

**DEFENCE
CONSTRUCTION
(1951) LIMITED**

**ANNUAL
REPORT
2001-2002**

2001
ANNUAL REPORT
2002



Defence Construction Canada
Construction de Défense Canada



Contains 10% post-consumer fibre
Recyclable

Defence Construction Canada
Place de Ville, Tower B
112 Kent Street, 17th Floor
Ottawa, Ontario
K1A 0K3
www.dcc-cdc.gc.ca



VISION

Building on 50 years of partnership in delivering defence projects, DCC's vision is to become the leading provider of innovative solutions that add value for its client, foster growth in its employees, and make meaningful contributions to its industry.

MISSION

To provide high quality, timely and efficient contract management and related services to support the Department of National Defence in the long-term development and management of its facilities infrastructure.

OPERATING PRINCIPLES

To fulfill this mission, DCC conducts its operations in accordance with six important principles. These are:

1. to protect the interests of the Crown
2. to carry out the work in an efficient and effective manner, and at the minimum administrative cost consistent with primary objectives
3. to manage contractual relationships in a fair and reasonable manner
4. to maintain flexibility in operational structure, systems and practices in order to react to changing circumstances and client needs
5. to maintain human resources management practices that advocate and advance the well-being of employees
6. to conduct operations in a way that contributes to the protection of the natural environment.

CELEBRATING 50 YEARS OF DEDICATION, FAIRNESS, AND COMPETENCE



Staff from the DCC Gagetown office volunteered to work on a Habitat for Humanity build in the summer of 2001 in Moncton, New Brunswick. From left to right: Darrell Stewart, Jean-Frederic Lalonde, Dave Powell, Jean-Dominique Lalonde, Roger Massie and Fred Boyle.

This year marked a significant milestone for Defence Construction Canada (DCC), as it celebrated its 50th anniversary. For half a century, not only has DCC witnessed historical change on the national and international stages, it has also participated in projects that have shaped history.

The uneasy peace in the post-World War II era spurred the Canadian government to undertake a \$300-million (\$3-billion in today's dollars) defence construction program. To manage these infrastructure projects, DCC was created in 1951. Established as a Crown corporation, separate from the Department of National Defence (DND), this new firm shared characteristics with both public and private sector organizations. Consequently, DCC was well positioned to deal with external partners like the construction industry, and to respond appropriately to the needs of its government client.

As history changed the needs of its client, DCC's business evolved to meet those needs. With its ever-increasing industry experience and track record of success, DCC contracted for and managed successive generations of projects for DND, including the construction of the radar installations on the High Arctic Distant Early Warning (DEW) Line, the contracting and contract management for the \$500-million North American Air Defence Modernization Program that replaced the DEW Line, and the project and contract management of the DEW Line Clean-Up project.

DCC put in place the military infrastructure required for Canada to meet its NATO commitments in Europe, and it provides similar services to Canada's NATO allies with installations in this country.

More recently, DCC has been active in helping DND rationalize, consolidate, and relocate operating units, and decommission obsolete establishments. Simultaneously, the Corporation has been involved in refurbishing DND Reserve Force facilities across the country.

1951-2001

Celebrations of all kinds were held at the national, regional and local levels to commemorate DCC's 50th anniversary, especially events to support local communities.

Helping build the Trans-Canada Trail, DCC staff from the Atlantic Region generously donated their labour in order to make a section of the trail in Cole Harbour, Nova Scotia, wheelchair accessible. A nation-wide project, the Trans-Canada Trail will be the longest recreational pathway in the world when completed.

Responding to the 50th anniversary initiative, DCC staff from the Kingston, Trenton, and Central Region offices found a way to contribute to their community. They organized the materials and labour and built a children's playhouse. The playhouse was raffled off, and all funds raised went to the Greater Kingston and Frontenac Area Chapter of Habitat for Humanity.

Since its inception, a primary component of DCC's business has been to build strong relationships with its partners. Early in its history, DCC was involved in successful ventures with other federal government departments by working on such nation-defining projects as the Trans-Canada Pipeline and Expo '67. This trend continues today with DCC engaging in joint ventures with Public Works and Government Services Canada (PWGSC) for the benefit of DND.

The staff at DCC has been committed to providing the highest level of service to its client since the Corporation was founded five decades ago. To mark this golden anniversary, and to celebrate this ongoing commitment, events were held at the national and regional levels throughout 2001. In Ottawa, in April 2001, head office hosted a three-day National Conference for staff from the regional offices and sites. As part of the celebrations, an anniversary plaque and new corporate logo were unveiled.

Within DCC, regions organized commemorative events, which included gatherings such as anniversary luncheons, golf tournaments, and charity events. DCC encourages its employees to participate in and to support local events. Consequently, staff took the initiative to incorporate community awareness into the anniversary celebrations.

The work carried out during the first 50 years demonstrates DCC's commitment to its values of dedication, fairness and competence. As the business continues to evolve and grow to meet the challenges that the new millennium brings, DCC looks forward to playing its part in shaping history.

(1)



Ceremonies were held to unveil DCC's new logo. Above, (1) Brad Trann presented a DCC Calendar to Maj. Carrie Fortier, Wing Construction Engineering Officer Comox. Throughout Canada, DCC employees held anniversary cake (2) and coffee receptions. Right, (3) the staff at the DCC Valcartier office.

(2)



(3)





Defence Construction Canada
Construction de Défense Canada

Board of Directors
Conseil d'administration

June 30, 2002

The Honourable Ralph Goodale, P.C., M.P.
Minister of Public Works and Government Services
The House of Commons
Ottawa, Canada
K1H 0A6

Dear Minister:

On behalf of the Board of Directors, I am pleased to submit to you the Annual Report for Defence Construction (1951) Limited, for the fiscal year ended March 31, 2002. This was a special year for Defence Construction Canada as we were able to celebrate 50 years of providing construction and related support to the Department of National Defence (DND) and the Canadian Forces.

