TRANSMISSION ASSET STRATEGY

TO:	Board of Directors
MEETING:	September 26, 2012
FROM:	Steven Guiton, Vice-President and Chief Regulatory Officer
PURPOSE:	To Present the Transmission Asset Strategy
DATE:	September 7, 2012

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SIGNIFICANT POINTS

- Since 1999, CBC/Radio-Canada has sought to extract value from its Transmission asset portfolio.

- Various outsourcing and sale initiatives have been undertaken with limited success.

- This presentation will update the BOD on the Transmission Asset Strategy, an internal initiative that was put in place in 2010 to marry our programming objectives with a cost minimisation and revenue maximisation model for our use of transmission assets.

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TRANSMISSION ASSET STRATEGY

Presentation to
CBC/Radio-Canada Board of Directors

Media Technology Services
CBC/Radio-Canada

September 26, 2012

transmission

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1. Overview and Key Principles

OVERVIEW AND KEY PRINCIPLES

- "Transmission assets" are defined as land, (including roadways), towers and buildings, owned by third parties or CBC/Radio-Canada. These can be used to generate direct revenue from others.

- "Broadcast assets" are defined as transmitters, antennas, etc., used strictly by CBC/Radio-Canada, and that generate no direct revenue.

- Our "Broadcast asset" footprint flows directly from our programming and regional strategies. (i.e. "In which regions, towns, and cities do we want a transmitter?")

- **Our "Transmission asset" strategy does not determine where we want to be: it is the "How do we want to be there?"**
  - **Leased facilities?**
  - **Owned facilities?**
  - **Shared facilities?**

2. Establishing a Transmission Asset Strategy: the Portfolio

A SNAPSHOT OF OUR TRANSMISSION ASSET PORTFOLIO: BY SITE

- Prior to July 31, 2012, CBC/Radio-Canada operated 1,379 individually licensed over-the-air TV and Radio broadcast services located at 789 sites, broken down as follows:

– Radio-only sites	205	
– Analogue-TV only sites	247	(87 owned, 160 leased)
– TV and Radio combined sites	324	
– RCI Shortwave at Sackville, N.B.	1	(owned)

- 284 sites are owned, 505 are leased or provided under Transfer and Control (TAC) agreements. TAC's are employed where CBC/Radio-Canada occupies Crown Land.
  - The number of sites occupied will be reduced by 260 over the coming months. 100 sites are up for sale, notice of lease terminations have been served for 160 sites.

- Since we do not own the base infrastructure assets at the 505 leased sites, our strategy has initially focused on reviewing the 284 owned sites.

A SNAPSHOT OF OUR TRANSMISSION ASSET PORTFOLIO: BY OWNED SITES

Owned Sites

• Analogue-TV only	87	(currently for sale)
• Radio (E) AM	32	
• Radio (F) AM	9	
• TV and Radio combined	156	
• **Total**	**284**	

A SNAPSHOT OF OUR TRANSMISSION ASSET PORTFOLIO: BY FINANCIAL CONTRIBUTION

18(a)
18(b)

Revenues, Costs, and Break-Even Points

-
-
-
-
-

A SNAPSHOT OF OUR TRANSMISSION ASSET PORTFOLIO: LESSONS LEARNED

- Our portfolio has been clearly overburdened with non/low-revenue producing transmission infrastructure assets.
  - Many of the assets were created by the 1970-1980's one-time Accelerated Coverage Plan (ACP). There is no financial business case for constructing or refurbishing these assets in the absence of direct government funding.

- Various different approaches to sell the Transmission Assets have been unsuccessful due to the fundamentally inadequate business case associated with the large mix of varied assets.
  - Through repeated public sale attempts, potential purchasers are very aware of the asset mix and limitations of our Transmission Asset portfolio.

- **In 2010, when we looked forward, we saw no utility in pursuing further broad RFP processes, which mix a grab-bag of assets together (revenue-generating, non-revenue generating, strategic, non-strategic), until we could review our future service requirements and establish a transmission asset strategy.**

3. Establishing a Transmission Asset Strategy: Operating Assumptions

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ESTABLISHING A TRANSMISSION ASSET STRATEGY: OPERATING ASSUMPTIONS

- For the purposes of establishing the framework for a transmission asset strategy, three assumptions were made:
  - The conversion to Digital TV and the shutdown of Analogue TV broadcasting allow for a significant reduction in the transmission asset pool;
  - Over-the-air Radio broadcasting will continue to be important to the company for years to come;
  - Capital budget levels cannot sustain our existing corporate capital assets. Additional leasing is an alternative, albeit with a corresponding increase in operating costs.

