

4. Results and Outlook

4.1. Results

Summary – Net Results

<i>(in thousands of dollars)</i>	For the year ended March 31			
	2012	2011	\$ change	% change
Revenue	688,964	662,337	26,627	4.0
Expenses	(1,840,769)	(1,834,219)	(6,550)	(0.4)
Government funding	1,162,317	1,167,341	(5,024)	(0.4)
Net results before non-operating items	10,512	(4,541)	15,053	N/M
Non-operating items				
Dilution gain from Sirius	25,775	-	25,775	N/A
Dividend income from Sirius	5,094	-	5,094	N/A
Net loss on disposal of property and equipment	(517)	(2,859)	2,342	N/M
Non-operating items	30,352	(2,859)	33,211	N/M
Net results for the period	40,864	(7,400)	48,264	N/M

N/M = Not meaningful

Net results before non-operating items for 2011–2012 were \$10.5 million, an increase of \$15.1 million compared to the previous fiscal year. Revenue increased by \$26.6 million (4 per cent), expenditures by \$6.6 million (0.4 per cent), and government funding, including amortization of deferred capital funding, decreased \$5.0 million (0.4 per cent).

Income from non-operating items was \$30.4 million. The main contributors were \$30.9 million in dilution gain and dividend income from the acquisition and financing activities related to the merger of Sirius Canada Inc. and Canadian Satellite Radio Holdings Inc., in which the Corporation is invested. The non-operating loss of \$0.5 million on property and equipment disposals reflects the gains from the sale of the Brossard AM transmitter site in October 2011 offset by disposal losses on transmission and technical equipment.

The following pages provide further detail and explanation of these financial results.

Revenue

<i>(in thousands of dollars)</i>	For the year ended March 31			
	2012	2011	\$ change	% change
Advertising				
English Services	250,796	244,736	6,060	2.5
French Services	124,929	122,964	1,965	1.6
	375,725	367,700	8,025	2.2
Specialty services				
CBC News Network	84,437	81,655	2,782	3.4
RDI	56,022	54,773	1,249	2.3
bold	4,047	4,146	(99)	(2.4)
<i>documentary</i>	5,644	5,385	259	4.8
ARTV	17,604	12,149	5,455	44.9
	167,754	158,108	9,646	6.1
Other and financing income				
English Services	57,145	49,865	7,280	14.6
French Services	46,750	48,632	(1,882)	(3.9)
Corporate Services	41,590	38,032	3,558	9.4
	145,485	136,529	8,956	6.6
TOTAL	688,964	662,337	26,627	4.0

Compared to 2010–2011, total revenue increased by \$26.6 million (4 per cent) in 2011–2012.

Advertising

Advertising revenue increased by \$8.0 million (2.2 per cent) in 2011–2012.

Year-over-year advertising revenue was up \$6.1 million (2.5 per cent) for English Services, primarily due to strong hockey playoff revenue in the first quarter of 2011–2012. The federal election also generated one-time revenue in 2011–2012. Advertising revenue in 2010–2011 included substantial one-time revenue from the coverage of the FIFA Men's World Cup.

Advertising revenue for French Services also increased, mostly as a result of the success of the Tou.tv platform.

Specialty services

Specialty services' revenue increased by \$9.6 million (6.1 per cent) compared to the previous fiscal year.

CBC News Network is widely available across Canada, and is now in 11.3 million cable and satellite homes (compared to 11.0 million last year). This translated into a 1.7 per cent increase in subscription revenue and advertising revenue growth of 11.5 per cent.

Growth in subscribers was also the main reason for increased RDI and *documentary* revenue.

The increase in ARTV revenue was due almost entirely to a change in how ARTV results are reported. ARTV results are now reported on a consolidated basis because the Corporation acquired controlling interest on July 12, 2010. There are, therefore, no comparable figures for the first three months of 2010–2011.

A new specialty service, Explora, was launched on March 28, 2012. The new channel did not generate any material revenue or expenses prior to March 31, 2012.

Other and financing income

Other and financing income increased compared to 2010–2011.

For English Services, the increase was mostly due to an additional \$6.3 million in Local Programming Improvement Fund (LPIF) contribution as a result of the Yellowknife station becoming eligible in late 2010–2011. In addition, an adjustment to the distribution of LPIF contributions, which is based on the number of eligible stations, eligible local programming expenditures, and broadcast distribution undertakings revenue, was recently confirmed following updated information from the CRTC reflecting the 2011 annual returns. Merchandising revenue also increased as a result of higher sales to the educational sector and higher DVD sales.

For French Services, LPIF contributions also increased as a result of the adjustment mentioned above and of the Toronto and Rimouski stations being eligible for LPIF for the entire fiscal year, compared to only seven months in 2010–2011. However, revenue from facility rentals decreased due to smaller scale productions being produced in our facilities this year compared to last year.

Corporate Services' revenue also increased in 2011–2012, mainly as a result of a retroactive U.S. copyright royalties settlement for retransmission rights.