Defence Construction Canada has been successful in supporting DND in meeting its operational, construction and property management related aims. We continue to expand our service lines, with each of these new areas increasing both the Corporation's and our client's ability to fulfill our stated mandates. Successes are highlighted throughout this report. Corporately, we committed in our 2001-02 Plan to several initiatives in the areas of operations and corporate governance. We are pleased to note progress in each of these initiatives.

As required, this report also includes our financial statements for the period April 1, 2001 to March 31, 2002. These financial statements have been audited by the Office of the Auditor General of Canada.

This submission is made in order to fulfill our responsibilities respecting the governance of the Corporation and in accordance with Part X of the *Financial Administration Act*.

Respectfully submitted,

John D. McLure
Chairman



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The Phase 1 Addition to 408 Tactical Helicopter Squadron, Garrison Edmonton under construction in 2001.

HIGHLIGHTS

2001-2002

(all dollar amounts reported in thousands)

Contract expenditures	\$ 379,074
Value of contracts awarded	\$ 298,638
Value of contracts completed	\$ 374,464
Services revenue	\$ 20,052
Number of contracts awarded	1,563
Number of contracts completed	1,820
Successful contracting ratio	94.0%
(Ratio of actual contracts awarded to actual contracts tendered.)	
Level of client satisfaction	98.2%
Number of contractors and consultants used	1,264
Number of employees at fiscal year end	267
Utilization rate	73.1%
(Percentage of employee hours spent on client contract work)	
Payroll multiplier	1.72
(Ratio of actual direct payroll costs to actual services revenue)	

MESSAGE FROM THE CHAIRMAN

BUILDING ON 50 YEARS OF SUCCESS

In 2001-02, Defence Construction Canada (DCC) continued to build on its tradition started in 1951 of providing the highest level of service to the Department of National Defence (DND) and the people of Canada. It was indeed my pleasure to have served as Chairman of the Corporation during our 50th anniversary year, and to have joined with the employees and DND in celebrating our history. The commitment of employees to fulfilling our mission remains strong, and this dedication will serve to ensure a successful future for DCC.

In previous Annual Reports, we reported on the progress of our Corporation's mandate review, established by the Minister of Public Works and Government Services, and the steps towards finalizing this review. This year, the Minister reaffirmed the confidence of the Government of Canada in the types and quality of services provided by DCC, and recommended no significant deviation in our mandate, as broadly outlined in the *Defence Production Act*.

DCC and DND collaborated closely to expand our already successful relationship into a number of new areas, particularly those relating to the direct support of military operations in the field. Our continued work in Bosnia-Herzegovina is indicative of this close cooperation. In a number of areas, we continue to partner with Public Works and Government Services Canada (PWGSC), a relationship that is seeing an ever-increasing level of service to our client. Finally, we maintain an active role in collaborating with industry associations.



John D. McLure
Chairman

DCC recognizes that coupled with our corporate needs is our role in the greater community. Our recently completed Environmental Management Framework will serve to incorporate environmental management considerations to a greater degree into our contracting, operational and administrative activities. In the coming years, DCC will work more closely with DND in meeting our collective responsibilities for on-site safety and environmental protection.

In closing, I wish to acknowledge those directors who have recently been re-appointed to the Board and to welcome our newest director, the Honourable Stewart McInnes. I would also like to thank Mr. Alan Williams, who has completed his term with the Board, for his dedicated service to both the Board and the Corporation.

A handwritten signature in black ink, which appears to read 'John D. McLure'. The signature is fluid and cursive, written on a white background.

John D. McLure
Chairman

MESSAGE FROM THE PRESIDENT



Ross Nicholls, P.Eng
President and
Chief Executive Officer

This, our 50th year since incorporation, has proven to be another exciting and successful year. We celebrated the anniversary with a variety of professional development and social activities, and with contributions of time to charitable and community causes. We moved forward from there with a strong feeling of pride in our past successes. Our traditional client base is increasing as a result of new and innovative contracting and project management practices, and because of continued improvement in the quality of services we provide.

In 2001-02, the Corporation managed some \$379 million of contract expenditures. Although this represents a decrease from 2000-01 with respect to payment for contracted services, our fee revenue rose by 3% to \$20.1 million. This was a result of the increased revenue from services in both traditional and non-traditional roles. Examples of non-traditional activities are energy performance contracting, environmental services and project management support. Non-construction contract management services still represent approximately 30% of all services revenue.

The net margin of revenue over expenditure for 2001-02 was greater than planned. This success was a result of cost control exercised during the first half of the year as the construction program developed more slowly than anticipated, followed by increased activity and revenue generation in the second half of the year. It demonstrates well DCC's ability to respond to constantly changing requirements.

Our key operational performance indicators in the areas of quality, functional effectiveness, internal efficiency and human resources management show that we continue to meet or exceed targets. Last year we reported a need to improve our performance in regard to the timeliness of our

procurement activities. I am pleased to report that results in this area improved. I attribute that success to a more realistic establishment of targets and quality process improvements.

In regards to our Corporate Plan initiatives, we continue to make progress on our undertakings. We are building on the quality processes within the Contracting Services Division, and expanding them into our day-to-day activities in the Operations Division. Our Corporate Risk Management Framework is evolving in the desired direction of full integration of risk identification, communication and mitigation into our corporate planning and business management practices. Specific risk management processes that have been fully implemented include a National Safety Management Program and the Environmental Management Framework aimed at mitigating environmental risks.

We are staying current with progress in the federal government and the design-construction industries in the area of electronic commerce, to ensure that DCC will be able to adapt and respond to developing e-commerce technologies. As we prepare for a new year, our focus on quality of specific services will expand to include improving the quality of client service. The assignment of senior management responsibility for this function is a step towards consolidating our strong working relationship with many elements of DND and the Canadian Forces, and establishing new links with defence clients in the evolving complexity of the national security environment.

A handwritten signature in dark ink, appearing to read 'R. Nicholls', written in a cursive style.