ESTABLISHING A TRANSMISSION ASSET STRATEGY: OPERATING ASSUMPTIONS

Current Environment - Television

- A smaller TV "footprint" with the transition to Digital TV:
  - 607 analogue-TV transmitters were shut down July 31, 2012. The associated transmission assets are being de-commissioned immediately.
  - Our total transmission asset "footprint" has been reduced by about 30% by this change alone

ESTABLISHING A TRANSMISSION ASSET STRATEGY: OPERATING ASSUMPTIONS

Current Environment - Radio

- Our over-the-air Radio "footprint" will continue to be required and valuable.
  - Radio is Local, Local, Local.
  - "Radio as a medium is increasing everywhere, ubiquitous in its reach and its power to inform and entertain locally, nationally and immediately."*
  - "For radio, over-the-air is still the prime mode of delivery; satellite radio is very much in its infancy and penetration is still low."**
- Over-the-air Radio broadcast asset economics could improve if we were permitted to move toward selling advertising on radio.

* Ofcom Radio Review

** Technology Strategy Board 5-Year Strategic Plan, April, 2011.

ESTABLISHING A TRANSMISSION ASSET STRATEGY: OPERATING ASSUMPTIONS

Current Environment – Capital Spending

- Our limited capital funding forces us to consider alternative transmission asset models.
  - With capital investment limitations of $100 M per annum for the entire company, the portfolio of transmission assets cannot be maintained.
  - Disposing of a large number of non/low-revenue producing transmission infrastructure assets reduces capital requirements.
  - In the absence of adequate capital funding for a full asset refresh, increased disposal and leasing of assets is necessary to reduce capital pressures and provide more flexibility in over the air service provision.

4. The Transmission Asset Strategy

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THE TRANSMISSION ASSET STRATEGY

284 Owned Sites by Transmission Asset Strategy

18(a)
18(b)

Analogue-TV Only	87
Radio (E) AM	32
Radio (F) AM	9
FM/DTV Sites > Revenue	35
FM/DTV Sites < Revenue	121
	284

THE TRANSMISSION ASSET STRATEGY

Completed Projects

- Sale of Brossard AM site
  - The conversion to FM in the Montreal market as well as a long term renewal for the Mont Royal site clears the way for the sale of the Brossard AM site.
  - Net proceeds of were achieved.

18(a)
18(b)

- Sale of Surplus Land at Halifax FM/TV site
  - 4 acres of surplus land sold to adjacent property owner.
  - Net proceeds of were achieved.

THE TRANSMISSION ASSET STRATEGY

Current Projects

- Sale of Calgary CBR AM site
  - The implementation of a nested FM in Calgary clears the way for the relocation of the CBR AM site from its coveted industrial location within city limits to a new site well outside of Calgary. A letter of intent for the purchase and sale of the Calgary CBR site concluded on July 20, 2012.
  - Estimated net proceeds are

18(a)
18(b)

- Sale of Edmonton CHFA AM site
  - This area of south-west Edmonton is being transformed into a residential development thereby significantly increasing land value in this area. By optimizing frequency usage for French Services, the AM site was freed for sale. A purchase and sale agreement was concluded on August 17, 2012.
  - Estimated net proceeds are

THE TRANSMISSION ASSET STRATEGY

Upcoming Projects

- Calgary Bowness FM/TV site
  - Undertake a study to determine if a strip of land along Old Banff Coach Road can be parceled off for sale with best usage likely a strip mall.
  - Estimated net proceeds of

18(a)
18(b)

- Yellowknife AM to FM
  - The value of the AM site in Yellowknife is increasing in value. Determine if there is a compelling business case to convert from AM to FM.
  - Estimated net proceeds of

THE TRANSMISSION ASSET STRATEGY

Sale or Disposal Process

- Minimum Diligence
  - Aboriginal rights clearance
  - Phase 1 Environmental Site Assessment (ESA)
  - Hazardous Materials (HazMat) report
- Attempt to Sell Individual Sites as a Going Concern
  - Public notice (MERX and/or local papers)
  - Targeted notice to existing tenants
- If Buyer Found, Complete Sale and Purchase Transaction
  - A write down on book value may be required.
- If No Buyer Found, Decommission Site
  - Remove tower, building, and other assets and return site to original condition.
  - Remarket property as vacant land.