Operating Expenses

<i>(in thousands of dollars)</i>	For the year ended March 31			
	2012	2011	\$ change	% change
Television, radio and new media services				
English Services	919,526	901,169	18,357	2.0
French Services	666,624	658,052	8,572	1.3
	1,586,150	1,559,221	26,929	1.7
Specialty services				
CBC News Network	68,991	72,154	(3,163)	(4.4)
RDI	43,594	43,526	68	0.2
bold	3,906	3,835	71	1.9
<i>documentary</i>	3,625	3,564	61	1.7
ARTV	14,112	10,855	3,257	30.0
	134,228	133,934	294	0.2
Transmission, distribution and collection	72,768	78,646	(5,878)	(7.5)
Corporate management	11,423	11,683	(260)	(2.2)
Payments to private stations	2,766	3,018	(252)	(8.3)
Finance costs	33,455	35,042	(1,587)	(4.5)
Share of (profit) loss in associate	(21)	12,675	(12,696)	N/M
TOTAL	1,840,769	1,834,219	6,550	0.4

N/M = Not meaningful

Operating expenses were higher by \$6.6 million (0.4 per cent) compared to 2010–2011.

Television, radio and new media services

English Services' expenses were up \$18.4 million (2.0 per cent) due to a number of factors. Regional operational expenses increased mainly due to a revitalization strategy in local markets, a key part of Strategy 2015, which is expected to continue into 2012–2013. One-time costs were incurred for the federal election and seven provincial elections. These increases were partly offset by the fact that, in 2010–2011, one-time expenses were incurred for the coverage of the FIFA Men's World Cup.

French Services' expenditures increased by \$8.6 million (1.3 per cent), partly due to significant investments tied to Strategy 2015. These increases were partly offset by the fact that French Services had incurred one-time costs in 2010–2011 related to the FIFA Men's World Cup, as well as by the integration of the television and radio newsrooms.

For both media services, the overall increase of \$26.9 million is also partly due to one-time operating costs of \$5.0 million for various efficiency-generating projects that will reduce future operating costs contributed to increased expenses. These projects include a review of the procurement process and of contracts for the purchase of goods and services, a corporate-wide printer optimization initiative and an energy-reduction lighting project. In addition, building maintenance costs were lower by \$6.0 million in 2010–2011, mainly due to the receipt of one-time supplier reimbursements.

Specialty services

CBC News Network's expenditures were lower than last year by \$3.2 million (4.4 per cent). This reduction was primarily due to reduced programming costs resulting from lower newsgathering cost allocations in 2011–2012 and an overall effort to generate savings.

The increase in ARTV expenses was due almost entirely to a change in how ARTV results are reported. ARTV results are now reported on a consolidated basis because the Corporation acquired controlling interest on July 12, 2010.

Other operating expenses

The expenditure decrease of \$5.9 million (7.5 per cent) for transmission, distribution and collection activities was due to higher accelerated depreciation of analogue television assets in 2010–2011 when compared to the current year, resulting from the transition to digital transmission in Canada. The Corporation will finalize this depreciation in accordance with the scheduled shutdown of remaining analogue transmission in July 2012.

The decrease in finance costs reflected the decreasing interest portion of financing leases, mostly for the Toronto Broadcast Centre.

The current year share of (profit) loss in associate reflects the Corporation's equity interest in Sirius Class B shares, which are lower than losses of \$12.7 million in 2010–2011.

Government Funding

<i>(in thousands of dollars)</i>	For the year ended March 31			
	2012	2011	\$ change	% change
Parliamentary appropriations for operating expenditures	1,028,047	1,031,581	(3,534)	(0.3)
Parliamentary appropriations for working capital	4,000	4,000	-	-
Amortization of deferred capital funding	130,270	131,760	(1,490)	(1.1)
TOTAL	1,162,317	1,167,341	(5,024)	(0.4)

Parliamentary appropriations for operating expenditures decreased by \$3.5 million (0.3 per cent). The major portion of this decrease, \$2.8 million, was due to an incremental budget reduction for 2011–2012 related to cost-containment measures announced in the 2007 federal budget. In addition, the transfer of operating funds to the capital appropriation for the principal portion of the Toronto Broadcast Centre capital lease was higher by \$0.7 million in 2011–2012.

Capital funding received is recorded as deferred capital funding. It is amortized and recognized as revenue over the same periods as the related property, equipment, equipment under capital lease, and intangible assets are used in CBC/Radio-Canada's operations.

Non-Operating Items

<i>(in thousands of dollars)</i>	For the year ended March 31			
	2012	2011	\$ change	% change
Dilution gain from Sirius	25,775	-	25,775	N/A
Dividend income from Sirius	5,094	-	5,094	N/A
Net loss on disposal of property and equipment	(517)	(2,859)	2,342	81.9
Non-operating items	30,352	(2,859)	33,211	N/M

N/M = Not meaningful

On June 21, 2011, Canada's two satellite radio providers, Sirius Canada Inc. and Canadian Satellite Radio Holdings Inc., merged to create an entity currently trading under the name of Canadian Satellite Radio Holdings Inc. (CSR). As a result of this merger transaction, non-operating items for the 2011–2012 year included a dilution gain of \$25.8 million and dividends of \$5.1 million. Following the merger transaction and a subsequent secondary offering resulting in a share exchange by the other shareholders, the Corporation owns a 14.5 per cent equity interest and a 21.7 per cent voting interest in the merged entity, and has a seat on the Board of Directors.

A \$0.5 million loss on property and equipment disposal reflects a gain of \$8.5 million from the sale of the Brossard AM transmitter site in October 2011, offset by losses on sales of other transmission, technical, and capital items during the year. Also included in this amount is the write-off of \$3.6 million following changes to the strategy behind the Corporation's Halifax real estate project.

The Corporation expects to continue to invest in renewing its transmission and technical equipment in 2012–2013 as it focuses on expanding its digital presence as part of Strategy 2015.