Ross Nicholls, P.Eng
President and Chief Executive Officer

CORPORATE PROFILE

GOVERNING LEGISLATION

Defence Construction (1951) Limited, created in 1951 by Letters Patent issued pursuant to the *Defence Production Act*, was incorporated under the *Companies Act* of 1934, and was granted continuance under the *Canada Business Corporations Act* of 1978. When the Federal Identity Program (FIP) came into effect, the Corporation became known as Defence Construction Canada or, simply, DCC. Since 1996, responsibility for DCC has rested with the Minister of Public Works and Government Services. The schedules of the *Financial Administration Act* list DCC as a Schedule III, Part I, Crown corporation, and DCC conducts its business and financial affairs in accordance with that Act.

MANDATE

The mandate, as set out in the Letters Patent, directs DCC to provide a wide variety of property-related services in support of defence projects. These are implemented in support of the goals of the Department of National Defence (DND), the Canadian Forces and the Government of Canada. This mandate was reviewed by the Minister and renewed without change in 2001. In May 2001, a new Memorandum of Understanding (MOU) between DND and DCC was signed to update the terms of the working relationship.

Although historically the business has focused on services related to construction, over the past few years, other value-added activities such as project management, environmental services and operational support services have become a large percentage of total service offerings. The new MOU acknowledges the increased flexibility of DCC's capabilities in providing unique services outside the traditional contracting, contract management, and project management scope.

POLICY FUNCTIONS

DCC plays an important role in the implementation of government policy in several areas. Some of these areas are related directly to the government's contracting requirements. Others spring from more general national objectives related to contracting. As well, DCC abides by government policy requirements in areas that indirectly affect its business.



Photo courtesy of DND

The Snowbirds fly over Parliament Hill in Ottawa as thousands of people celebrate Canada Day.

CONTRIBUTION TO FEDERAL POLICY OBJECTIVES

- broad access to business opportunities
- encouragement of competition
- fiscal responsibility in the award and management of publicly funded contracts
- assurance that DND requirements remain pre-eminent
- adherence to federal policy on doing business with Aboriginal enterprises
- compliance with national and international trade agreements
- support for government policy on
 - human rights
 - official languages
 - employment equity
 - protection of privacy
 - access to information

CORPORATE FUNDING AND EQUITY

Until the 1997-98 fiscal year, the Corporation was fully funded by means of appropriation from DND. That year saw the implementation of a service billing system. From that point onward, all services have been delivered to the client on a cost-recovery basis.

The Corporation's equity structure consists of 1,000 authorized shares, of which 32 are issued. The Minister of Public Works and Government Services holds the majority (25), with each member of the Board of Directors holding one qualifying share.

BANKER — The Royal Bank of Canada

AUDITOR — The Auditor General of Canada

SERVICES

DCC serves as an intermediary between its government client, on the one side, and consultants and contractors on the other.

CONTRACTING

DCC develops the procurement documents and administers the process for all tender and proposal calls, seeking the services of consultants (engineers, architects, environmental specialists) and general or trade contractors.

CONTRACT MANAGEMENT

Most consultant contracts are managed by DND; the role of DCC is to administer payments and changes, and to ensure that consultants provide all services called for in the contract. DCC provides this service for construction contracts as well and, at the same time, manages quality assurance, scheduling, and cost control.

PROJECT MANAGEMENT SUPPORT

DCC provides project management support for DND's infrastructure and environment program.

ENVIRONMENTAL SERVICES

Having a wide variety of environmental expertise, DCC employees can offer numerous services including site investigations, environmental assessments, environmental management systems design, and the development of waste audits.

OPERATIONAL SUPPORT SERVICES

With a range of services extending outside the traditional construction, contracting and contract management scope, DCC's Operations Group carries out: facilities management and commissioning, energy performance contract management, dispute resolution, preventative maintenance inspection and quality assurance audits.

ENVIRONMENTAL RESPONSIBILITIES

As a Crown corporation, DCC recognizes the continuing need to balance business objectives with support for government policy and values related to social and environmental issues.

In all work carried out by DCC, efforts are made to ensure the maintenance of clean water and clean air, the conservation of natural spaces, and employee health and safety.

DCC remains committed to the principles of sound environmental stewardship, including those related to sustainable development and the practice of due diligence. Over the past year, the Corporation has worked hard to maintain these commitments. A new environmental policy, recently endorsed by the Board of Directors, strengthens DCC's resolve to integrate environmental considerations into day-to-day business practices and decisions.

DCC has taken a big step in advancing its environmental stewardship agenda by completing the Corporation's Environmental Management Framework. This framework outlines DCC's corporate strategic direction and long-term objectives that relate to addressing the environmental aspects of its operational and administrative activities.

ENVIRONMENTAL MANAGEMENT FRAMEWORK

The goal of the Environmental Management Framework is to ensure that environmental considerations are a fundamental part of the day-to-day Corporate Management Framework.

To meet this aim, this new framework will:

- ensure strong environmental leadership and management
- ensure that DCC remains protected from outside factors that could have a negative impact on its ability to engage in business activities consistent with the Corporation's mission, goals and values
- place the Corporation in a position to adapt rapidly to change, if required, to manage environmental issues
- ensure that any DCC administrative activities are done with the consideration of environmental impact
- ensure that DCC can receive and communicate pertinent information related to the management of DCC's environmental issues
- ensure that productivity in DCC service delivery is maintained with due regard for minimizing or eliminating environmental impacts.

Using this framework as a baseline, the Corporation, through its Environmental, Safety and Health Committee, will develop and monitor specific business plan goals and objectives for implementation. Over the next several years, the Corporation will report on the status of this work.

ADDRESSING ENVIRONMENTAL INCIDENTS

In the past year, DCC offices reported eight environmental incidents that occurred on its work sites as a result of contractor activities. One of DCC's operating principles is to conduct operations in a way that contributes to the protection of the natural environment. Consequently, DCC employees reacted quickly by working with contractors and DND personnel to ensure that none of these incidents had any negative environmental impact.

This represents a 43% reduction in incidents from the last fiscal year (14 in 2000-01). No incidents were the result of DCC employee actions.

