CAPITAL ASSET REVIEW

TO:	Board of Directors
MEETING:	February 21, 2013
FROM:	Michael Mooney, Acting Vice-President and Chief Financial Officer
PURPOSE:	Update on Asset Review and Capital Budget Presentation Approach
DATE:	February 11, 2013

CBC Radio-Canada

1. BACKGROUND SCOPE OF PROJECT

- Project was launched following March 2012 Board presentation: Size capital asset base to operational needs and fund appropriately.
- $2.3B asset pool at March 31, 2012 was analyzed.
- Project intended to facilitate decision making on: capital pool, funding strategies and incorporate results into the current year's budgeting.
- Work was closely coordinated with the Making It Happen Regional Organizational Review.
- The project reports to Capital Executive Team (CET: Suzanne Morris, Maryse Bertrand, Fred Mattocks and Steven Guiton) and extended to include Media EVPs.
- Joint leadership of the project: Chair Capital Round Table (CRT) / Jerry Zubryckyj, Chair Technology Strategy Board (TSB) / Fred Mattocks and Head of Real Estate Services / Marc Y. Lapierre.
- Working Committees and reviews involve: SET, TSB and CRT.

2. KEY FINDINGS

- Several key observations result:
  - Asset pool size trending downward for the first time.
  - Unproductive assets write-downs underway, including large assets previously used for analog TV and shortwave radio.
  - Benchmarking gives us confidence looking back that there are no outliers and 2 anomalies will be addressed in much need facility updates.
    - Data also provides useful facility planning input.

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  - Delay of capital projects over 3 years is being managed.
  - Moving towards integrated operating and capital funding for complex investments.
  - More than ever Capital and Operating budgets need to be in synch.
    - CET budget process enhanced to ensure priorities and risks are addressed.
  - No change to base capital funding will be recommended in 2013-14 Capital Budget.

3. ASSET OVERVIEW AND CAPITAL FUNDING

- The Corporation’s $2.3B of assets, as at March 31, 2012, can be categorized under 3 distinct profiles:
  1. **Content / Platforms/Collection:** Assets that are integral to the production of the Corporation’s services on all platforms. It includes media managed assets and building facilities in which they are housed. (N.B. Real Estate assets in this area are a combination of owned and leased facilities. As it relates to leased facilities, only the leasehold improvements are recorded as capital assets in our financial statements.)
  2. **Transmission/Distribution:** Assets utilized in the transmission/distribution chain of the Corporation’s radio and television services including related land, building and tower facilities.
  3. **Corporate:** Assets that transcend Corporate operations and are managed centrally.

3. ASSET OVERVIEW AND CAPITAL FUNDING (CONT'D)

- Within the total assets of $2.3B, we have $223M of assets that are currently deemed unproductive and are in the processes of being written-off. This would bring the asset pool to an adjusted value of $2.1B:
  - Analog TV shutdown: $152M
  - RCI shortwave radio shutdown: $34M
  - Miscellaneous write-offs: $37 M

  $223M
- The following slide provides a graphical representation of the $2.3B in assets.
- Appendix A provides additional profiling of our assets and how they are funded.

3. ASSET OVERVIEW AND CAPITAL FUNDING (CONT'D)

ALL ASSETS
($2.3B at March 31st, 2012)

Pending Write-Offs $223M
(Analog TV, RCI, Misc. assets)

Adjusted Asset Base
$2.10B

Content/Platform/Collection	Transmission/Distribution	Corporate
$1,450.4M 69%	$422.5M 20%	$229.9M 11%

Content/Platform/Collection		
Media Managed	Mobile Division	Real Estate Managed
$741.8M 35%	$52.9M 3%	$655.5M 31%

- 82 Radio Stations : 50 (E) / 32 (F)
- 27 TV Stations: 14 (E) / 13 (F)
- Contributing bureaus and foreign offices
- Mobile Division Assets
- Related Real Estate assets (27 owned buildings; 49 leased facilities)

Transmission/Distribution	
Buildings & Land	Technology Base
$78.8M 4%	$343.7M 16%

- 27 DTV transmitters: 14 (E) / 13 (F)
- 698 Radio Transmitters: 483 (E) / 215 (F)

Corporate
Various
$229.9M 11%

- Data Center, Networks (LAN, WLAN, etc.)
- Enterprise software

4. MEDIA ASSETS: WHERE ARE THEY AND WHAT BUSINESS VALUE DO THEY DELIVER

INTERNAL BECHMARKING ASSET INPUTS TO OUTPUTS

- Internal Benchmarking:
  - An internal benchmark of ***Assets per hour of output*** for both Radio and TV was developed as a comparator to determine if any locations were over or under resourced and to determine whether the asset mix is appropriate for the program role of the station
  - ***Hours of output*** is based on original hours of production excluding repeats, repacks and acquisitions
  - Asset values for the network centres include certain facilities, eg. Presentation and Archive which, while based in the network centre are not directly related to Network Centre output and which are used by all locations. This tends to increase the apparent value for the network centres.
  - In all cases assets represent a 'snapshot' at March 31, 2012 and may be affected by recently capitalized assets for which there had not been a corresponding write-off.