Total Comprehensive Income

<i>(in thousands of dollars)</i>	For the year ended March 31			
	2012	2011	\$ change	% change
Net results for the period	40,864	(7,400)	48,264	N/M
Other comprehensive income (loss)				
Actuarial gains (losses) on defined benefit plans	(301,815)	237,563	(539,378)	N/M
Net unrealized gain on available-for-sale financial assets	94	12,675	(12,581)	N/M
Reclassification to income of net unrealized gain on available-for-sale financial assets realized on merger transaction	(5,094)	-	(5,094)	N/A
Total other comprehensive income (loss)	(306,815)	250,238	(557,053)	N/M
Total comprehensive income (loss) for the period	(265,951)	242,838	(508,789)	N/M

N/M = Not meaningful

The other comprehensive loss recognized in 2011–2012 was \$306.8 million, compared to a gain recognized in the prior year of \$250.2 million. The pension plan's obligations are extremely sensitive to actuarial assumptions and can lead to significant annual fluctuations. Actuarial gains and losses are immediately recognized in other comprehensive income in each reporting period.

The \$301.8 million loss related to the pension plan was a result of:

- A decrease in the discount rate used in determining the pension obligation from 5.25 per cent to 4.25 per cent due to declining Government of Canada long-term bond yields, resulting in actuarial losses of \$667.4 million;
- A decrease in the discount rates used in determining the obligation on other non-pension post-employment benefits, resulting in actuarial losses of \$13.8 million; and
- An offsetting amount arising from a higher than expected actual return on pension plan assets of 8.4 per cent (14.9 per cent actual vs. 6.5 per cent expected), resulting in an actuarial gain of \$379.4 million.

The Corporation expects that macroeconomic factors will continue to impact discount rates and asset returns used in determining the actuarial gains and losses during 2012–2013.

In addition, the 2011–2012 results included a loss of \$5.1 million resulting from the non-cash reclassification to income of amounts from the Sirius merger transaction. 2010–2011 results included a net unrealized gain on the revaluation of Sirius Class C shares that were held by the Corporation.

4.2. Financial Condition, Cash Flow and Liquidity

Cash Position

The Corporation's main liquidity sources are parliamentary appropriations for operating, capital and working capital requirements, and commercial activities such as advertising. As a result of the government-wide Deficit Reduction Action Plan, the Corporation will see its appropriations reduced by \$115.0 million over a three-year period, with an initial reduction of \$27.8 million scheduled for 2012–2013. This is followed by a \$69.6 million reduction scheduled for 2013–2014 prior to the full reduction of \$115.0 million in 2014-2015. In response to these reductions and additional financial pressures inherent in funding the business and proceeding with Strategy 2015, the Corporation is implementing a financial plan for 2012–2013 to allow it to continue to match its planned operating expenses with available liquidity resources. The financial plan includes new sources of cash inflows through new sources of television and radio advertising revenue, as well as real estate rental revenue, to partially offset the reduction in appropriations, combined with reducing operating and capital requirements by:

- Transforming RCI;
- Accelerating the shutdown of analogue television transmitters;
- Reducing costs and doing things differently; and
- Pacing the Strategy 2015 roll-out.

Additional detail on each of these initiatives is provided in Section 4.4, Outlook.

The Corporation's cash flows from operating, investing, and financing activities for 2011–2012 are summarized in the following table. The Corporation's cash balance at March 31, 2012, was \$64.3 million, compared to \$63.2 million at March 31, 2011.

<i>(in thousands of dollars)</i>	For the year ended March 31			
	2012	2011	\$ change	% change
Cash - beginning of year	63,224	53,170	10,054	18.9
Cash from operating activities	19,419	78,830	(59,411)	(75.4)
Cash used in financing activities	(58,272)	(55,876)	(2,396)	(4.3)
Cash from (used in) investing activities	39,906	(12,900)	52,806	409.3
Net change	1,053	10,054	(9,001)	(89.5)
Cash - end of year	64,277	63,224	1,053	1.7

Cash from operating activities

Cash from operating activities was \$19.4 million, a decrease of \$59.4 million compared to 2010–2011. In order to determine cash generated from operations, the Corporation excluded the dilution gain related to Sirius/CSR of \$25.8 million because it did not result in a cash inflow, and also excluded non-cash changes in working capital that produced \$36.2 million less cash than in 2010–2011. Additionally, non-cash adjustments made in the current year to determine cash flows from net income were \$49.0 million less favorable relative to the prior year, and included items such as depreciation of property and equipment, amortization of deferred capital funding, and certain non-cash pension amounts recognized in net results.

Cash used in financing activities

Cash used in financing activities was \$58.2 million, relatively consistent with \$55.9 million used in 2010–2011. Financing outflows consisted of interest payments of \$33.6 million, and other obligations totaling \$24.6 million related to semi-annual repayments of the Toronto Broadcasting Centre bonds, payments of notes payable, and obligations under finance leases.

Cash from (used in) investing activities

Investing activities generated cash of \$39.9 million, compared to cash used of \$12.9 million in 2010–2011. In the current year \$104.3 million of cash was used to acquire property, equipment, and intangible assets, a reduction of \$21.6 million compared to 2010–2011. The Corporation's Capital Plan was funded by appropriations of \$102.2 million in the current year, relatively consistent with \$101.6 million in 2010–2011. Other investing cash inflows totaled \$42.0 million, the three largest individual items being a \$9.9 million return of capital on the Corporation's investment in Sirius/CSR, a \$5.1 million dividend received in connection with the Sirius/CSR merger, and the sale of the Corporation's Brossard AM transmitter site for \$9.6 million.

