Q3 2014-2015 QUARTERLY FINANCIAL REPORT

TO:	Board of Directors
MEETING:	February 25, 2015
FROM:	Michael Mooney, Acting Vice-President and Chief Financial Officer Andie Andreou, Executive Director and Corporate Controller
DECISION SOUGHT:	Audit Committee recommends to the Board of Directors approval to issue the CBC/Radio-Canada Financial Report for the quarter ended December 31, 2014.
NEXT STEPS:	CBC/Radio-Canada will be publishing its Financial Report for the quarter ended December 31, 2014.
DATE:	February 13, 2015

AGENDA

1. Q3 2014-2015 FINANCIAL RESULTS

HIGHLIGHTS

(in thousands of Canadian dollars)	For the three months ended December 31		
	2014	2013	% change
Revenue	142,971	189,897	(24.7)
Expenses	(416,216)	(460,893)	(9.7)
Government funding	265,305	230,585	15.1
Results before non-operating items	**(7,940)**	**(40,411)**	**(80.4)**
Non-operating items	1,988	(286)	N/M
Net results for the period	**(5,952)**	**(40,697)**	**(85.4)**
Results on a current operating basis[1]	**15,394**	**(15,841)**	**N/M**

N/M = not meaningful

[1] Results on a Current Operating Basis is a non-IFRS measure. A reconciliation of net results to Results on a Current Operating Basis is provided in Appendix 1.

- Revenue has decreased by $46.9M, mainly due to the end of our broadcast rights contract with the NHL. Also contributing to the decrease is the end of LPIF funding and the weaker advertising market.
- Total expenses were lower by $44.7M compared to the same period last year. This reduction is also largely attributable to the end of our contract for hockey broadcast rights and the associated production costs. Also reflected in this decrease is the continuation of our cost-reduction initiatives. These decreases were partly offset by severance costs associated with workforce reduction announcements in November.
- This quarter total government funding recognized in income was higher by $34.7 million (15.1%), reflecting a timing difference in our drawdown of funding to address cash flow requirements. The increase in quarterly funding follows lower funding drawdowns in the first two quarters this year. By year end, total government funding is expected to be $45.5 million less than last year.
- The current quarter's non-operating items are due mainly to the gain on sale of a property located in Yellowknife.
- Results on a Current Operating Basis reflected a gain of $15.4 million for the quarter. The increase of $31.2M over the same period in the prior year was driven mainly by the increase in government funding recognized in income discussed above. This result excludes items that do not generate or require funds from operations, the most significant being a $8.5 million change in non-cash pension expenses. A reconciliation of Results on a current operating basis to Net results under IFRS is included as Appendix 1.

More detailed analysis of variances on the Statement of Income and Statement of Financial Position is provided in Appendix 2.

2. DISCLOSURE HIGHLIGHTS IN THIS QUARTERLY REPORT

The following provides a high-level overview of new disclosures presented in this quarterly report:

MD&A:

- 1.1 Strategic indicators:
  - Annual report card scores received in November 2014 are now included in this section.
- 1.2 Operational indicators:
  - A full list of KPI's are now included in this report as they have become available.
- 2.1 People and Leadership:
  - Discussion of Jian Ghomeshi's lawsuit dismissal and independent investigation, as well as the review of the Corporation's policies and procedures;
  - Discussion of journalistic practices and our messaging regarding paid appearances;
  - Disclosure of Suzanne Morris' departure; and
  - Update on the status of the French Services union issues and the related negotiations.
- 3.3 Outlook and Risk Update:
  - Update on CRTC's decision regarding *Let's Talk TV* proceeding; and
  - Update on the status of the French Services union issues and the related negotiations.

3. SIGNIFICANT ACCOUNTING AND REPORTING MATTERS

The following topics were discussed during the Audit Committee meeting:

Significant Accounting Matters:

- **Restructuring Activities –** Expenses totaling $11.9 million were recognized this quarter, with payments totaling $5.4 million. Amounts relating to the first phase of the Corporation's new strategic plan were announced on October 30, 2014, with the majority of affected employees being notified in November.
- **Rogers Hockey Contract Update –** A summary of amounts recorded in the third quarter financial statements.
- **New Accounting Pronouncements –** Discussion of pronouncements adopted during the year and update provided on preparation for standards effective in the future.
- **Pension plan quarterly impact –** The impact of fund investments exceeding performance benchmarks on a quarterly and year-to-date basis have more than offset the impact of a 0.25% decrease in the discount rate this quarter in addition to a 0.25% decrease that occurred in the first quarter.