4. MEDIA ASSETS: WHERE ARE THEY AND WHAT BUSINESS VALUE DO THEY DELIVER (CONT'D)

INTERNAL BECHMARKING ASSET INPUTS TO OUTPUTS

- Radio
  - Not surprisingly, the network centers had the highest asset value per hour of output. This is completely consistent with the larger volume of programming and more complex asset environment to produce network programming. Network facilities also include centralized assets, such as Presentation and Archive facilities.
  - Regional Centres were well clustered around values which were consistent with the priority attributed to the locations and their program mission. For example major regional location (Vancouver, Quebec, Halifax and Ottawa) showed a slightly higher ratio. Smaller regional centres (eg. Sherbrooke, CornerBrook, Saguenay, Windsor) were also well clustered around lower values which were consistent with their program mission.
  - The same would be true if the measure used was budgets or FTE to hour of output
  - Generally speaking stations with French and English local programming exhibit lower ratios which can be attributed to common central infrastructure.
  - Given the timing of the snapshot some changes related to English Radio's new music strategy are not fully implemented.

4. MEDIA ASSETS: WHERE ARE THEY AND WHAT BUSINESS VALUE DO THEY DELIVER (CONT'D)

INTERNAL BECHMARKING ASSET INPUTS TO OUTPUTS

- Television
  - Television results were similar to Radio but slightly more varied.
  - Several regional locations (Halifax, Moncton, Quebec City) had higher asset ratios than their program mission would suggest, however, this is consistent with the fact that 2 locations are in need of the already planned refreshes or consolidations (Halifax, Moncton). History confirms that these refreshes typically result in a smaller asset footprint.
  - In the case of Quebec City, higher asset ratio is mainly due to several unique circumstances with this location:
    - There is a parliamentary bureau in Quebec City with technical assets valued at $2.6M.
    - As at March 31, 2012, Quebec City assets included centralized production assets integral to packaging and delivering programming to Est-du-Québec (Matane, Sept-Îles, Gaspésie and Rimouski). With the introduction of the new Rimouski facility in September 2012, some $2M-$3M of assets in Quebec City will be decommissioned. Once this is done, Quebec City assets will be similar to Winnipeg, and the assets per hour benchmark will be between Toronto and Moncton.
    - A study is underway to assess space usage and reduce requirements in-line with regional production changes.
    - Some content for the main network is occasional and is not considered in the benchmarking data (Quebec Parliament coverage, *Second Regard* et *La Semaine Verte*).
  - Even though Montreal has a larger asset base than Toronto it has a lower asset per hour measure. This is consistent with the programming mix which includes a number of very high volume series as well as virtually all of RDI's output. By comparison a higher percentage of NewsNetwork is produced outside Toronto.

4. MEDIA ASSETS: WHERE ARE THEY AND WHAT BUSINESS VALUE DO THEY DELIVER (CONT'D)

INTERNAL BECHMARKING ASSET INPUTS TO OUTPUTS

- Summary
  - The benchmarking exercise did not reveal any dramatic surprises.
  - Although there were some variations none can be described as significant.
  - Benchmarking indicates that asset profiles are consistent with program role and asset allocation is sized appropriately. For locations which are still to be addressed as part of Real Estate strategy the benchmark metrics will improve as these facilities are reviewed on a case-by-case basis.
  - Asset to output ratios will decrease over time as consolidation initiatives complete across the system.
  - Centralization of Radio and Television presentation in Toronto and Montreal has caused a significant reduction in asset footprint in Regional locations.
  - Some variation within the Regional operation is attributable to market size.
  - Appendix B provides additional information on the benchmarking analysis.

5. UPDATE ON [redacted] DEFERRAL

- We are going into year 2 of the spending delay presented to the Board in March 2012.
- Although there are some shifts between years on the projects affected, for the most part we are managing to these delays.
- An update on the project deferrals will be provided with the March capital budget submission to the Board.

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6. TRENDS EVOLVING WHICH IMPACT THE SIZE OF THE ASSET POOL

Following are the major areas and initiatives that will influence the size of the asset pool over the near future:

1. **Media: Impact on asset pool = flat to somewhat upwards**
   - (+) ES local service expansion
   - (-) Fit up of new MRC facility
   - (+/-) Refresh of regional TV studios / control rooms to HD
   - (+/-) Update of remaining regional facilities E & F as part of the Real Estate strategy
   - (+) Disaster recovery solution for media operations.
2. **Technology: Impact on asset pool = downwards**
   - (-) Movement to Cloud / Software as a service (SAS) solutions
   - (+) More complex and integrated media technology solutions (ie. Media Asset Management (MAM) project) are requiring more lead time to develop and implement.
   - (-) Although cost of technology is reducing, the refresh rate is faster with software and hardware-based assets.
   - (+) Demand increasing to invest more strongly in Enterprise Systems.