5. Future End State of Transmission Asset Portfolio

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FUTURE END STATE OF TRANSMISSION ASSET PORTFOLIO

Owned Sites

18(a)
18(b)

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6. Action Plan

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ACTION PLAN

- 100 surplus sites currently up for sale via a third party advisor. Removal of analogue TV assets at 160 leased sites underway.

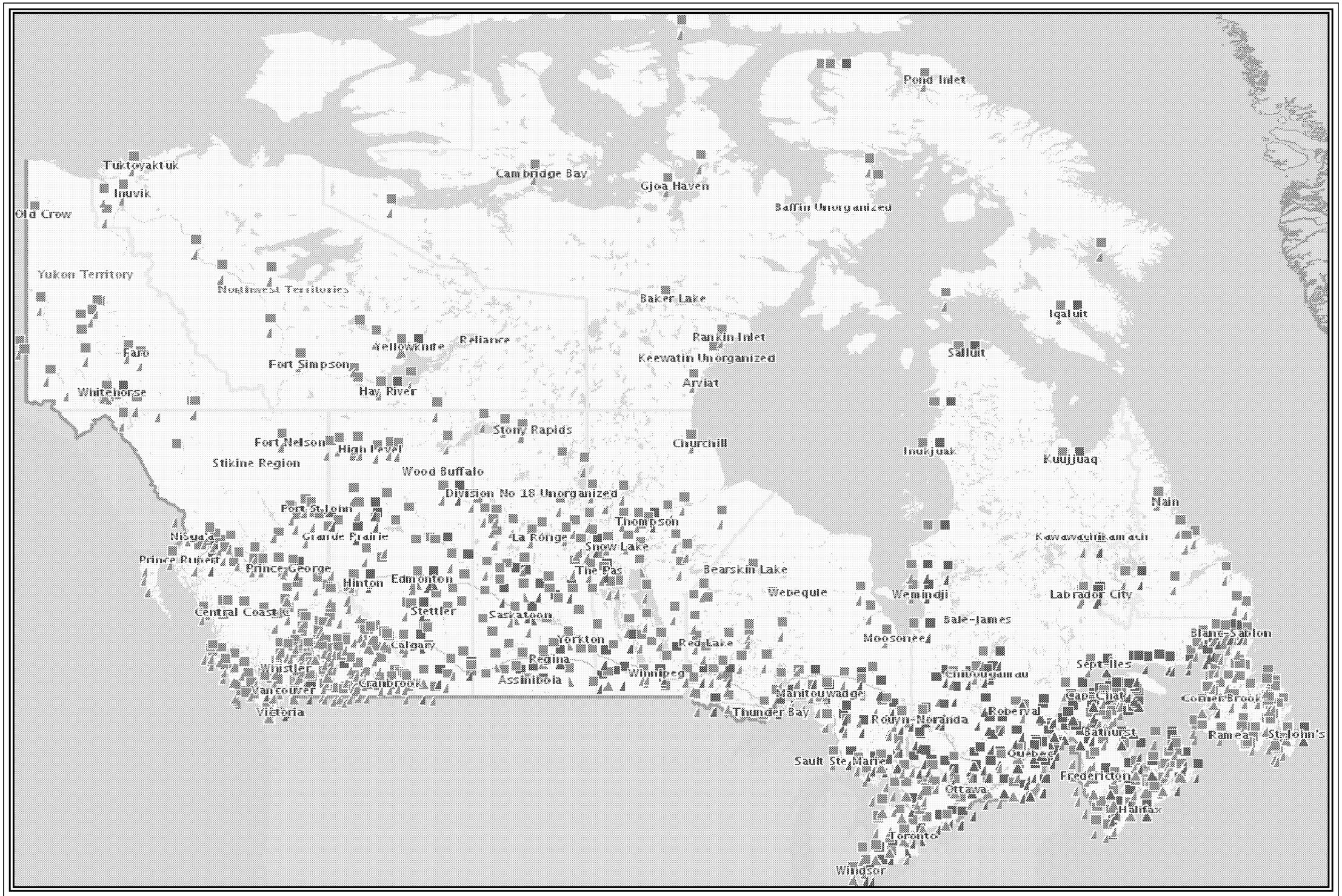
- As capital re-investment is required, analyze low-revenue producing owned sites that could be converted from owned to leased, recognizing additional operating funds would be required in the absence of capital investment.