4.3. Seasonality and Quarterly Financial Information

The following table shows condensed financial data for the previous eight quarters. This quarterly information is unaudited, but has been prepared on the same basis as the annual consolidated financial statements. We discuss the factors that caused our results to vary over the past eight quarters throughout this management discussion and analysis.

<i>(in thousands of dollars)</i>	For the year ended March 31 2012					For the year ended March 31 2011				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Revenue	180,145	128,076	195,967	184,776	688,964	166,056	123,402	195,938	176,941	662,337
Expenses	(471,620)	(389,577)	(467,541)	(512,031)	(1,840,769)	(445,533)	(379,201)	(475,881)	(533,604)	(1,834,219)
Government funding	278,935	289,955	269,855	323,572	1,162,317	269,306	300,680	284,159	313,196	1,167,341
Net results before non-operating items	(12,540)	28,454	(1,719)	(3,683)	10,512	(10,171)	44,881	4,216	(43,467)	(4,541)
Non-operating items	42,864	(13,439)	9,563	(8,636)	30,352	(135)	(369)	88	(2,443)	(2,859)
Net results for the period	30,324	15,015	7,844	(12,319)	40,864	(10,306)	44,512	4,304	(45,910)	(7,400)

Our operating results are subject to seasonal fluctuations that materially impact quarter-to-quarter operating results. Excluding government appropriations, approximately 55 per cent of the Corporation's funds come from advertising revenue that tends to follow a seasonal pattern, with the second quarter of each financial year typically being the lowest because the summer season attracts fewer viewers. This can be seen in the quarterly results above. Advertising revenue also varies according to market and general economic conditions and the programming schedule.

Expenses also tend to follow a seasonal pattern because they are influenced by the programming schedule. As the table shows, expenses were relatively lower in the second quarters of 2011–2012 and 2010–2011. Operating expenses tend to be higher in the fourth quarter as the Corporation incurs costs preparing for the Fall broadcasting season and completes project deliverables due by the end of the fiscal year.

Government funding is recognized in the Corporation's income based on budgeted net expenses for the quarter. Monthly and quarterly budgets are established from the annual budget approved by the Board of Directors at the beginning of each year, and reflect expected appropriation funding for the year and seasonal impacts on expenditures and self-generated revenue.

Other factors may impact net results from quarter-to-quarter. These may include items such as finance costs on borrowings, foreign exchange gains or losses, changes to the fair value of derivative financial instruments, asset impairments and sales. When appropriate, these are recorded as non-operating items. As indicated in the table above, the Corporation recorded higher levels of non-operating gains and losses in 2011–2012 compared to 2010–2011, due largely to acquisition and financing activities related to Sirius Canada/CSR, in which the Corporation is invested.

4.4. Outlook

CBC/Radio-Canada will face significant financial challenges over the next several years as it strives to achieve its Strategy 2015 objectives. Not only must the Corporation manage through government funding reductions of \$115 million over three years, as announced in the 2012 federal budget, it will also expect to face additional financial pressures of \$85 million per year by 2014–2015 from unavoidable cost increases and required investments to achieve strategic objectives. In total, this means that CBC/Radio-Canada expects to introduce measures to manage financial pressures of \$200 million per year by 2014–2015 and one-time severance costs up to \$25 million.

Prior to the government funding reductions announced in the 2012 federal budget, the financial plan for achieving Strategy 2015 investments and managing unavoidable cost increases included advertising revenue growth from television and digital services and cost reductions from production improvements and administrative efficiencies.

This financial plan was fundamentally changed with the news that CBC/Radio-Canada would have its \$1.134 billion in government funding reduced by \$115 million (10.14 per cent) over three years, beginning in 2012–2013. This \$115 million reduction includes the elimination, over that period, of the \$60 million in one-time funding that has been received since 2001 to invest in Canadian programming.

On April 4, 2012, a new financial plan, approved by CBC/Radio-Canada's Board of Directors, was announced that will allow the Corporation to meet two key objectives: (i) maintain our capacity to fulfill our mandate under the *Broadcasting Act*, and (ii) continue to drive Strategy 2015 by delivering high-quality Canadian programming, enhancing our regional presence and local impact, and investing more in digital platforms.

The measures that we will be implementing to manage the \$200 million in financial pressures can be grouped into five categories: (i) increasing our revenues, (ii) transforming Radio-Canada International (RCI), (iii) accelerating the shutdown of our analogue transmitters, (iv) reducing costs and delivering our services differently, and (v) slowing the pace of the Strategy 2015 roll-out.

Increasing self-generated revenues

Ongoing increase: up to \$50 million

We plan to increase self-generated revenues by leveraging ads on television, increasing digital revenue and, as an alternative to more drastic solutions, adding advertising and sponsorships to both CBC Radio 2 and Espace musique.

We have already submitted our application for a licence change for CBC Radio 2 and Espace musique to the CRTC, and will work through the process with the Commission.

The decision to add advertising and sponsorships will not change the programming mandate of CBC Radio 2 and Espace musique. Each will remain deeply committed to supporting and showcasing the best in Canadian music across a broad range of genres.

There is no plan to commercialize CBC Radio One and La Première Chaîne; our "talk radio" services will stay commercial free.

Finally, we will look to our real estate portfolio to generate more revenues as we seek to exit some buildings that we own to become tenants in more efficient and less-costly premises.