Quarterly Reporting Process Update:

- **Management Discussion & Analysis** – confirmed quarterly process and approval of senior management team.
- **Financial Statements** – confirmed processes including quality assurance reviews.
- **Update on Deloitte Quarterly Specified Procedures** – discussed work performed and results.
- **Internal Controls over Financial Reporting** – discussed work completed and project status.
- **Fraud Risk Assessment** – update on project status.

APPENDIX 1 - NON-IFRS MEASURE
PRESENTATION OF RESULTS ON A CURRENT OPERATING BASIS

➢ Results on a Current Operating Basis reconciles to Net results under IFRS as follows:

(in thousands of Canadian dollars)	For the three months ended December 31			For the nine months ended December 31		
	2014	2013	% change	**2014**	2013	% change
Net results for the period	**(5,952)**	(40,697)	(85.4)	**(92,728)**	(65,357)	41.9
Items not generating or requiring funds from operations						
Pension and other employee future benefits	8,544	12,558	(32.0)	32,427	44,175	(26.6)
Depreciation, amortization and decommissioning expenses, net of amortization of deferred capital funding	5,606	4,753	17.9	16,728	12,599	32.8
Non-budgetary annual leave	6,645	7,957	(16.5)	4,652	11,294	(58.8)
Other	551	(412)	N/M	(13,037)	(9,699)	34.4
Results on a current operating basis	**15,394**	(15,841)	N/M	**(51,958) ***	(6,988)	N/M

N/M = not meaningful

* Losses on a year-to-date basis are due to severance costs and the delayed drawdown and recognition of government funding relative to last year.

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APPENDIX 2 – Q3 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars)	For the three months ended December 31			For the nine months ended December 31			
	2014	2013	% change	**2014**	2013	% change	
Revenue	142,971	189,897	(24.7)	473,692	501,616	(5.6)	**Three months**: Revenue decrease vs. last year due mainly to the end of broadcast rights for NHL hockey, as well as the loss of LPIF funding. A weaker advertising market has also contributed to this decrease. **Nine months**: Year to date revenue is lower due to the reasons discussed above, partly offset by revenue attributable to the FIFA World Cup.
Expenses	(416,216)	(460,893)	(9.7)	(1,248,660)	(1,315,372)	(5.1)	**Three months**: Operating expenses have decreased in general due to lower program spending resulting from the end of contract for NHL hockey and successful cost-reduction initiatives, partly offset by costs associated with workforce restructuring costs. **Nine months**: In addition to the factors discussed above, expenses have been reduced as a result of a special dividend paid by SiriusXM during the first quarter, in addition to the regular dividends paid on a quarterly basis. These dividends are recognized as a reduction to expenses for accounting purposes.
Government funding	265,305	230,585	15.1	641,237	750,959	(14.6)	**Three months**: Drawdowns of parliamentary appropriations were higher during the third quarter due to the timing differences associated with the Corporation's cash flow requirements. **Nine months**: As discussed above. Drawdowns for the year are expected to be $45.5M less than last year.
Non-operating items	1,988	(286)	N/M	41,003	(2,560)	N/M	**Three months**: Increase mainly attributable to the sale of a property located in Yellowknife for proceeds and gain of $1.7M. **Nine months**: The Corporation received $33.5M following the sales of some SiriusXM shares during the second quarter. In addition, a gain of $9.3M related to insurance proceeds receivable was also recorded this year.
Net results for the period	**(5,952)**	(40,697)	(85)	**(92,728)**	(65,357)	42	
Other comprehensive income	31,338	111,649	N/M	89,253	256,968	N/M	**Three months**: The gain recognized in OCI is attributable to a higher-than-expected returns on pension plan assets, partly offset by a decrease of 25 basis points in the discount rate. Last year's result reflected strong performance of plan assets as well as an increase in discount rates, partly offset by a change in mortality rates. **Nine months**: The strong return on plan assets was partly offset by a decrease of 50 basis points in the discount rate used to value the pension plan's liabilities. Results in the previous year benefitted from a 75 basis point increase in the discount rate, partly offset by the change in mortality rates and lower than
Total comprehensive income (loss) for the period	**25,386**	70,952	N/M	**(3,475)**	191,611	N/M	