6. TRENDS EVOLVING WHICH IMPACT THE SIZE OF THE ASSET POOL (CONT'D)

3. **Real Estate: Impact on asset pool = significantly downwards**
   - (-) Positioning to own only facilities: would result in an asset write down of in currently owned real estate assets, partly offset by leasehold improvements in new facilities.
   - (-) Transfer risk of ownership and facility maintenance to 3rd parties on leased facilities.
4. **Transmission Division: Impact on asset pool = significantly downwards**
   - (-) Shut down of analog TV
   - (-) Shut down of RCI shortwave radio.
   - (+) Slight offset as we address deficit in small market radio transmitters

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5. **Appendix C provides an over the decade's view of significant changes in our asset pool since 1970.**

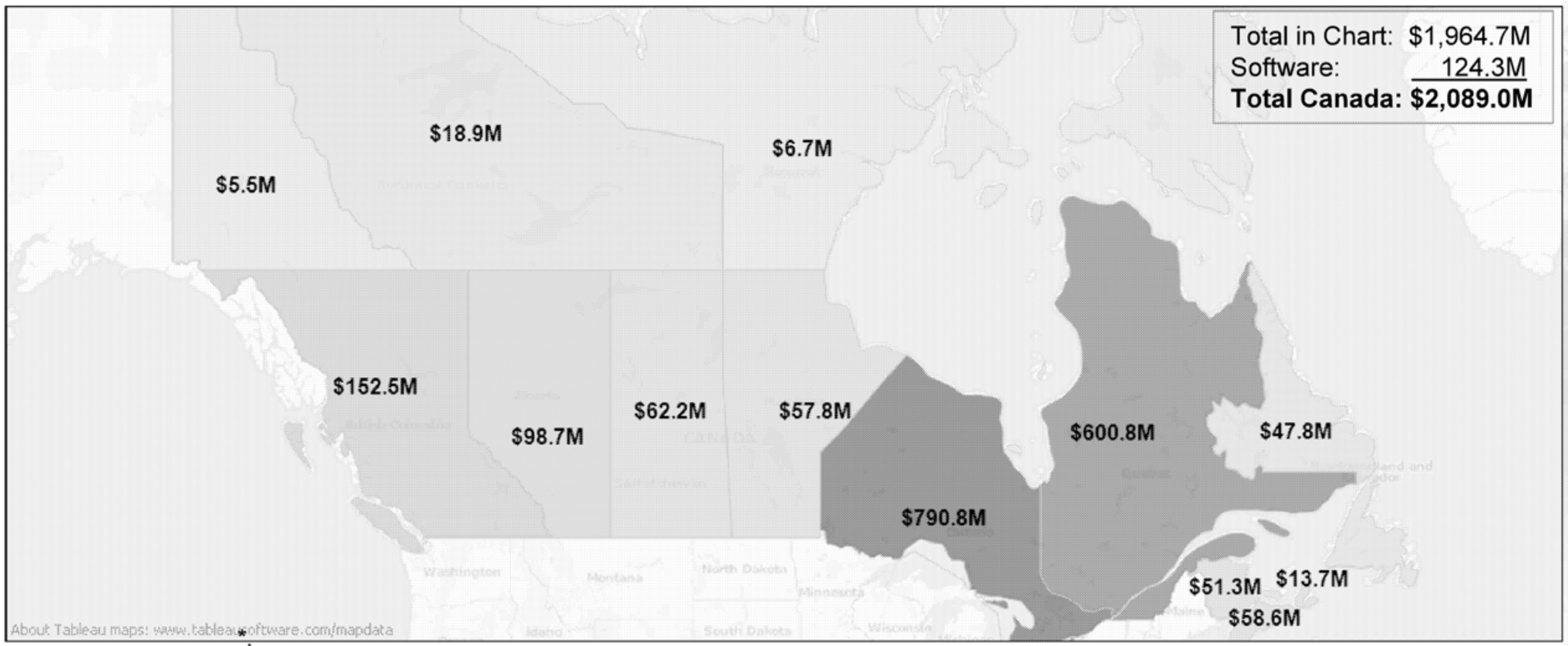
APPENDIX A:

PROFILING OF OUR ASSETS AND CAPITAL FUNDING

WORLDWIDE DISTRIBUTION OF ASSETS

- The vast majority of our assets 99.4% reside in Canada
- $124.3 M of assets are in the form of software and are not recorded to a physical location in the chart below.

Domestic
$2.089B 99.4%



Province	
Various	$124.3M

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APPENDIX A:

PROFILING OF OUR ASSETS AND CAPITAL FUNDING

WORLDWIDE DISTRIBUTION OF ASSETS

- Less than 1% of our assets reside abroad in our foreign office/bureau locations.