The majority of these incidents involved the spilling of fuel or other liquid materials onto the ground. Using local spill procedures, DCC personnel ensured that the materials were recovered in a timely fashion. In one instance, water monitoring downstream from the spill site continues to ensure protection of fish habitat. No evidence of any negative impact has been found.



For over 50 years, DCC staff has been committed to the consistent delivery of value to its client. Pictured here is head office staff on the steps of the Supreme Court Building in Ottawa, 1954.

KEY SUCCESS FACTORS

Five characteristics of DCC's service provision allow for consistent delivery of added value to DND operations.

Cost effectiveness – Because DCC operates on a fee-for-service basis, the Corporation must maintain its position as an extremely cost effective service provider. DCC offers competitive pricing for its services, helping the client save money on consulting and construction work carried out by the private sector.

Focus – For 50 years, DCC has had an intense focus on one major client and, consequently, has developed an understanding of the client's needs and preferred approaches. This specialized focus has positioned DCC as a provider of niche services that no other organization, from either the private or the public sector, can match.

Delivery – DCC provides immediate and reliable access to technical and administrative expertise and, unlike many providers of similar services, does so on a continuing basis at the work site.

Service – Standing midway between the public and private sectors, DCC knows how the construction industry and the government work. This allows for effective mediation on any differences that arise between the client and external service providers.

Flexibility – As a Crown corporation and separate employer, DCC can assign quickly the required number of people with specific skill sets to any project. DCC's mandate allows it to administer and staff projects with efficiency and flexibility equal to that of the private sector.



Contractors work on a runway resurfacing at 14 Wing Greenwood, Nova Scotia. DCC works effectively with both the public and private sector.

PARTNERS

DEPARTMENT OF NATIONAL DEFENCE

Defence Construction Canada (DCC) was created pursuant to the *Defence Production Act* to support the Department of National Defence (DND) in delivering defence projects. Consequently, DND is the Corporation's client. Since it has done business with DND for 50 years, DCC is well versed in DND's priorities and working methods. Because of this close working relationship, DCC is able to foresee and prepare for any changes that may have an impact on the client.

There are many levels and units at DND that interact with DCC. The Infrastructure and Environment Branch (IE) of National Defence Headquarters (NDHQ) is a primary contact, especially for the centrally managed capital construction program. However, over the last several years, DND has been devolving authority and budget accountability down the hierarchical structure, and from the centre outwards. Now, the chiefs of maritime, land and air staffs are responsible for their own construction and maintenance programs. DCC deals extensively with their organizations, primarily at the tactical (i.e., base/wing) level. In addition, DCC contracts for and delivers consulting, construction and environmental services on behalf of several other DND client groups, and for other DND programs.

In December 1998, DCC signed an infrastructure service delivery commitment with DND. This agreement focuses on developing a common understanding of how DCC contributes to the objectives of the Canadian Forces. However, a successful partnership also requires that practices and procedures be aligned, and in May 2001, a revised Memorandum of Understanding (MOU) was signed, setting out the modern realities and context of the working relationship.



Photo courtesy of DND

A CH-113 Labrador search-and-rescue helicopter manoeuvres in shallow water in the Bay of Quinte during training exercises at 8 Wing Trenton.

ADDITIONAL PROGRAMS AND CLIENT GROUPS

- Canadian Forces Personnel Support Agency
- Canadian Forces Housing Agency
- Defence Research and Development Canada
- North Warning System Office
- Director-General, Aerospace Equipment and Program Management
- J3 Engineer
- NATO forces with establishments in Canada

CONTRACTORS AND CONSULTANTS

Although DCC creates value for the citizens of Canada, the Corporation does not provide service directly to the public. Instead, private sector consultants and contractors constitute the specialized “public” that interacts with DCC.

For that reason, it is important for everyone at DCC to be aware of what is happening in the industry. Through the course of business, employees interact with contractors on the job site every day. However, there are also frequent, more formal exchanges with the Canadian Construction Association (CCA) and its provincial counterparts. These interactions help keep DCC abreast of developments in the industry and bring a useful measure of realism to the interactions between DCC and its contractors. DCC keeps in touch with the insurance industry, to learn of trends in risk management, and with the surety industry, for developments in contract security. Representatives of DCC continue to sit on committees and maintain relationships with such groups as the Association of Consulting Engineers of Canada, the Royal Architectural Institute of Canada, the Canadian Public Procurement Council, and the Canadian Design-Build Institute.

Keeping current with industry standards is critical to DCC’s ability to deliver service. Consequently, DCC encourages its employees to maintain and develop their professional skills, and the Corporation supports them in maintaining industry certifications and designations relevant to their work. Examples are CCA Gold Seal and Project Management Institute certifications.

CANADIAN CONSTRUCTION SECTOR

Year after year, the construction sector remains an important driver of the Canadian economy. According to Statistics Canada, investment in construction is second only to manufacturing in creating sustainable jobs.

In evaluating this very considerable impact on the Canadian economy and the role that DCC plays in that contribution, it is important to understand the structure of this sector. There are numerous small construction firms in Canada. Because these firms constitute the backbone of the industry, DCC must understand the challenges and the very real, ongoing business threats that these entrepreneurs face. In support of their need to conduct business, DCC works to maintain a level playing field, simplify bidding procedures, stimulate interest, and encourage competition for all contracts that the Corporation puts in place. At the same time, DCC is sensitive to the requirement to maintain cash flow and is adept at negotiating fairly when changes must be made to projects. Because DCC understands the needs of DND and the consultants and contractors, it is able to mediate fairly when differences arise.

According to the Canadian Construction Association, the construction industry in Canada employs up to 6% of this country’s total labour force, generates \$120 billion annually, and accounts for 12% of Canada’s gross domestic product.

SERVICE LINES

CONTRACT SERVICES

For over 50 years, DCC's Contract Services Division (CSD) has been the key link between DND infrastructure requirements and the contractors and consultants who can satisfy them.

CSD procurement documents and processes are designed to meet the needs of both parties. A wide variety of options exists to meet all client and industry needs. A few options that are increasingly popular are as follows:

Quick response tenders – DCC establishes a source list of contractors at each base to respond to the specific construction needs of each location. Depending on the requirement and value, these contracts can be in place in one day or up to 14 calendar days.

