciable capital assets are credited to Equity.

b. Short-term Investments

Short-term investments consisting of marketable securities and bonds are carried at cost as they are intended to be held to maturity.

c. 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.

d. 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	5 years
• Automotive	5 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.

e. Deferred Charges

Deferred charges incurred in the development of specialty channels are amortised over the license period. 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.

f. Long-term Investments

Investments in entities over which the Corporation exercises significant influence are accounted for using the equity method. Under this method, CBC/Radio-Canada's investment is increased or decreased according to the undistributed net income or loss since acquisition. The cost method of accounting is used to account for investments in businesses over which CBC/Radio-Canada does not have the ability to exercise significant influence. Under this method, dividends received are recorded as income. Investments in entities over which the Corporation exercises a 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.

g. 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 cost is 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 expense and the employer's contributions to the Pension Fund is reflected in the balance sheet as an employee-related asset (liability).

h. 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.

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.

i. Income Taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between taxes calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has unrecorded deferred income tax benefits which will be recognised in the accounts when they are realised.

j. 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 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.

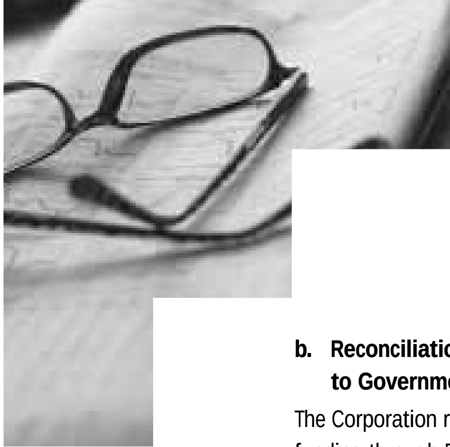
3. PARLIAMENTARY APPROPRIATIONS

a. Parliamentary Appropriations Approved and Received

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

	2002	2001
	(thousands of dollars)	
Operating Funding		
Annual Funding	855,574	807,356
One-time funding for programming initiatives (Note 3d)	60,000	–
Transfer from (to) capital funding – Supplementary Estimates B[1]	(15,170)	(13,298)
Frozen allotment to be reprofiled in future years	(60,000)	–
	840,404	**794,058**
Capital Funding		
Annual funding	100,311	113,719
Transfer from (to) operating funding – Supplementary Estimates B[1]	15,170	13,298
Frozen allotment to be reprofiled in future years	23,000	(23,000)
	138,481	**104,017**
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 the next 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 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:

	2002	2001
	(thousands of dollars)	
Net results for the year	11,392	147,944
Items not generating operating funds:		
Amortisation of deferred capital funding	(130,953)	(147,301)
Income items relating to capital assets	1,849	66
Other	184	(213)
	(128,920)	(147,448)
Items not requiring operating funds:		
Amortisation of capital assets	130,806	149,294
CBC/Radio-Canada Pension Plans and other employee future benefits	(25,664)	(54,690)
Vacation Pay	(3,932)	(6,352)
Program inventory costs	8,139	(1,546)
Other	(3,728)	(4,333)
	105,621	82,373
Net results of operations on a government funding basis (including impact of disposal of joint business ventures)	(11,907)	82,869
Less: Net proceeds from the disposal of joint business ventures	–	(64,624)
Less: Interest generated from the disposal of joint business ventures	(3,011)	(3,816)
	(3,011)	(68,440)
Net results of operations on a government funding basis (excluding impact of disposal of joint business ventures)	(14,918)	14,429
Government funding surplus, beginning of year	38,687	24,258
Government funding surplus, end of year	**23,769**	**38,687**

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:

	2002	2001
	(thousands of dollars)	
Parliamentary appropriations and transfers	138,481	104,017
Capital funding for Radio Canada International	102	5,000
Capital funding (Note 3a)	138,583	109,017
Proceeds on disposal of capital assets	7,463	2,368
Total capital funding for the year	146,046	111,385
Acquisition of capital assets	(129,216)	(103,658)
Capital portion of lease payments	(4,747)	(3,082)
Capital funding surplus for the year	12,083	4,645
Change in proportionate share of joint venture assets	–	(166)
Net results for capital for the year, government funding basis	12,083	4,479
Capital funding surplus, beginning of year	7,393	2,914
Capital funding surplus, end of year	**19,476**	**7,393**

d. One-time Funding for Programming Initiatives

In May 2001, the Government of Canada announced additional, one-time funding for CBC/Radio-Canada, in the amount of $60 million for fiscal 2001-2002. These funds are being used across all media particularly for the enhancement of programming initiatives.