- Review leased sites in advance of lease renewals to identify possible lower-cost alternatives.

- Continue to extract value from portfolio of Transmission assets as services change or opportunities arise.

Appendix 1

Real-life Transmission Assets and Locations



Stations and coverage

- English Television
- French Television
- CBC Radio One
- Première Chaîne
- CBC Radio 2
- Espace musique

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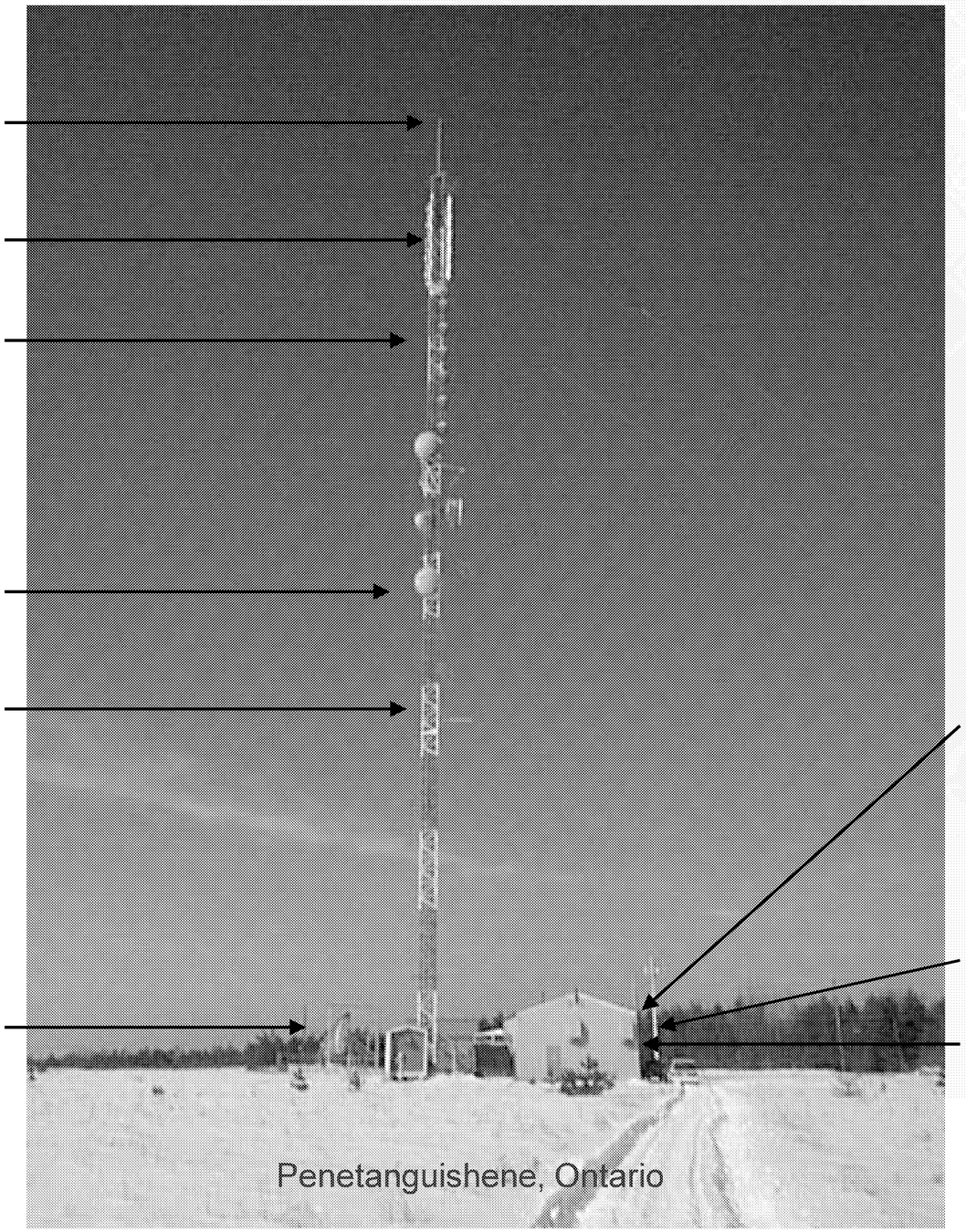
TYPICAL TRANSMISSION SITE - EXTERIOR