Tender boards – Minor construction projects that are equally time sensitive but more complex in nature are candidates for this process. The target time from notice to award for this process is 25 calendar days.

Design-build – This contract option is used to deliver a major portion of design within the construction contract. While the time required to contract for this is longer than for other standard processes, the overall project delivery time has been reduced from the traditional design-bid-build method.

DCC has many other forms of infrastructure-related tender processes, each designed to meet a particular requirement. Some of the options are listed below:

Best value contracts – Price and technical requirements determine the award, and it is not based solely on the lowest bid.

DCC IN ACTION

BRIDGING THE GAP

DCC AND PWGSC JOINT FACILITIES MANAGEMENT PROJECT

With the closures of CFB London and CFB Toronto, a large number of facilities across southwestern Ontario, formerly maintained by the bases, were left without support service. DCC stepped in to fill this service void for DND and continues in this capacity today.

An innovative solution was created when DCC and PWGSC came together in partnership. PWGSC provided day-to-day maintenance of the facilities while DCC assumed the role of contract manager, marking the first time this type of arrangement had been implemented.

Together, DCC and PWGSC offered a unique service to DND. The teaming of the two organizations allowed PWGSC to draw on DCC as a ready-resource, and enabled DCC to provide a service in line with a number of its success factors. DCC demonstrated its flexibility in ensuring cost efficiency, and was able to deliver value to the client through its knowledge of the construction industry.

Construction management – Expertise is contracted to help manage tendered construction packages.

Energy performance contracts – Firms are contracted to make infrastructure improvements on DND facilities and payment is made from the resulting energy savings.

Standing offers – Firms are pre-selected to provide specific construction activities as and when required.

Facility maintenance contracts – Expertise is contracted for long-term operation and maintenance of DND facilities.

Each year CSD tenders and awards more than 600 professional services contracts, and more than 900 construction contracts. In addition, in the 2001-02 fiscal year, more than 800 standing offers were tendered and awarded for maintenance of Canadian Forces housing units.

Client groups within DND want to begin project work as soon as possible after receiving internal approval. Since timeliness of contract award is important to both DND and the contractors and consultants, this activity is reported as a key performance indicator. Table 1 shows actual time to award contracts compared to targets. The number of contracts in each sample, along with the percentage of time that the target is met, puts the information in context. Improvements were made

in most categories over last year; however, certain processes continue to provide challenges. Targets are based on a reasonable time to tender and award, and not on historical results. Some processes, like requests for proposal and design-build, require joint evaluation by different parties, often at remote locations. Coordinating schedules for review and evaluation can delay the process. CSD recognizes the challenges inherent in this process and has taken steps to improve the management of it. In the coming fiscal year, targets for 2-step proposals, quick response and NAFTA contracts (contracts with requirements that fall under the North American Free Trade Agreement) have been increased. The new targets are 90 days, 14 days, and 95 days respectively.

TABLE 1

CSD PERFORMANCE INDICATORS

Performance Indicator	Number of Contracts 2001-02	2000-01 Results	Target	2001-02 Results	% on Target 2001-02
Timeliness of Construction Contracting					
Regular tender call	126	45 days	35 days	43 days	38%
Tender boards	474	30 days	25 days	30 days	41%
Quick response	295	16 days	10 days	15 days	33%
Design-build	5	155 days	90 days	97 days	60%
Timeliness of Consultant Services Procurement					
SPEC selection (selection, prequalification, and evaluation of consultants)	204	62 days	25 days	39 days	41%
1-step proposal	41	69 days	50 days	75 days	29%
2-step proposal	11	126 days	80 days	140 days	0%
NAFTA	4	154 days	84 days	139 days	0%

For CSD to provide varying levels of customized service, a high degree of expertise is required. DCC takes careful measures to ensure its staff can obtain, maintain and enhance the required knowledge and skills. Training, certification, memberships and participation are promoted with organizations such as: the Project Management Institute, Treasury Board, the Purchasing Management Association of Canada, the Materiel Management Institute, Construction Specifications Canada, and the Canadian Public Procurement Council.

CSD received its ISO 9001 certification in 2000-01, making DCC the first federal procurement agency to do so. Throughout 2001-02, internal and external audits were completed with no incidents of major non-conformance. Areas where improvements were most noted were in communications with client groups regarding the scope and timeliness of services. As part of DCC's ongoing improvement, CSD plans to upgrade to ISO 9000-2000 standards in the coming fiscal year.

OPERATIONS

The Operations Division delivers a broad scope of services to construct and maintain DND facilities including: control towers and hangars, dockyards and tank maintenance facilities, community centres, housing, barracks and clinics, water and sewer systems, communications systems, and roads and grounds. Other services include: firing range inspections, facilities management, property management support, facilities condition reporting, building systems troubleshooting, rapid response to urgent security needs, program management, commissioning and training.

DND infrastructure needs are driven increasingly by technology advances. This year, DCC was called upon to project manage, tender, construct and commission two state-of-the-art fire fighting training facilities (FFTF). These innovative facilities are equipped not only with classrooms, but also with testing areas used to train crews and demonstrate a variety of fire fighting conditions. These conditions include individual burn rooms that simulate various ship compartments, and a helicopter-prop that simulates fires resulting from helicopter crashes on a ship's deck.

Building solid relationships with its partners is a cornerstone of DCC's business. In the past fiscal year, there was a successful joint venture between the Department of Public Works and Government Services (PWGSC) and DCC to implement an airfield rehabilitation project at 19 Wing Comox. The combined flexibility, innovation, and expertise of both partners ensures successful completion of projects for DND. With a focus on effective service delivery, DCC looks forward to sharing its expertise in future joint venture projects.



DCC provides contract management support at Camp Black Bear in Bosnia-Herzegovina.