Transforming RCI

Ongoing savings: up to \$10 million

Shortwave transmission of RCI programs will be shut down and RCI will provide national and international audiences with content on the web in five languages (French, English, Spanish, Arabic and Mandarin) instead of seven (no longer in Russian and Portuguese).

This transformation responds to demographic shifts and to the traffic on our sites, and concentrates our efforts on Canada's largest communities of diverse origins, while continuing to offer an international service via the web.

Accelerated shutdown of analogue television transmitters

Ongoing savings: up to \$10 million

We also plan to shut down analogue television signals on July 31, 2012. Since the initial discussions around digital television (DTV) started, we have clearly stated that we wouldn't duplicate our analogue footprint in digital, that we would build digital transmitters only in centres where we originate television programming, and that we would eventually be shutting down our analogue transmitters, given the obsolescence of analogue technology and its disappearance throughout the world.

The useful life of CBC/Radio-Canada's satellite distribution backbone for analogue transmission is approaching its end and becoming increasingly expensive to maintain. Continuing to operate over 600 transmitters to reach about 1.7 per cent of the population would not be an efficient use of our resources at the best of times; it is certainly not viable given the current circumstances. Over 98 per cent of Canadians will not be affected by this and will continue to receive their CBC and/or Radio-Canada television signal the same way they do today: via cable, satellite or digital over-the-air.

Reducing costs and doing things differently

Ongoing savings: up to \$100 million

Another group of measures is dedicated to reducing costs and doing things services differently. To do this, we are looking at eliminating the things that do not get us closer to achieving the goals set out in Strategy 2015.

Over the last number of years, and particularly as part of the \$171 million Recovery Plan initiatives in 2009–2010, there has been a non-stop focus on operating and production efficiencies as we systematically squeezed out on-going savings from our activities. This work will continue.

We will also look to increase the employee's relative share of contributions to our pension plans from 34 per cent to 40 per cent, over the next two years. This is expected to generate approximately \$5 million per year and is consistent with what is happening across business and government.

We will also continue our priority of reducing the footprint of our real estate portfolio. We had an objective of reducing it by a minimum of 400,000 square feet by 2015, but are accelerating that pace, increasing the target to more than 800,000 square feet by 2017. In the shorter term, we will pursue the sale of CBC/Radio-Canada-owned buildings, shift from owner to tenant in a number of locations, and look to lease vacant space in our remaining buildings.

Pacing the Strategy 2015 roll-out

Ongoing savings: up to \$30 million

Finally, because these initiatives are still not enough to solve the \$200 million problem, Strategy 2015 will have to be scaled back.

We are still committed to the goals of becoming more distinctly Canadian, more regional, and more digital, which remain vital to the fulfillment of our role as Canada's public broadcaster in a rapidly changing environment. However, in light of our financial situation, moving as far or as fast on certain elements of our Strategy 2015 plan will not be possible.

As a result, we will be taking actions including program reductions in the network schedule, reductions in the number and/or budget of signature events produced, and reductions in the number of live music recordings on radio and in cross-cultural programming projects.

While we are well on our way to introducing or improving local services to 3.5 million Canadians out of the 6 million we said we would target by the end of fiscal 2015, reaching the remaining 2.5 million will take longer and be more difficult. And, in light of these pressures, CBC's initiatives to complete its Local Service Extension Plan are expected to be digital-only services instead of a combination of radio/digital services, with fewer new opportunities.

Our strategy on specialty channels will also be affected. CBC no longer plans to launch a kids' digital channel and, after having obtained the necessary licences, neither CBC nor Radio-Canada will pursue launching a sports channel. Finally, we also intend to sell **bold**, one of our CBC specialty channels, the licence conditions of which no longer fit our strategy nor complement our other programming streams.

These measures are far reaching and the changes that come with them are significant. There will be very evident changes to the services we offer and it will take some time to appreciate their full impact on our programs, services and operations and how these changes will be received by our stakeholders, staff, partners, communities, audiences and Canadians across the country