Obstruction lighting

TV Antenna

FM Antenna

Microwave dish

Tower

Satellite Receive Antenna with ice guard

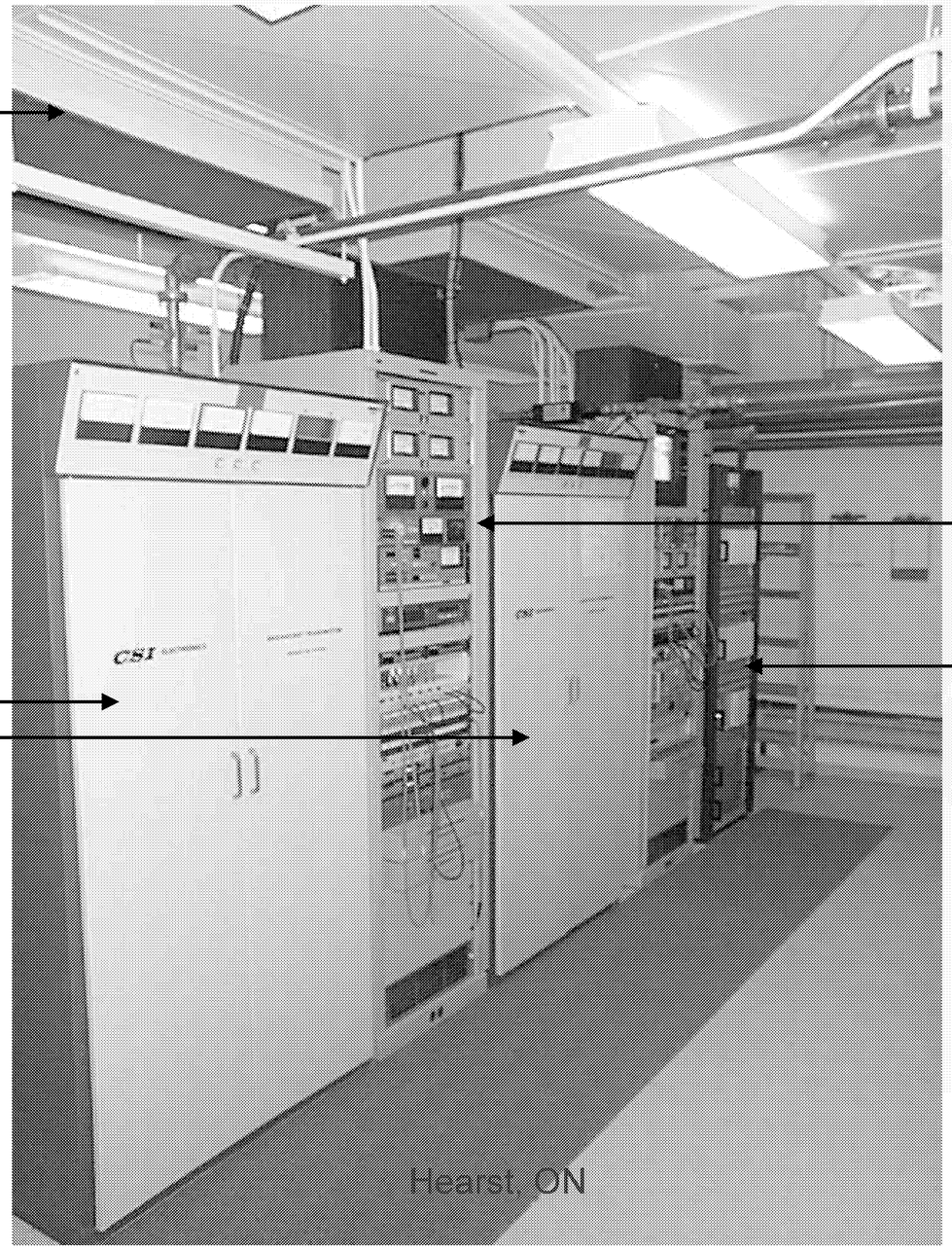
All electronics such as satellite receivers, microwave equipment and monitoring equipment housed within building.