DCC IN ACTION

PARTNERING FOR THE ENVIRONMENT

SERVICE SUPPORT FOR SITE CHARACTERIZATION AT SHILO

DCC Shilo was asked to support Defence Research and Development Canada (DRDC) in the characterization of the contamination of firing ranges resulting from years of training activities.

In 2001-02, DCC was able to provide the necessary team of skilled environmental experts to support a field-sampling program on the ranges. DCC contracted and supervised local drilling crews for the installation and development of groundwater sampling wells, and managed the handling of range soils, biomass, groundwater and surface water samples.

Through effective liaison and coordination efforts with CFB Shilo and contractors, DCC was able to deliver exceptional support service. Consequently, DRDC requested that DCC continue with follow-up well data recording and field sampling activities at CFB Shilo.

Attesting to the success of this partnered environmental service delivery, DCC continues to work closely with DRDC on plans to undertake similar range sustainability projects at other locations.

ENVIRONMENTAL SERVICES

DCC maintains a strong focus on the provision of environmentally related planning, technical and management support. This ongoing success was highlighted by the delivery of full project management and contract management services to DND for the clean-up of the Distant Early Warning (DEW) Line in the Arctic.

In addition, more than 30 qualified environmental professionals located at head office, in the regions and on the bases/wings have implemented a large number of projects in an increasing number of environmental service lines. Since DCC has staff with strong local knowledge, combined with a national network of expertise, it can ensure effective service delivery. A sampling of the wide range of program areas to which DCC provides support is listed below.

- Environmental support to project and program management
- Environmental record reviews
- Environmental assessments, surveys and approvals
- Contaminated site delineation and remediation
- Waste reduction audits and plans
- Hazardous materials inventories
- Development of environmental management systems
- Environmental monitoring
- Fuel storage tank removals
- Technology evaluations

DCC IN ACTION

OPERATION PALLADIUM

DCC SUPPORTS DEPLOYED OPERATIONS

DCC is working with DND and Public Works and Government Services Canada (PWGSC) to apply its contract management support service in Operation PALLADIUM, the Canadian Forces contribution to the NATO-led peacekeeping mission in Bosnia-Herzegovina.

A Canadian specialist firm was contracted to perform the logistics and support functions in-theatre, thereby freeing military personnel for other tasks and reducing the frequency of their operational deployment. DND and the contracting authority, PWGSC, recognized a need for dedicated contract management support and they turned to DCC to fulfill this role.

DCC's initial involvement with the Contractor Support Project was to provide value-added support to the tendering process. Then, DCC was invited to provide the in-theatre contract management function.

DCC provides a contract manager stationed in Velika Kladusa, Bosnia, to work with a team of military logistics, engineering, environmental and management specialists, and with PWGSC contract managers in Ottawa. DCC's task is to ensure that the work meets the contract specifications and to provide other specialized support to the Task Force Commander as required.

With its traditional focus on a single client, DCC has demonstrated its ability to transition its existing processes into an operational theatre. Through DCC's established support network in Canada, the contract manager and contract management cell in-theatre have access to specialized contracting expertise.

DCC's knowledge of quick response contracting helped the Canadian Forces meet its operational requirements while ensuring compliance with federal contracting policies. DCC employees have been able to work with PWGSC to ensure that Canadian military personnel receive the highest quality of support.

PROJECT MANAGEMENT SUPPORT

The Operations Division has multi-disciplinary infrastructure management support expertise. DND can benefit from a range of fully integrated services in project management support areas during the planning, design and construction phases of a project.

DCC IN ACTION

SUPPORTING THE LAND FORCE ATLANTIC AREA

DCC PROVIDES A COST EFFECTIVE SOLUTION

DCC supports the Land Force Atlantic Area by providing weapon range inspection services throughout Eastern Canada. Dedicated inspection staff report on the condition of all army, navy and air force ranges and training areas.

While ensuring that these 171 ranges are evaluated in the most cost effective way, DCC provides experienced, well-trained personnel to do this job. By having one point of contact for all range inspections, DND is assured that all evaluations are carried out in an exacting and consistent manner. DCC's high maintenance standards result in reduced safety concerns for the client, as related to unexploded ordnance.

With DCC providing these range inspection services, DND benefits from a program that allows for effective preventative maintenance, while at the same time, reduces the need for expensive recapitalization due to major deterioration following extensive use.



DCC undertakes diverse types of projects for DND, including upgrades to existing facilities. Under construction in Colwood, British Columbia is this refueling jetty and tank farm.

CONTRACT MANAGEMENT SERVICES

Contract management has always been the core area of expertise for DCC. Key services include:

- contract administration
- quality assurance
- regular client reporting
- co-ordination of expert services
- monitoring of construction schedules
- change management
- certification of progress payments
- certification of contract completion
- document control
- commissioning services
- dispute resolution
- monitoring of deficiencies and warranties
- resolution of contractor performance issues

DCC IN ACTION

FOCUSED EXPERTISE

DCC COMMISSIONING RESOURCE GROUP

It is critical to ensure that newly installed systems in a new or renovated facility operate correctly prior to contract completion. The commissioning process typically involves a building's mechanical and electrical systems, but it can include other components such as kitchen equipment and boilers. DCC established a Commissioning Resource Group (CRG) within its Central Regional Office in Kingston to ensure that its client receives facilities that are commissioned correctly and fully documented.

DCC's client benefits from a team of seasoned technical experts that provides continuity in the commissioning process. The CRG supplements the site staff to ensure that knowledgeable, experienced personnel follow the process closely. The team reviews all the components within the system, then systematically takes the system from a static to a dynamic state, ensuring that it meets design requirements while in operation.

Over the past several years, CRG's focused expertise and independent point of view have positioned this group to guarantee that DND's facilities are operating at optimum performance. DCC's involvement in the process has reduced lost productivity owing to mechanical or electrical failures after occupancy, and has saved the Crown costs associated with repairs or replacements before the end of these systems' life cycle.



DCC managed the construction contract for this combat systems repair facility in HMC-Dockyard, Halifax.