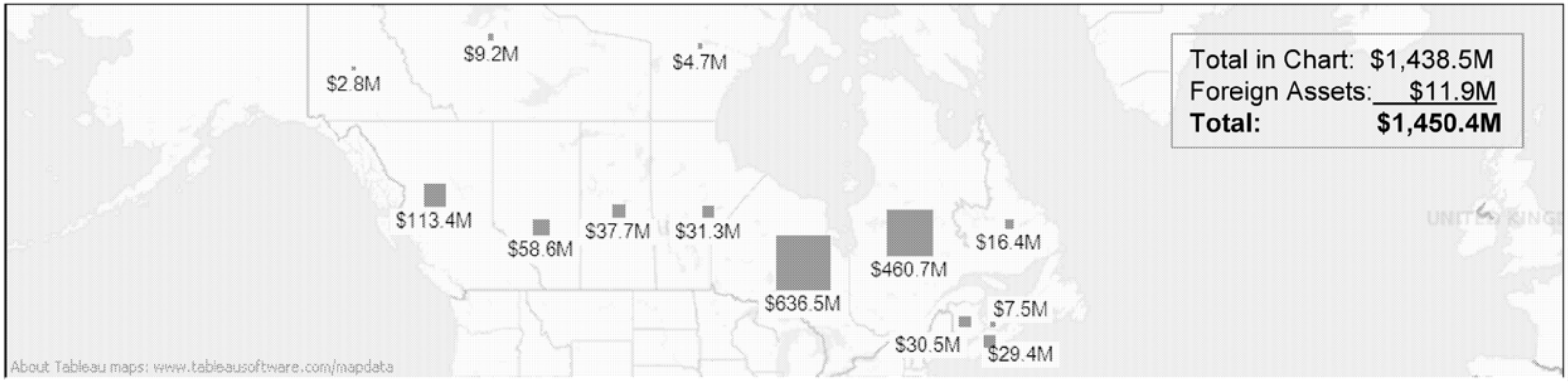
International
$13.1M 0.6%

APPENDIX A:

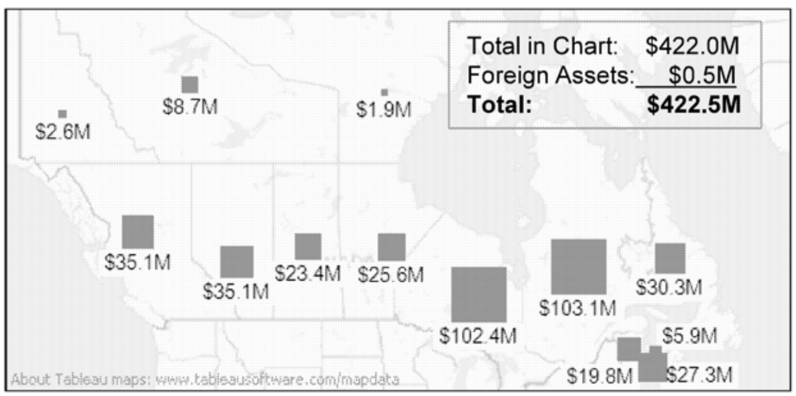
PROFILING OF OUR ASSETS AND CAPITAL FUNDING

WORLDWIDE DISTRIBUTION OF ASSETS

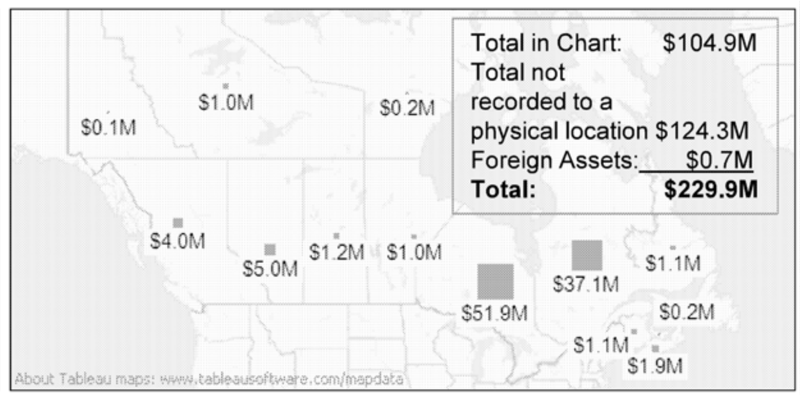
Content / Platform / Collection $1,450.4M



Transmission / Distribution $422.5M



Corporate $229.9M *



*Note: $124.3 M of assets are in the form of software and not recorded to a physical location.