4. FUNDING FOR RADIO CANADA INTERNATIONAL

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

	2002	2001
	(thousands of dollars)	
Operating funding	15,418	15,520
Capital funding	102	5,000
	15,520	**20,520**

5. 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. CBC Newsworld and RDI use previous years' accumulated excess revenues over expenses to fund current year activities. At March 31, 2002, the accumulated excess revenues over expenses carried forward to future years' activities for CBC Newsworld totalled $11.7 million ($10.2 million for 2001), $274,000 for RDI ($59,000 for 2001).

	2002				2001			
	Revenue	Expenses	Repayments to CBC Main Service[1]	Net	Revenue	Expenses	Repayments to CBC Main Service[1]	Net
	(thousands of dollars)							
CBC Newsworld	66,592	62,565	2,509	1,518	61,945	54,562	2,387	4,996
RDI	40,308	36,587	3,506	215	38,159	35,203	2,921	35
Galaxie	10,822	4,924	775	5,123	7,568	3,658	1,405	2,505
	117,722	**104,076**	**6,790**	**6,856**	**107,672**	**93,423**	**6,713**	**7,536**

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.

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 is not subject to provincial income taxes on its own activities. The Corporation's 2002 recovery of income and large corporations taxes relates solely to the large corporations tax. The Corporation's expected income tax rate is the net federal statutory rate (including surtax) of 37.96 per cent (2001 – 39.27 per cent). The 2002 and 2001 effective tax rates are zero, exclusive of the large corporations taxes, due to the utilisation of previously unrecognised losses and timing differences.

The Corporation has a loss carryforward for tax purposes of $20.8 million (2001 – $9.8 million), the benefit of which has not been recognised in the financial statements and which begins to expire in 2007. The Corporation also has net timing differences of $16.9 million (2001 – $35.3 million) resulting from items reported for tax purposes in different periods than for accounting purposes, the benefit of which has not been recognised in the financial statements. These timing differences generally result from the accrual of pension and severance pay costs, and the capital cost allowance on its long-term capital lease where funding for the lease obligation is provided over several years. Capital cost allowance is generally not claimed on other capital assets because acquisitions are substantially funded by the Government of Canada (Note 3).

7. CAPITAL ASSETS

	Cost	Accumulated Amortisation	2002 Net Book Value	2001 Net Book Value
		(thousands of dollars)		
Land	34,685	–	34,685	34,772
Buildings	387,449	217,263	170,186	184,310
Technical equipment	1,188,439	895,675	292,764	296,878
Furnishings, office equipment and computers	104,997	72,781	32,216	40,798
Automotive	40,558	29,713	10,845	12,116
Leasehold improvements	7,162	4,307	2,855	2,306
Property under capital lease	512,178	137,935	374,243	389,624
Uncompleted capital projects	98,671	–	98,671	62,123
	2,374,139	**1,357,674**	**1,016,465**	**1,022,927**

Current year amortisation expense of $15.4 million (2001 – $15.4 million) relating to the property under capital lease is included in the amortisation of capital assets on the Statement of Operations and Equity.

8. LONG-TERM INVESTMENTS

During the fiscal year 2002, the Corporation acquired ownership interests in three specialty channels:

	$	%
Cost:		
Country Canada	30	30
Equity:		
ARTV	4,070,000	37
The Documentary Channel	29	29

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

9. DEFERRED CAPITAL FUNDING

	2002	2001
	(thousands of dollars)	
Balance, beginning of year	646,827	685,111
Government funding for capital expenditures (Note 3c)	138,583	109,017
Amortisation of deferred capital funding	(130,953)	(147,301)
Balance, end of year	**654,457**	**646,827**

10. PENSION PLANS ASSET AND EMPLOYEE-RELATED LIABILITIES

Employee-related liabilities are as follows:

	2002	2001	2002	2001
	Current		Long-term	
	(thousands of dollars)			
Pension plans (Note 10a)	–	–	–[1]	10,742
Employee future benefits other than pension	11,330	–	97,300	86,727
Vacation pay	38,035	41,967	–	–
Workforce reduction (Note 10b)	2,910	12,701	–	–
Other[2]	75,816	60,901	278	305
	128,091	**115,569**	**97,578**	**97,774**

1. The value of the pension plan represents an asset of $25.5 million as of March 31, 2002 (Note 10a).
2. Including salary-related liabilities.

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 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. The Corporation also maintains unfunded non-contributory defined benefit pension arrangements.