TRACKING CLIENT SATISFACTION

As one of its key performance indicators, DCC regularly tracks client satisfaction. Client groups within DND provide information through written questionnaires and face-to-face interviews. Client surveys on environmental services and construction contract management in this fiscal year indicated that 98.2% of responses (with an overall 86% return rate) were satisfied with DCC services. There were 13 responses that cited problems. These problems ranged from scheduling issues to concerns about reporting. In one situation, the client was concerned that a contractor did not complete deficiency clean-up work quickly enough. In another situation, the client stated that there was not an adequate level of project status reporting, or enough regular project review meetings with the contractor present. DCC addressed all of these concerns in a timely fashion.

The Operations Division acknowledges that a survey return rate of 86% is not ideal; the goal should be to collect 100% of the surveys. Already, DCC has been proactive in meeting with client groups within DND to address this challenge. Client groups have requested that DCC hold more frequent meetings at significant project milestones to discuss performance. At the same time, DCC is aware that a comprehensive all-service survey is required in order to accurately track and fairly assess job performance, and DCC will develop a system in the coming year that is easy to use and relevant for the client, without being a burden to administer.

CONTRACT SERVICES AND OPERATIONAL HIGHLIGHTS

FIGURE 1

CONTRACT VALUES

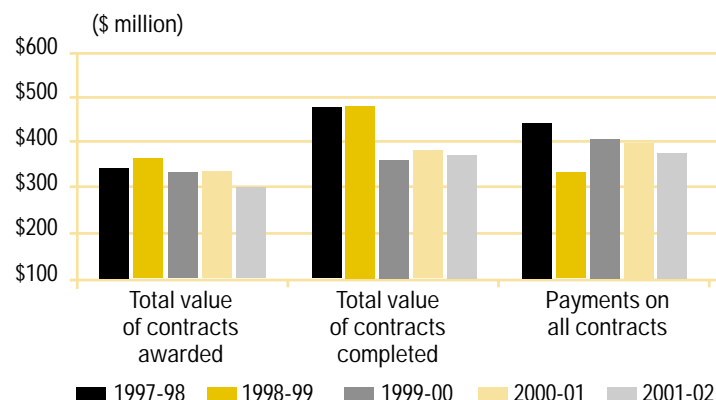
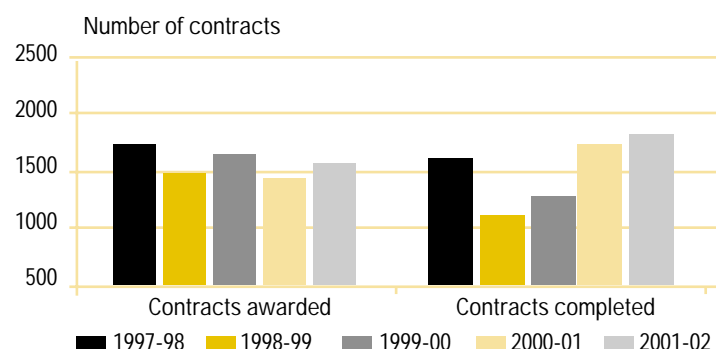


FIGURE 2

NUMBER OF CONTRACTS AWARDED AND COMPLETED



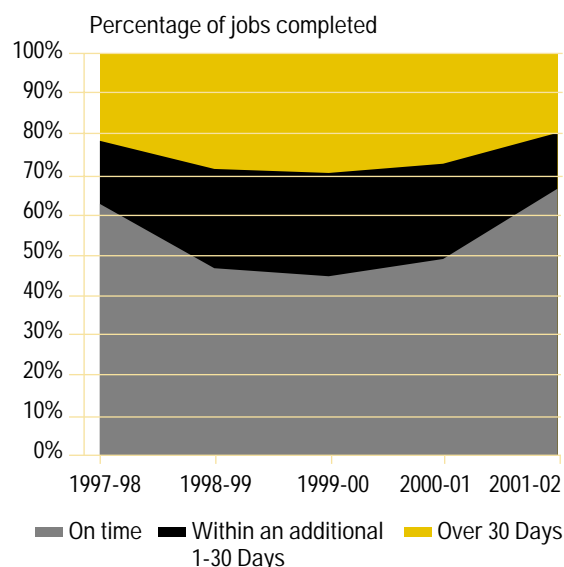
TIMELINESS OF CONSTRUCTION CONTRACT COMPLETIONS

A key component of client satisfaction is schedule control. Consequently, DCC monitors timeliness of construction contract completions and works with the client to see that schedule slippage is minimized. When it does occur, DCC ensures that DND knows the reasons.

In 2001-02, 63.8% of completed construction contracts were finished by the pre-established completion date. Another 16.2% were completed within 1 to 30 days. As Figure 3 indicates, there has been steady improvement over the past several years.

FIGURE 3

TIMELINESS OF CONSTRUCTION CONTRACT COMPLETIONS

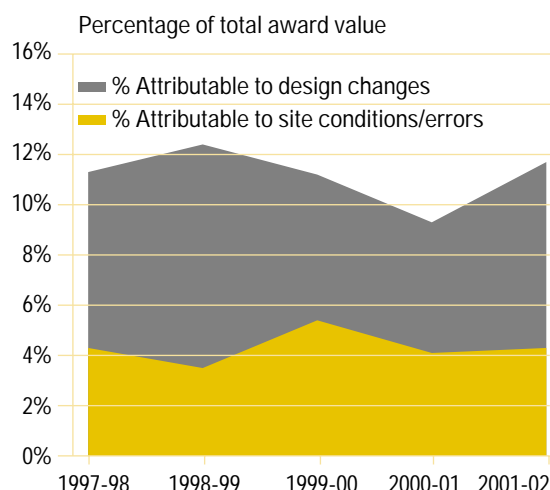


CHANGE ORDERS

Changes can have a negative effect on a project's schedule and can result in cumulative impact costs. Consequently, DCC manages contracts in a way that attempts to minimize both the number and the dollar amount of contract changes. Figure 4 below illustrates trends over the last five years. In 2001-02, on the basis of 898 construction contracts, 4.3% of cost growth was due to site conditions or to errors and omissions, and 7.4% was attributable to design changes. The percentage of changes is

FIGURE 4

CHANGE ORDER VALUES



low compared to industry standards, and is due to comprehensive planning by DND prior to the tendering process.