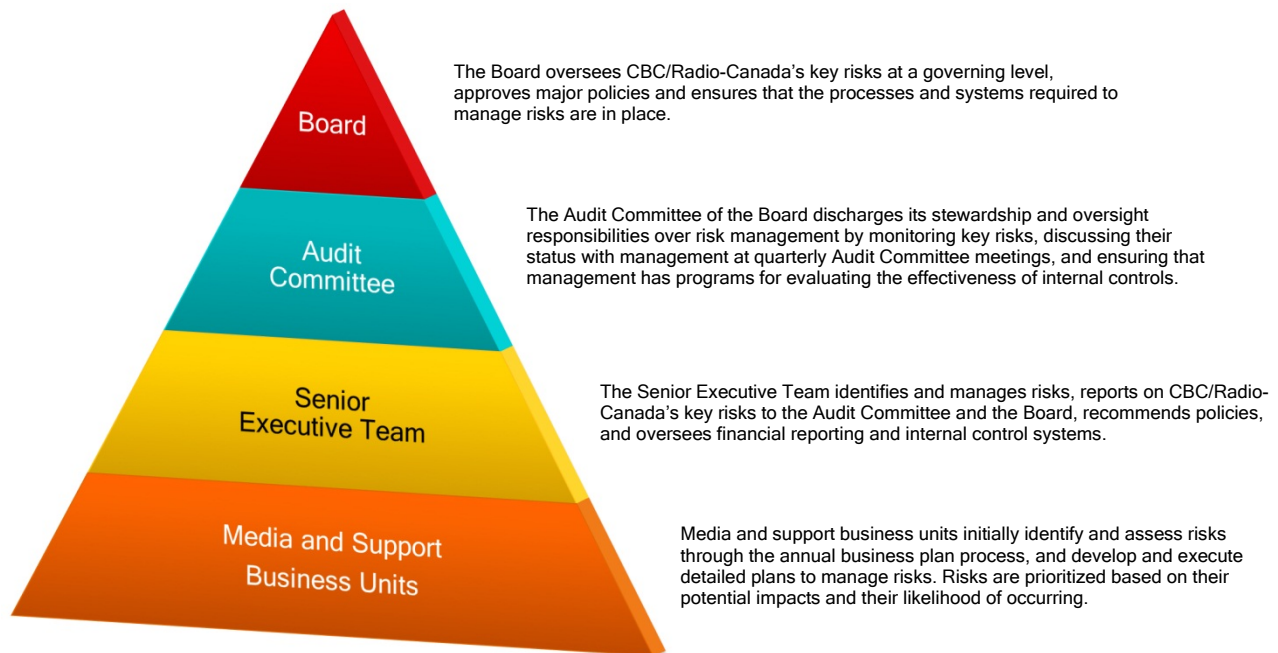
Up to 650 full-time positions (FTEs) are expected to be eliminated over the next three years (representing 7 per cent of our FTEs). This breaks out as follows: approximately 450 positions in 2012–2013, approximately 150 positions in 2013–2014, and the rest in the following year. Unfortunately, in a corporation where about 60 per cent of our overall budget goes to salaries, it's not possible to make reductions of this magnitude without a major impact on our people. The elimination of these positions will result in an estimated one-time cost of up to \$25 million, on top of the \$200 million recurring financial pressures.

This plan will be closely monitored and adjusted, as required, while it is being implemented over a three-year period. Its success will depend heavily on the strength of the advertising market and on our overall revenue performance. For example, our plan assumes that the CRTC's Local Programming Improvement Fund (LPIF) will remain in place and that we will continue to have access to it, in general accordance with the current rules. The LPIF is currently under review and the \$47.1 million in annual contributions to CBC/Radio-Canada for the broadcast year ending August 31, 2012, could be at risk.

4.5. Risk Management and Key Risks Table

As Canada’s national public broadcaster, CBC/Radio-Canada occupies an important place in the Canadian broadcasting system and faces a unique set of risks to its plans and operations. Like all broadcasters, the Corporation must adapt to technological changes, shifts in demographics and evolving consumer demands, as well as structural changes in the industry. As a public broadcaster with a statutory mandate to serve all Canadians, CBC/Radio-Canada also faces unique public expectations, financial challenges and risks.

CBC/Radio-Canada’s Risk Management Program is part of an enterprise-wide approach integrated into business processes. Responsibility for risk management is shared among CBC/Radio-Canada’s Board of Directors, the Board’s Audit Committee, the Senior Executive Team and operational units.



Internal Audit plans its audits in accordance with the results of the risk assessment process and provides assurance that major risks are covered on a rotational basis by the annual audit plan.

The following table discusses the key risks faced by CBC/Radio-Canada during fiscal 2011–2012 and their ongoing impact into 2012–2013.

Key Risk	Risk Mitigation	Future Impact
<p>1. Budget Concerns</p> <p>A number of pressures are individually and collectively contributing to ongoing budget concerns:</p> <p>A. Federal Budget 2012</p> <p>The Federal Budget tabled on March 29, 2012, detailed a reduction of CBC/Radio-Canada’s parliamentary appropriations by \$115 million over three years as part of the Federal Budget 2012. The \$60 million received as one-time funding since 2001–2002 is included in the appropriation level base subject to the reduction.</p> <p>There is a risk that the initiatives identified to reduce costs and increase revenues will not achieve expected outcomes.</p> <p>B. Vertical Integration – Rights, Programs and Channel Carriage</p> <p>CBC/Radio-Canada is the only major television broadcaster in Canada without distribution affiliations following recent acquisitions of Canwest Global by Shaw Communications in 2010 and CTVglobemedia by BCE in 2011. There is a concern that carriage terms offered by Broadcast Distribution Undertakings (BDUs) will favour their own associated specialty services at the expense of the Corporation’s specialty services. Risks to the Corporation include BDUs dropping the Corporation’s existing television services that are not mandatory carriage or delaying the launch of new specialty services and decreased revenue from BDUs to carry the Corporation’s specialty television services.</p> <p>A more competitive professional sports landscape with a few large, well-capitalized players vying for the same properties.</p> <p>As part of the approval process for broadcaster acquisitions, the CRTC imposes Canadian programming requirements that will likely increase the demand and cost for Canadian independent productions.</p>	<p>Implement initiatives to reduce costs and increase revenues.</p> <p>Ongoing management and review of the initiative implementations to ensure expected outcomes are achieved.</p> <p>Strategic discussions with BDUs focused on overall value of the programming services offered, the relationships and negotiation of long-term agreements with terms that protect or enhance current carriage and revenues.</p> <p>CBC plans on renewing its professional sports rights, including NHL rights which expire in June 2014, and has started preparing for renewal negotiations.</p> <p>Negotiate comprehensive program rights agreements to benefit the interests of both CBC/Radio-Canada and independent producers.</p>	<p>The parliamentary appropriation over the next three years has been announced, allowing for a multi-year planning horizon.</p> <p>However, Federal Budget 2012 will significantly affect programming and operational choices. Focus will be on delivering strategic priorities, implementing necessary changes and managing both the internal and external impacts on the Corporation and stakeholders.</p> <p>Long-term distribution agreements have been signed with large BDUs, including a five year agreement in principle with Vidéotron, which was announced on March 5, 2012.</p> <p>Continue with identified strategies.</p>