	2002	2001
Assumptions – annual rates:		
Expected long-term rate of return on plan assets	6.75%	6.75%
Discount rate – beginning of year	6.00%	6.50%
Discount rate – end of year	6.00%	6.00%
Long-term rate of compensation increase, excluding merit and promotion	4.00%	4.00%
Health care trend	8.5% for 4 years; 4.5% thereafter	8.5% for 5 years; 4.5% thereafter

	2002	2001
Annual amounts:	(thousands of dollars)	
Employee contributions	22,848	21,439
Benefit payments for the year – pension plans	167,678	173,730
Benefit payments for the year – other employee future benefits	7,987	13,300

	2002		2001	
	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	3,657,481	–	3,683,301	–
Accrued benefit obligation – end of year	3,330,698	140,063	3,226,583	133,096
Surplus (deficit) – end of year	**326,783**	**(140,063)**	**456,718**	**(133,096)**
Accrued benefit liability at beginning of year	10,742	86,727	83,964	82,451
Employee future benefits expenses (revenues):				
Current service cost	57,714	6,331	47,816	5,817
Interest on accrued benefit obligation	190,995	8,128	187,924	8,141
Expected return on actuarial value of assets	(232,188)	–	(224,801)	–
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	31,415	483	–	–
Employee future benefits expenses (revenues) for the year	(35,463)	18,560	(72,460)	17,576
Corporation pension plan contributions	–	–	–	–
Benefit payments of unfunded plans	(774)	(7,987)	(762)	(13,300)
Accrued benefit liability (asset) at end of year	**(25,495)**	**97,300**	**10,742**	**86,727**

At March 31, 2002, the accrued benefit obligation for the CBC/Radio-Canada Pension Plan and for the unfunded benefit pension arrangements represents respectively $3,296.5 million (2001 – $3,195.7 million) and $34.2 million (2001 – $30.9 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, 2002, the unamortised amount of past service costs is $110.4 million (2001 – $120 million).

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

The unamortised portion of the transitional asset as of March 31, 2002 is $1,070.3 million (2001 – $1,163.2 million) for the CBC/Radio-Canada Pension Plan and $(36.3) million (2001 – $(40) million) for other employee future benefits.

b. Workforce Reduction

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

11. 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)
2003	33,039
2004	33,039
2005	33,039
2006	33,039
2007	33,039
2008 to 2027	677,295
Total future minimum payments	842,490
Deduct: imputed interest (7.53%) and executory costs	470,353
Obligation under capital lease	372,137
Less: current portion	5,111
Long-term portion	**367,026**

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 $28.1 million. At the end of the lease, the Corporation will own the building.

12. COMMITMENTS

a. Program-related and Other

As at March 31, 2002, commitments for sports rights amounted to $368.4 million; procured programs, film rights and co-productions amounted to $34.2 million and capital assets amounted to $21 million for total commitments of $423.6 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)
2003	53,841
2004	25,998
2005	27,228
2006	23,653
2007 – 2024	241,766
Total future payments	**372,486**

13. 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.

14. 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. Transactions with the Government of Canada are outlined in Note 3.

15. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	2002	2001
	(thousands of dollars)	
Cash flows provided by (used for):		
Accounts receivable	(71,913)	(7,169)
Program inventory*	14,951	22,437
Prepaid expenses	9,394	(3,746)
Accounts payable and accrued liabilities	18,896	(7,315)
Employee-related liabilities	16,454	(1,844)
	(12,218)	**2,363**

* Excluding $4.4 million of amortisation of capital assets in 2002 (2001 – $2.1 million).

16. FINANCIAL INSTRUMENTS

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

Cash and short-term investments consist of $(5.8) million of cash (2001- $(8.7) million) and $160.5 million (2001 – $182.7 million) of short-term investments. 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, as of March 31, 2002, is 3.55 per cent (2001 – 5.44 per cent) and the average term to maturity is 19 days (2001 – 16 days).

The Corporation uses financial instruments such as options to reduce the risk of loss due to adverse movements in foreign exchange. Foreign exchange forward options worth $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.

17. COMPARATIVE FIGURES

Some of the prior year's 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

	2001-2002	2000-2001	1999-2000	1998-1999	1997-1998
			(millions of dollars)		
Sources of funds					
Parliamentary appropriation for operating expenditures	840.4	794.0	764.7	759.5	759.7
Self-generated revenues					
Advertising and program sales	319.3	350.3	328.7	329.7	383.3
Miscellaneous	82.4	60.5	78.8	63.9	54.6
Total self-generated revenues	401.7	410.8	407.5	393.6	437.9
Total sources of funds	**1,242.1**	**1,204.8**	**1,172.2**	**1,153.1**	**1,197.6**
Application of funds					
Television and radio services	1,150.6	1,046.3	1,051.7	1,072.1	1,083.3
Transmission, distribution and collection	61.9	57.8	63.3	62.2	64.1
Payment to private stations	16.8	14.3	13.0	12.5	12.3
Corporate Management	15.4	15.9	15.3	16.2	15.1
Income taxes and taxes on large corporations	(1.3)	2.7	2.8	2.7	2.7
Total applications of funds	**1,243.4**	**1,137.0**	**1,146.1**	**1,165.7**	**1,177.5**

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