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APPENDIX A:
PROFILING OF OUR ASSETS AND CAPITAL FUNDING
WORLDWIDE DISTRIBUTION OF ASSETS

Location Breakdown by Size

Location	Content / Platform / Collection	Corporate Assets	Transmission / Distribution	Total	Percentage of Total
Ontario	636.5	51.9	102.4	790.8	37.6%
Quebec	460.7	37.1	103.1	600.8	28.6%
British Columbia	113.4	4.0	35.1	152.5	7.3%
Alberta	58.6	5.0	35.1	98.7	4.7%
Saskatchewan	37.7	1.2	23.4	62.2	3.0%
Nova Scotia	29.4	1.9	27.3	58.6	2.8%
Manitoba	31.3	1.0	25.6	57.8	2.7%
New Brunswick	30.5	1.1	19.8	51.3	2.4%
Newfoundland	16.4	1.1	30.3	47.8	2.3%
North West Territories	9.2	1.0	8.7	18.9	0.9%
Prince Edward Island	7.5	0.2	5.9	13.7	0.7%
Foreign Bureaus	11.9	0.7	0.5	13.1	0.6%
Nunavut	4.7	0.2	1.9	6.7	0.3%
Various Locations in Canada	-	123.5	0.8	124.3	5.9%
Yukon	2.8	0.1	2.6	5.5	0.3%
Grand Total	**1,450.4**	**229.9**	**422.5**	**2,102.8**	**100%**

- 2/3rds of the Corporations assets are located in Ontario & Quebec. The two major network centres in Montreal and Toronto make up the majority of these assets
- Almost 18% of assets are in the West, 8.2% in the East, 1.5% in the North and 5.9% spread across the country in various locations (ie: software that has no specific location).
- 0.6% of assets are located outside of Canada: USA, Russia, UK, France, Israel, China and Brazil.

APPENDIX A:
FUNDING ASSET INVESTMENTS

- Funding for capital investments comes from several sources:
  - Base Capital Appropriation = $92.3 M (constant)
  - Transfer of funds from operating (variable)
    - Specialty Services contribute to fund their related assets.
    - Media transfers (ie. Local/Regional service extension (ES/FS))
    - Loan / repayment arrangements to help cash flow some large initiatives.
  - Proceeds from self-generated revenues (variable).
    - Strategy to monetize the value of transmission sites.
    - Resulting from consolidation of regional facilities.
    - General proceeds from decommissioned assets, when applicable.
- Some leasing activity is required to be recorded as capital (variable).
  - Typically with these leases the funding arrangements originate in operating budgets and transfers are made to capital for the portion of the lease recognized as capital. (ie. TBC lease, Telesat lease, Mobile lease).
  - On average, there is some $25 M/year of this activity over the next 5 years.
- Lease financing has provided additional funding capacity for asset investments and in some cases the impact is shifting to operating.
- Including lease activity, the capital plan is projected to spend on average over the next 5 years, however, this excludes new Real Estate initiatives that are still in the planning stage (ie. MRC project).

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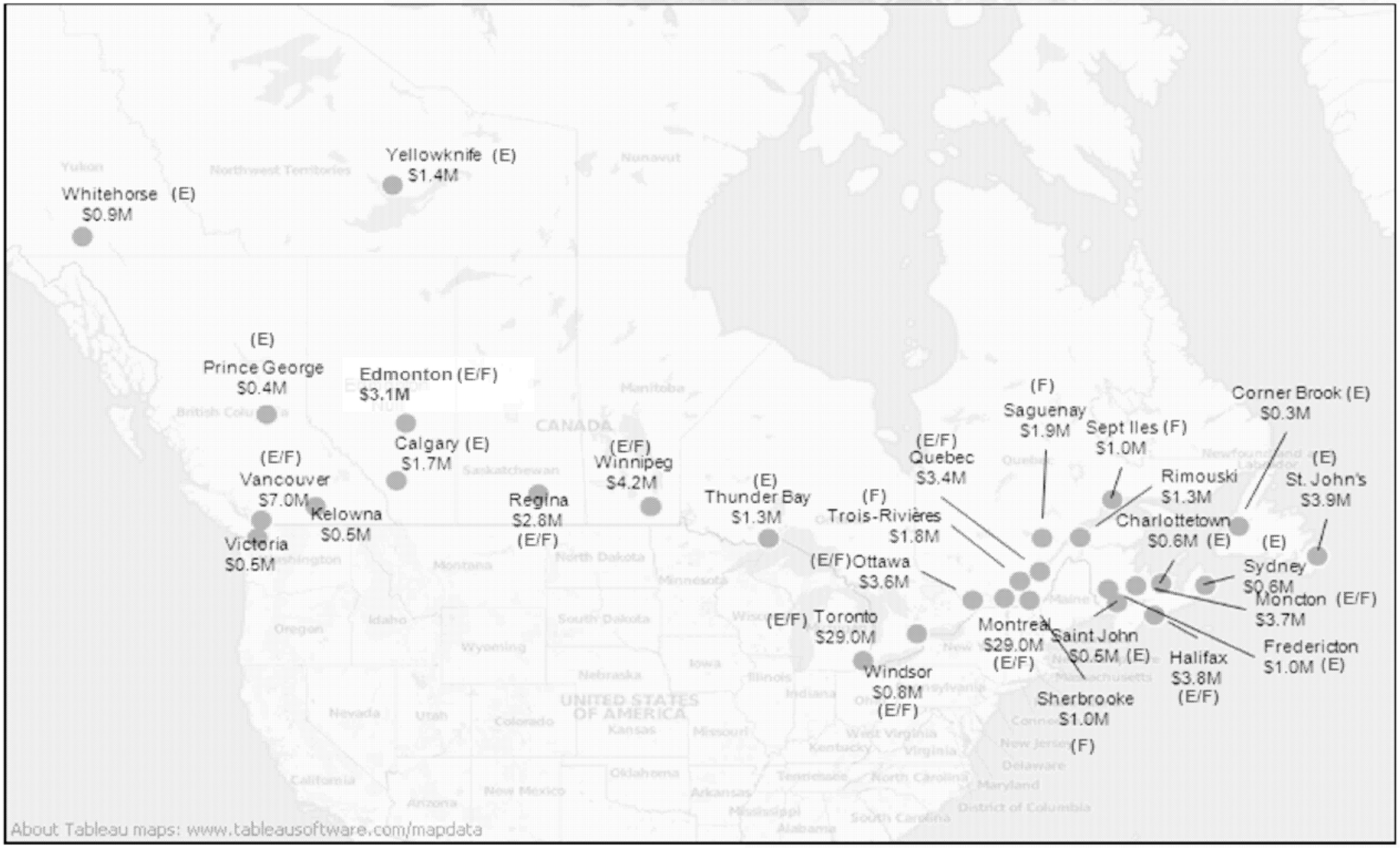
APPENDIX B:

MEDIA ASSETS: WHERE ARE THEY AND WHAT BUSINESS VALUE DO THEY DELIVER

- On slide 6 we have identified the media managed assets directly related to the activity of content/platform/collection as a $741.8M.
- As these assets are directly in-line with the production of our services, the internal benchmarking analysis compares hours of production output / assets of input.
- The next 2 charts provide a view of the media assets by location.
  - Location is defined as the main production center and, where applicable, assets in smaller contributing satellite communities / foreign offices have been included in the values of the main production center.
- The 3rd chart presents the metric results when assets are divided by hours of production by location.

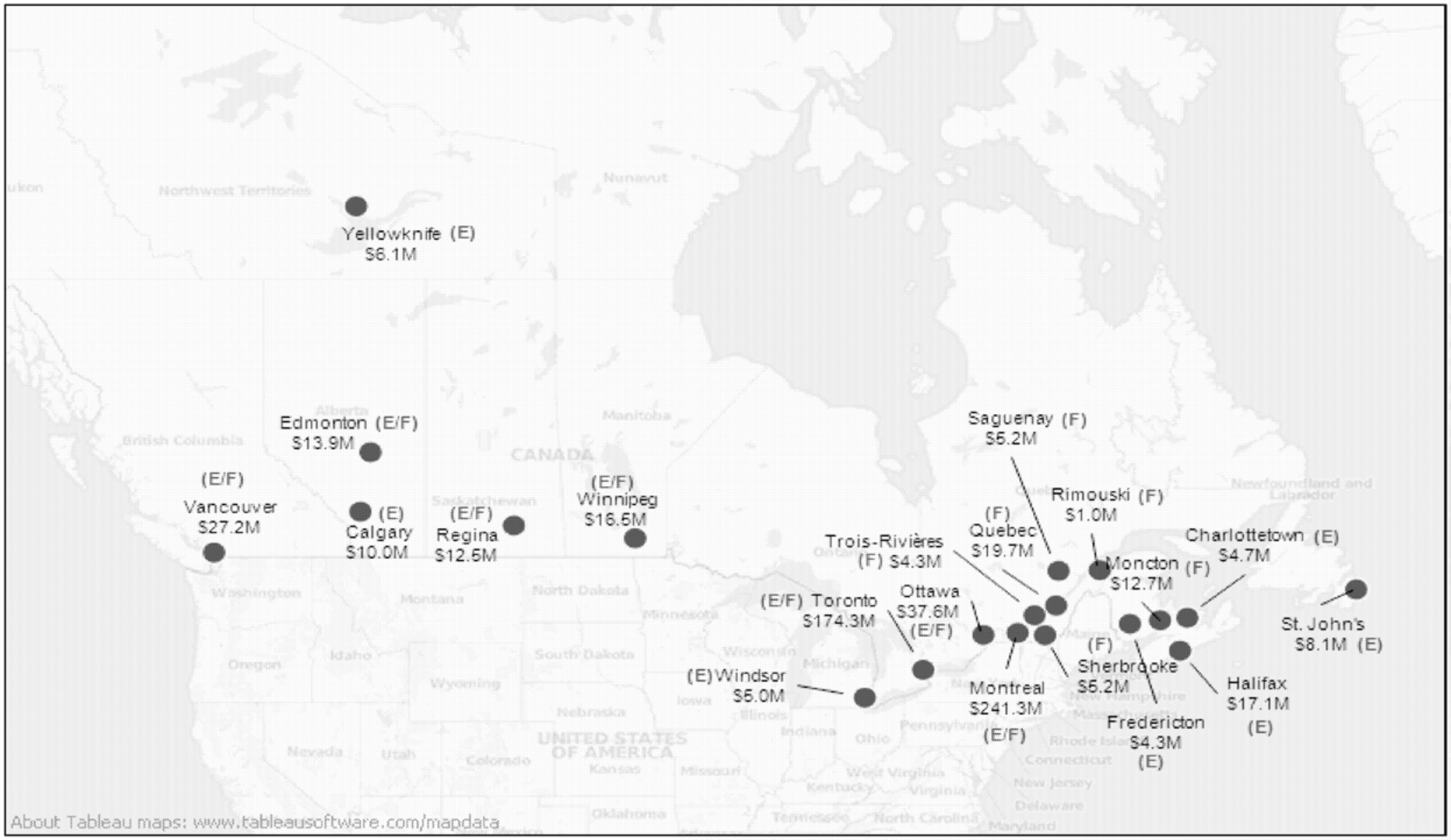
APPENDIX B:

MEDIA ASSETS: WHERE ARE THEY AND WHAT BUSINESS VALUE DO THEY DELIVER / RADIO FACILITIES BY CONTENT PRODUCING CITY - $115.1 M (22 ENGLISH, 16 FRENCH)



APPENDIX B:

MEDIA ASSETS: WHERE ARE THEY AND WHAT BUSINESS VALUE DO THEY DELIVER / TV FACILITIES BY CONTENT PRODUCING CITY - $626.7M (14 ENGLISH, 13 FRENCH)



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APPENDIX B:
INTERNAL BECHMARKING ASSET INPUTS TO OUTPUTS

Radio

City	Network Hours (Annual)	Regional Hours (Weekly)	Radio Assets	Radio Assets Per Hour
Montreal			$ 29 022 344	
Toronto			$ 29 046 153	
St. John's			$ 3 885 575	
Halifax			$ 3 757 652	
Vancouver			$ 7 036 264	
Thunder Bay			$ 1 349 184	
Moncton			$ 3 678 047	
Trois-Rivières			$ 1 754 794	
Edmonton			$ 3 137 077	
Winnipeg			$ 4 167 935	
Quebec			$ 3 367 148	
Regina			$ 2 810 016	
Saguenay			$ 1 902 169	
Saint John			$ 457 948	
Inuvik			$ 338 974	
Sept Iles			$ 957 237	
Matane			$ 895 969	
Prince George			$ 405 920	
Ottawa			$ 3 646 516	
Fredericton			$ 1 000 141	
Yellowknife			$ 1 371 482	
Calgary			$ 1 667 558	
Sherbrooke			$ 962 708	
Rankin Inlet			$ 337 317	
Rimouski			$ 1 254 782	
Windsor			$ 772 695	
Sudbury			$ 1 708 946	
Sydney			$ 551 516	
Corner Brook			$ 337 950	
Kelowna			$ 527 614	
Whitehorse			$ 870 414	
Victoria			$ 491 064	
Charlottetown			$ 559 098	
Iqaluit			$ 620 767	
Grand Falls			$ 170 782	
Rouyn			$ 259 904	
Kuujuaq			$ 38 499	
TOTAL	27524	1758	$ 115 120 160	

Television

City	Network Hours (Annual)	Regional Hours (Weekly)	Television Assets	TV Assets Per Hour
Quebec			$ 19 732 816	
Halifax			$ 17 063 875	
Moncton			$ 12 721 632	
Toronto			$ 174 300 407	
Ottawa			$ 37 558 374	
Winnipeg			$ 16 476 900	
Saguenay			$ 5 221 255	
Montreal			$ 241 309 185	
Calgary			$ 9 996 350	
Regina			$ 12 493 289	
Sherbrooke			$ 5 184 613	
Vancouver			$ 27 200 186	
Windsor			$ 4 970 708	
Edmonton			$ 13 897 021	
St. John's			$ 8 135 925	
Yellowknife			$ 6 131 484	
Charlottetown			$ 4 737 172	
Fredericton			$ 4 324 338	
Trois-Rivières			$ 4 310 575	
Rimouski			$ 978 342	*
TOTAL	19287	238	$ 626 744 448	

*Note: As at March 31, 21012 Rimouski TV media assets were still being implemented to be operational for September 2012. The full value of TV assets will be = $3,575,000 and the assets per hour =