FM Transmitter inside building

Building

transmission

TYPICAL TRANSMISSION SITE - INTERIOR



transmission

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Appendix 2

Transmission Assets: Previous Sale Attempts

TRANSMISSION ASSETS – PREVIOUS SALE ATTEMPTS

- TAP (Transmitter Assets Project) – 2000
  - CIM (i.e. directed RFP) issued November 2000
  - Included all assets (transmitters, towers, buildings, vehicles, real estate) and all staff in CBC Transmission
  - Inadequate proposals from industry terminated project in July 2001
- TSP (Transmitter Services Project) – 2002
  - MBO (Management Buy Out) proposal submitted in October 2002
  - Limited asset sale; pure service maintenance outsourcing proposal
  - RFP issued on MERX in December 2002
  - Inadequate business case terminated project in May 2003

TRANSMISSION ASSETS – PREVIOUS SALE ATTEMPTS

- TAR (Transmission Assets RFP) - 2009
  - Board approves Transmission Assets RFP proposal in September 2009; 257 owned sites included.
  - RFP issued on MERX in December 2009.
  - Eight applicants pre-qualify for RFP process that includes mandatory requirement to bid on all assets, plus alternative proposals for selected assets. Only two companies proceed with bids.
  - March 12, 2010 – Valuation opinion from Capital Canada indicates proposals too low to meet financial threshold on a comparative basis to continued ownership.
  - Inadequate business case terminated project in April 2010.

Appendix 3

Multi-year Disposal Plan by Location

18(a)
18(b)

FY 2011/2012

SITE	LOCATION CODE	PROV	LOT (ACRE)	USE	ASSESSED VALUE *	ESTIMATED SALE PRICE	ESTIMATED DECOMMISSIONING COST	ESTIMATED NET PROCEEDS	ACTUAL NET PROCEEDS	COMMENTS
BROSSARD										
WINDSOR-MAIDSTONE										
SPILLIMACHEEN										
HALIFAX FM/TV										

FY 2012/2013

18(a)
18(b)

SITE	LOCATION CODE	PROV	LOT (ACRE)	USE	ASSESSED VALUE *	ESTIMATED SALE PRICE	ESTIMATED DECOMMISSIONING COST	ESTIMATED NET PROCEEDS	ACTUAL NET PROCEEDS	COMMENTS
EDMONTON AM (F)										
CALGARY AM (E)										
YELLOWKNIFE AM KAM LAKE ROAD										
MONT-LOGAN (MATANE)										

FY 2013/2014

SITE	LOCATION CODE	PROV	LOT (ACRE)	USE	ASSESSED VALUE *	PILT/TAX EXPENSE	REVENUE/LOSS ANNUAL	TOTAL SITE COSTS (ENERGY, OPS, NTL)	ESTIMATED SALE PRICE	ESTIMATED DECOMMISSIONING COST	NET PROCEEDS	COMMENTS
MAFEKING												
BASSANO/ROSEMARY												
FREDERICTON / TABER MOUNTAIN												
PONTEIX/ANEROID												
CHALK RIVER												
WILLOW BUNCH												
HIGH PRAIRIE / GROUARD												
LAC DU BONNET												
NORQUAY												
SHAUNAVON												
BARRY'S BAY												
MCARTHUR'S MILLS												
MOOSE JAW - CARON												
INUVIK TV												

18(a)
18(b)

FY 2014/2015

	SITE	LOCATION CODE	PROV	LOT (ACRE)	USE	ASSESSED VALUE *	PILT/TAX EXPENSE	REVENUE/LOSS ANNUAL	TOTAL SITE COSTS (ENERGY, OPS, NTL)	ESTIMATED SALE PRICE	ESTIMATED DECOMMISSIONING COST	NET PROCEEDS	COMMENTS
	GREENWATER LAKE												
	ATHABASCA												
	NEWCASTLE / PATTERSON STN												
18(a)													
18(b)	FORESTBURG												
	LAC LA BICHE												
	OAK LAKE												
	LEOVILLE												
	PLAMONDON												
	SIOUX LOOKOUT TV												
	ST LAZARE TV												
	NORMANDALE												
	NIPAWIN												
	STONEHAM												
	GRAVELBOURG TV												
	OBED												
	CRANE VALLEY												

FY 2014/2015

SITE	LOCATION CODE	PROV	LOT (ACRE)	USE	ASSESSED VALUE *	PILT/TAX EXPENSE	REVENUE/LOSS ANNUAL	TOTAL SITE COSTS (ENERGY, OPS, NTL)	ESTIMATED SALE PRICE	ESTIMATED DECOMMISSIONING COST	NET PROCEEDS	COMMENTS
WELDON												
PINE FALLS												
COLEMAN-TV												
FOYMOUNT												
18(a) 18(b) MONT-ST-MICHEL												
TEMAGAMI - TV												
ROSTHERN												
HUDSON BAY												
BERNIERES												
MATTAWA - TV												
HORNEPAYNE - TV												
DEBDEN/PASCAL												
ALMA												
RIVERHURST												
MANIWAKI / MONT-AUBE												