N/M = not meaningful

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APPENDIX 2 – Q3 FINANCIAL HIGHLIGHTS FINANCIAL POSITION

(in thousands of Canadian dollars)	As at December 31	As at March 31 (Revised)		As at December 31 (Revised)		
	2014	2014	% change	2013	% change	
ASSETS						
Cash	115,940	61,974	87.1	34,626	234.8	Timing of inflow/outflows.
Trade and other receivables	165,073	277,020	(40.4)	197,366	(16.4)	**Dec vs. Mar**: Overall decrease due to the collection of receivables following the Sochi games and no amounts receivable at December 2014 related to hockey following the end of the broadcasting rights contract with the NHL. These decreases were partly offset by increased receivables for insurance proceeds accrued related to the destroyed mobile production vehicle. **Dec vs. Dec**: Decrease since last year due mainly to the absence of hockey-related advertising, partly offset by the insurance proceeds receivable.
Programming (s-t and l-t)	328,211	223,714	46.7	297,373	10.4	**Dec vs. Mar**: Increase since March mainly due to the new Rogers agreement and a prepayment towards the 2016 Olympics, partly offset by the decrease in rights for the NHL and FIFA. Non-procured programming has also increased for fall/winter program starts. **Dec vs. Dec**: Programming balances have increased mainly as a result of the new Rogers agreement for four years of sublicence rights, partly offset by the amortization of the last year of rights with the NHL, Sochi Olympics and FIFA .
Assets classified as held for sale	1,912	6,890	(72.2)	5,413	(64.7)	**Dec vs. Mar:** The decrease is due mainly to the sale of the properties located in Halifax and Windsor. **Dec vs. Dec:** As mentioned above.
Investment in associate	-	1,855	(100.0)	96	(100.0)	**Dec vs. Mar:** Decrease due to the receipt of dividends from SiriusXM. **Dec vs. Dec:** As mentioned above.

APPENDIX 2 – Q3 FINANCIAL HIGHLIGHTS
FINANCIAL POSITION (CONT'D)

(in thousands of Canadian dollars)	As at December 31 2014	As at March 31 2014	% change	As at December 31 2013	% change	
LIABILITIES						
Accounts payable and accrued liabilities	67,928	106,297	(36.1)	78,547	(13.5)	**Dec vs. Mar:** Overall decrease is in line with historical patterns due to increased production spending leading up to March, which was compounded in March 2014 by payables related to NHL and Sochi. **Dec vs. Dec:** Decrease since last year due in large part to the timing of payments, as well as to amounts payable to the NHL that are no longer required and other cost savings.
Provisions	37,717	32,623	15.6	52,234	(27.8)	**Dec vs. Mar:** The increase since March is mainly due to the restructuring provisions recognized following the announcements in April and November. **Dec vs. Dec:** The decrease is due to the settlement of the Toronto municipal tax issue and completion of analogue decommissioning work, partly offset by higher restructuring provisions and increases in other disputes related to the passage of time.
Pension plans and employee-related liabilities (s-t and l-t)	280,406	339,095	(17.3)	262,888	6.7	**Dec vs. Mar:** The decrease is due mainly to higher actual return on plan assets for the period than that used in our assumptions, as well as a decrease in the discount rate of 0.50%. In addition, the timing of payments to employees/use of annual leave has contributed to the decrease, offset by new accruals related to severances following the April and November workforce reduction announcements. **Dec vs. Dec:** The increase is due mainly to a 75 basis points decrease in pension discount rates, as well as increases in workforce reduction accruals, partly offset by the performance of pension plan assets.
Programming Liability (s-t and l-t)	53,300	-	N/M	-	N/M	**Dec vs. Mar:** The programming liability relates to the new arrangement with Rogers, which will last four years. **Dec vs. Dec:** As discussed above.
Deferred revenues (s-t and l-t)	69,925	27,628	153.1	30,002	133.1	**Dec vs. Mar:** The December balance includes new amounts related to the Rogers deal. **Dec vs. Dec:** As discussed above.
Deferred capital funding	516,375	518,272	(0.4)	518,583	(0.4)	**Dec vs. Mar:** Deferred capital funding levels reflect the consistency of capital spending patterns and the related amortization of capital assets. **Dec vs. Dec:** As discussed above.
EQUITY						
Total equity attributable to the Corporation	232,403	236,117	(1.6)	241,840	(3.9)	Equity reflects the total of net results and remeasurements of the Corporation's defined benefit plans.

N/M = not meaningful

APPENDIX 3 – Q3 2014-2015 QUARTERLY FINANCIAL REPORT & REPEAT OF NEW DISCLOSURES

- Third Quarter Financial Report 2014–2015 for the period ended December 31, 2014.

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<u>MD&A:</u>

- 1.1 Strategic indicators:
  - Annual report card scores received in November 2014 are now included in this section.
- 1.2 Operational indicators:
  - A full list of KPI's are now included in this report as they have become available.
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