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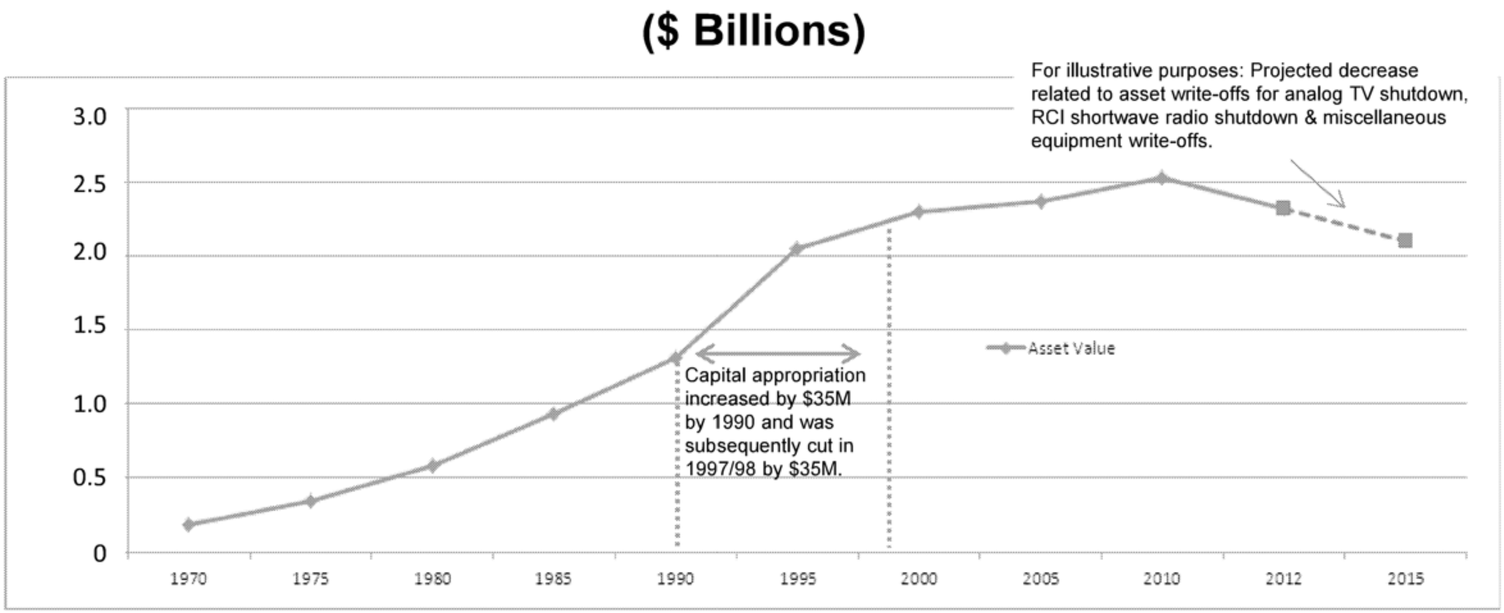
APPENDIX C

ASSET POOL: AN OVER THE DECADE'S VIEW

- Asset pool grew most significantly between the years 1975 – 1995.
  - Government funded Accelerated Coverage Program (1977-1983)
  - Government funded base capital appropriation increase of $35M by 1990.
  - TBC fit-up 1989-1996
- Capital funding base was cut $35 M in 1997/98 as part of major cuts in the '90s.
- Since 1995 growth in the asset pool has been modest and is now on a decline.
- The following 2 charts highlight the growth of the asset pool and the larger initiatives contributing to the growth curve.

APPENDIX C

ASSET POOL: AN OVER THE DECADE'S VIEW



- Not included in the dotted trend line are some of Real Estate managed assets that would be written-off as we execute the Real Estate strategy to eventually move to own only facilities:

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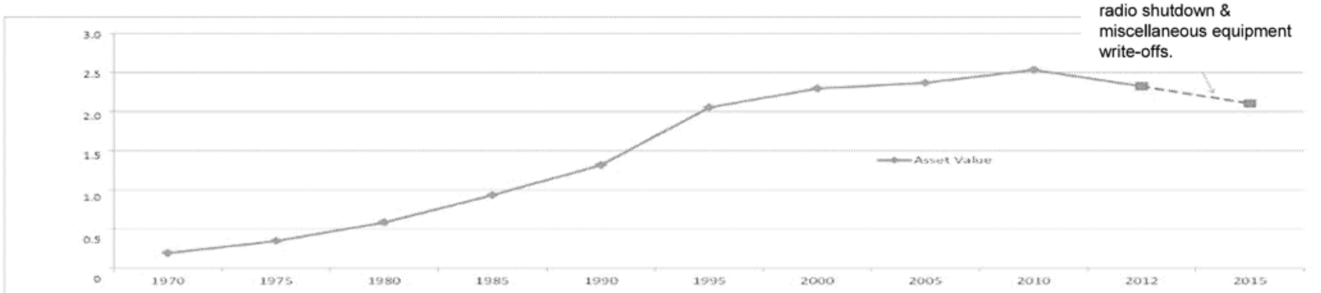
APPENDIX C:
ASSET POOL: AN OVER THE DECADE'S VIEW

($ Billions)

For illustrative purposes: Projected decrease related to asset write-offs for analog TV shutdown, RCI shortwave radio shutdown & miscellaneous equipment write-offs.



Major Initiatives over the decades