FY 2015/2016

	SITE	LOCATION CODE	PROV	LOT (ACRE)	USE	ASSESSED VALUE *	PILT/TAX EXPENSE	REVENUE/LOSS ANNUAL	TOTAL SITE COSTS (ENERGY, OPS, NTL)	ESTIMATED SALE PRICE	ESTIMATED DECOMMISSIONING COST	NET PROCEEDS	COMMENTS
	WAKEHAM												
	NOTRE-DAME-LAUS												
	BEAVERLODGE												
18(a) 18(b)	NOTRE-DAME-MONTS												
	STE-ANNE-DES-MONTS												
	ST BRIEUX												
	BURMIS												
	ILE-HAVRE-AUBERT / HAVRE-AUBERT												
	CASTLEGAR												
	ROSE BLANCHE												
	DAYSLAND												
	ST RENE DE MATANE/RIVIERE MATANE												
	COWLEY												
	ARMSTRONG TV												
	INGONISH												
	USHERVILLE												

FY 2015/2016

SITE	LOCATION CODE	PROV	LOT (ACRE)	USE	ASSESSED VALUE *	PILT/TAX EXPENSE	REVENUE/LOSS ANNUAL	TOTAL SITE COSTS (ENERGY, OPS, NTL)	ESTIMATED SALE PRICE	ESTIMATED DECOMMISSIONING COST	NET PROCEEDS	COMMENTS
SPRINGDALE												
CALEDONIA												
GARDEN OF EDEN												
WAWA												
GRONLID												
LARK HARBOUR												
GUY												
DINGWALL												
CANORA												
LOCHABER												
MAYO TV												
DEEP RIVER												
HARBOUR LE COU												
LAC-HUMQUI												

18(a)
18(b)

FY 2016/2017

	SITE	LOCATION CODE	PROV	LOT (ACRE)	USE	ASSESSED VALUE *	PILT/TAX EXPENSE	REVENUE/LOSS ANNUAL	TOTAL SITE COSTS (ENERGY, OPS, NTL)	ESTIMATED SALE PRICE	ESTIMATED DECOMMISSIONING COST	NET PROCEEDS	COMMENTS
	FORTUNE												
	IRISHTOWN												
18(a)													
18(b)	PARENT												
	TEWKESBURY												
	DRUMHELLER / NACMINE												
	MABOU												
	SUNNYBRAE												
	SHERBROOKE												
	TROUT RIVER												
	COACHMAN'S COVE												
	LES MECHINS												
	GRAND FALLS / GRAND FALLS												
	ST MARC-DE-LATOUR / LATOUR												
	HICKMAN'S HARB.												
	LORD'S COVE												
	GILLAMS / JOHNS BEACH												

FY 2016/2017

	SITE	LOCATION CODE	PROV	LOT (ACRE)	USE	ASSESSED VALUE *	PILT/TAX EXPENSE	REVENUE/LOSS ANNUAL	TOTAL SITE COSTS (ENERGY, OPS, NTL)	ESTIMATED SALE PRICE	ESTIMATED DECOMMISSIONING COST	NET PROCEEDS	COMMENTS
	HARBOUR MILLE												
	ST BERNARD'S												
	YORK HARBOUR												
	NEW LISKEARD												
	JEAN COTE												
18(a)	WHYCOCOMAGH												
18(b)	NEW ROSS												
	MONT LOUIS - GARAGE												
	TRAFALGAR												
	RIVIERE-DU-LOUP												
	AMHERST												
	BELLE PLAINE												
	BLUE MOUNTAIN												
	FARO AM												
	L'ANSE-ST-JEAN AM												
	MONCTON (AM)												
	PETIT SAGUENAY												
	RAE-EDZO												
	RICHMOND (VICTORIAVILLE)												

DISPOSAL NOTES

- Site decommissioning involves any or all of the following:
  - Aboriginal Rights Review
  - Site Survey
  - Property Valuation
  - Phase 1 Environmental Site Assessment (ESA)
  - Phase 2 ESA (if required)
  - Hazardous Materials Assessment
  - Species at Risk Assessment
  - Removal of CBC/Radio-Canada Assets from the Property unless Sold as a Going Concern