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<p>C. Local Programming Improvement Fund (LPIF)</p> <p>A review of the LPIF started in April 2012. The outcome of this review will determine whether the Fund should be maintained, modified or cancelled.</p> <p>The LPIF is a critical source of funding for CBC/Radio-Canada. LPIF funding for the broadcast year ending August 31, 2012, is estimated to be \$47.1 million and has been incorporated into CBC/Radio-Canada plans. Any reduction would have a negative impact on our programming.</p>	<p>Maximize LPIF eligibility while maintaining budget flexibility.</p> <p>Use the CRTC's April 16, 2012, hearing on the LPIF to advocate maintaining the Fund and recommend changes to the Fund to address concerns.</p>	<p>The future of LPIF funding after August 31, 2012, is uncertain. Current plans would need to be revisited in the event of a material change to CBC/Radio-Canada's access to the Fund.</p>
<p>D. Strategy, Budget and Planning</p> <p>There is a risk in our ability to allocate scarce resources and generate expected revenue to meet the objectives of Strategy 2015 given the Federal Budget 2012 and other financial pressures.</p>	<p>Reduce the pace and scope of Strategy 2015 roll-out to manage budget pressures.</p> <p>Identify further efficiencies and implement best practices and new ways of organizing and operating that position us to succeed with Strategy 2015 (<i>Making it Happen</i> initiatives).</p> <p>Finish implementation of corporate efficiency measures including the next generation procurement initiative.</p> <p>Re-evaluate targets and key performance indicators (KPIs) for both financial (relating to necessary revenue generation and implementation of cost savings) and non-financial pressures. These metrics appear in the Corporate Plan/Quarterly and Annual Reports and the Semi-Annual Report Card. Evaluate results against plans on a regular basis and adjust plans accordingly.</p>	<p>The pace and scope of Strategy 2015's planned initiatives were reduced by \$30 million annually as a result of financial pressures.</p> <p>Underachievement of revenue increases and cost reduction targets may require further changes to Strategy 2015.</p> <p>Furthermore, results against non-financial KPIs may decline as a result of the reduction in resources available for the Corporation to spend on programming.</p>
<p>E. Impact on Advertising Revenue</p> <p>Advertising revenue is influenced by a number of factors, including economic uncertainty, migration of ad revenue from conventional to specialty and digital services, program audience share and rating performance, and competing advertising opportunities in the marketplace.</p> <p>Uncertain economic conditions compound the risks associated with the Corporation's plans to increase advertising revenue to offset some of the government funding reductions announced in the 2012 Federal Budget.</p>	<p>The Corporation is closely monitoring advertising revenue performance and has developed contingency plans.</p>	<p>Underachievement of advertising revenue targets may require further reduction of expenditures and changes to Strategy 2015 implementation plans.</p>

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<p>2. Union Relations</p> <p>Failure to develop a long-term strategy for more operational flexibility from our unions may have a negative impact on the working relationship between management and employees and could derail the achievement of Strategy 2015.</p> <p>The failure to negotiate successful settlements with unions would have economic impacts and would have a negative impact on brand management. A number of agreements must be re-negotiated between 2012 and 2014.</p>	<p>Continue to reinforce business needs in terms of flexibility and ensure that collective bargaining reflects these needs.</p> <p>Involve unions in discussions relating to economic challenges and encourage input into managing risks.</p> <p>Ensure communications activities are identified and implemented with union leaders before launching business strategies and initiatives (e.g., changes in methods of production to achieve savings).</p> <p>Successful negotiation of agreements.</p>	<p>Mitigation strategies continue into 2012–2013.</p>
<p>3. Workforce Challenges – Recruiting, Training, Retaining and Empowering a Skilled Workforce</p> <p>The degree to which staff engages with the Corporation's mission may have an impact on retention and our ability to achieve objectives.</p> <p>The proper staff skill set is necessary to meet the transformation needs of Strategy 2015. The plan's three strategic thrusts (programming, regional and digital) will require a significant transformation in production methods, to ensure a smooth transition to a model that's more efficient, digital and multiplatform.</p>	<p>Action plans responding to the employee engagement survey have been developed and are being implemented at the national, component and departmental levels. Two national priorities have been identified: recognition and development.</p> <p>Ensure appropriate workforce planning and training are in place to plan for redirection of operations in line with Strategy 2015 and ensure employees are appropriately skilled.</p>	<p>Ensure appropriate workforce planning and training are in place to plan for redirection of operations in line with Strategy 2015 and ensure employees are appropriately skilled.</p> <p>Identified strategies will continue into 2012–2013.</p>
<p>Staff reductions create a climate of uncertainty and stress that may lead to reduced morale, lower productivity and decreased retention.</p>	<p>To minimize this risk, the organization is engaging four approaches: transparent communication to employees and unions; involvement of employees and union leadership in change; continued investment in learning and development; and increased effort to recognize employee contributions.</p>	<p>Identified strategies will continue into 2012–2013.</p>

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<p>4. Regulatory Issues</p>		
<p>A. Licence Renewal</p> <p>Licence renewal hearings will commence on November 19, 2012. The outcome of these hearings will set the terms and conditions of our CRTC licence over the next five years and determine whether we are able to meet the objectives of Strategy 2015.</p>	<p>Work with CRTC to reach mutually acceptable conditions of licence.</p>	<p>CBC/Radio-Canada's licence renewal application will seek a streamlined regulatory framework to enable the Corporation to operate efficiently and effectively in an evolving multiplatform environment.</p>
<p>B. Terms of Trade with Independent Television Producers</p> <p>Negotiations on terms of trade (rights, contribution, other business terms) for CBC with Canadian Media Production Association (CMPA) and Radio-Canada with Association des Producteurs de Films et de Télévision du Québec (APFTQ) regarding independently produced programming continue into 2012–2013.</p> <p>The most significant potential risk is the imposition of terms on CBC/Radio-Canada that are not compatible with CBC/Radio-Canada's role as Canada's public broadcaster.</p>	<p>Continue negotiating the terms of trade contracts to benefit the interests of both CBC/Radio-Canada and independent producers.</p>	<p>Continue with identified strategies into 2012–2013.</p>
<p>C. Over-the-Top Programming Services</p> <p>On May 25, 2011, the CRTC began a fact-finding exercise on the "over-the-top" (OTT) programming accessed over the Internet independent of a facility or network dedicated to its delivery. On October 5, 2011, the CRTC determined that the findings of the fact-finding exercise were inconclusive. The Commission will continue to monitor the situation as the market evolves and will conduct a second fact-finding exercise.</p>	<p>Monitor and adjust as required.</p>	<p>On April 16, 2012, the CRTC announced that it will not conduct a second fact-finding exercise but will continue to monitor the situation.</p>
<p>D. DTV Transition</p> <p>Following the trend in other countries, the CRTC decided to replace over-the-air analogue television transmission with digital (DTV) beginning August 31, 2011.</p> <p>The Corporation will have digital television transmitters in all 27 originating CBC/Radio-Canada stations.</p> <p>In 2011–2012, the Corporation shut down 30 analogue television transmitters in mandatory markets.</p> <p>CBC/Radio-Canada has applied to the CRTC to modify its licences to reflect the shutdown of the remaining 620 analogue television transmitters by July 31, 2012, to help address the government funding reductions under the Federal Budget 2012.</p> <p>The result is that some markets will no longer receive an over-the-air television signal from CBC/Radio-Canada. There is a risk that the public broadcaster may be perceived as reducing services to some communities.</p>	<p>Communications activities will inform and educate Canadians at large about CBC/Radio-Canada's plans. The communications plan will include government relations activities as well as region-specific activities and initiatives to address local issues and concerns and minimize negative reactions.</p>	<p>The Corporation will communicate to Canadians that only 1.7 per cent of the population still receives CBC/Radio-Canada's television signals via an analogue transmitter and, given financial pressures, the Corporation will accelerate its exit from this technology.</p>

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<p>5. Infrastructure Replacements and Optimization</p> <p>There are limited resources to meet capital asset needs for:</p> <ul style="list-style-type: none"> • Building repairs and renovations. • Replacement of aging broadcasting equipment and transition to high-definition (HD) production. • Radio transmitters across the country which are nearing the end of their useful life. • Real estate assets must be exploited to reduce excess space and costs. • Under-investing in technology infrastructure replacement or upgrades increases risk of system failure. Risk of cost increases to maintain and support older and/or distributed versus centralised systems. 	<p>Scheduled and prioritized maintenance, with emphasis on health and safety and business continuation.</p> <p>Replacement will continue with available resources on a prioritized basis.</p> <p>A transmitter asset strategy has been developed to reduce the size and investment requirements of the current system while maintaining coverage.</p> <p>CBC/Radio-Canada is accelerating its plan to reduce its overall real estate footprint.</p> <p>Comprising a little more than 4.3 million square feet, we plan to reduce it by more than 800,000 square feet by 2017. In the shorter term, we will pursue the sale of CBC/Radio-Canada-owned buildings, shift from owner to tenant in a number of locations, and look to lease our vacant space in the remaining buildings.</p> <p>Assess replacement options for obsolete or unsupported systems and recommend solutions.</p>	<p>A multi-disciplinary Critical Space Committee is currently proceeding with the selection and hiring of outside experts to assist in establishing standards for critical space management.</p> <p>Transition of aging production equipment in regional locations to HD is planned for future years, at a pace that budgets allow.</p> <p>Continue with identified strategies.</p> <p>Portfolio strategic plans will be implemented by CBC/Radio-Canada's Real Estate Services during the coming years.</p> <p>Implement identified recommendations.</p>
<p>6. CMF Challenges</p> <p>New Canada Media Fund (CMF) funding allocation rules could result in reduced support for CBC/Radio-Canada.</p>	<p>Proactively advance the Corporation's position with the CMF, including participation in the CMF National Focus Group.</p>	<p>CBC/Radio-Canada's 2012-2013 CMF allocation is virtually the same as last year's allocation. However, there still continues to be a risk as allocation factors have changed or may change next year.</p>

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<p>7. Access to Information</p> <p>Managing public perception of a lack of accountability and of transparency.</p> <p>A legislative modification could curtail or impede the Corporation's editorial independence.</p>	<p>Continue to produce and distribute the <i>Transparency and Accountability Bulletin</i>, which provides updates on progress we are making in managing ATI requests.</p> <p>Continue to manage the information published on the corporate website's Proactive Disclosure section. Facilitate access to existing information on the corporate website.</p> <p>Continue to invest in improving the management and processing of ATI requests.</p>	<p>Continue with identified strategies into 2012–2013.</p>