CONTRACTOR CLAIMS

A direct indication of DCC's efforts to protect the interests of the Crown can be found in the dollar value of contractor claims before the Courts at any given time. A balance must be struck between treating contractors fairly and ensuring the government receives fair value for contracted commitments. Trends over the last several years are indicated in Figure 5.

In 2001-02 DCC closed eight claims. Five of these claims were dismissed or discontinued and three were settled for a total value of \$140,000. Resolved claims reduced the total claim value by \$1.9 million. Five new claims were raised during the year. One was dismissed while four remain outstanding. A total of \$515,000 was added to the outstanding claim value for the four new claims. As at March 31, 2002, there were 22 claims outstanding for a total claim value of \$6,762,000.

FIGURE 5

LEGAL CLAIMS AT FISCAL YEAR END

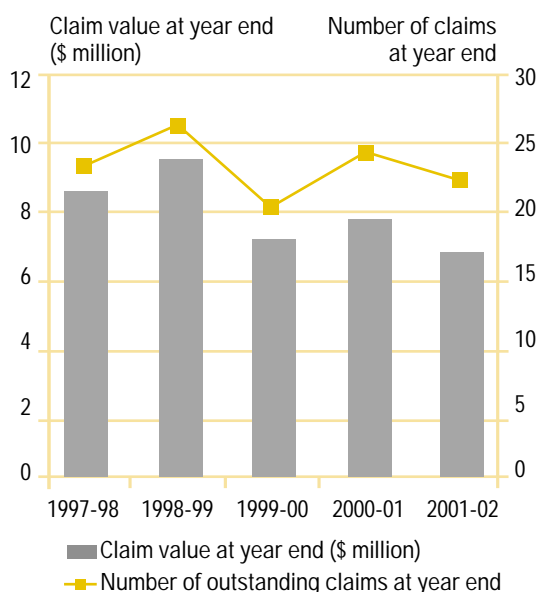


TABLE 2

CONTRACT EXPENDITURES BY REGION 2001-2002

(all amounts reported in \$ thousands)

	Construction Contracts	Consultant Services	TOTAL
Atlantic Region			
Aldershot, NS	\$ 1,022	\$ 1,511	\$ 2,533
Gagetown, NB	14,056	1,560	15,616
Gander, Nfld.	2,737	41	2,778
Goose Bay, Lab.	12,438	776	13,214
Greenwood, NS	16,283	1,228	17,511
Halifax, NS	29,891	3,149	33,040
Others	-	469	469
Subtotal	76,427	8,734	85,161
Central Region			
Bagotville, QC	9,456	131	9,587
Borden, ON	12,302	498	12,800
Kingston, ON	10,814	1,868	12,682
London, ON	2,430	4,417	6,847
Montreal, QC	5,060	885	5,945
North Bay, ON	1,571	237	1,808
Petawawa, ON	19,431	714	20,145
Toronto, ON	36,627	2,317	38,944
Trenton, ON	9,154	145	9,299
Valcartier, QC	10,884	2,261	13,145
Ottawa, ON	6,553	594	7,147
Others	-	241	241
Subtotal	124,282	14,308	138,590
Western Region			
Calgary, AB	6,034	190	6,224
Chilliwack, BC	639	35	674
Cold Lake, AB	10,075	804	10,879
Comox, BC	4,194	378	4,572
Edmonton, AB	20,083	1,267	21,350
Esquimalt, BC	27,944	4,573	32,517
Moose Jaw, SK	2,905	282	3,187
Suffield, AB	5,922	644	6,566
Shilo, MB	4,118	626	4,744
Winnipeg, MB	3,818	739	4,557
Wainwright, AB	4,424	242	4,666
Others	-	20	20
Subtotal	90,156	9,800	99,956
Northern Canada	14,567	4,655	19,222
Canadian Forces Housing Agency (CFHA)	34,080	-	34,080
Head Office - Others	352	1,713	2,065
Totals	\$ 339,864	\$ 39,210	\$ 379,074

ORGANIZATION AND GOVERNANCE

GOVERNANCE



DCC Board of Directors, seated from left:

Mr. Ross Nicholls, Mr. John D. McLure,

Ms. Nancy M. Penner. Standing, from left:

Mr. Jean-Claude Garneau, Mr. Michael G. Nurse,

Mr. Brent DiBartolo, Hon. Stewart McInnes.

As a Crown corporation, DCC is governed by a Board of Directors, appointed by the Governor-in-Council on the recommendation of the Minister of Public Works and Government Services, through whom DCC reports to Parliament.

The role of the Board of Directors is to provide advice for the Corporation on the management of its current business affairs, and on the vision

and long-term direction of the Corporation. This task includes: providing strategic advice in the business planning process, ensuring that the Corporation's public policy objectives are met, following matters that may require exceptional attention, and facilitating appropriate communications with the Crown, stakeholders and the public. Each year, the strategic direction of the Corporation is reviewed, and the Board members examine the continuing viability of the Corporation and its contribution to government.

The Audit Committee meets separately from the Board, to review year-end financial statements, internal audit reports, and the results of special examinations by the Auditor General.

DCC's Board of Directors reflects a balanced mix of public and private sector experience that contributes to the Board's effectiveness. In keeping with the Corporation's mandate and key challenges, the Board members selected come from senior levels with knowledge of engineering, construction, law, finance and management.

DCC BOARD OF DIRECTORS

(at March 31, 2002)

Chairman

Mr. John D. McLure

JDM Consulting Inc.
and
Senior Associate
Hill and Knowlton Canada Limited
Ottawa, Ontario

Board Members

Mr. Brent DiBartolo

Assistant Deputy Minister
Infrastructure and Environment
Department of National Defence
Ottawa, Ontario

Mr. Jean-Claude Garneau

President
Excotech Inc.
Montreal, Quebec

Hon. Stewart McInnes, P.C., Q.C.

Lawyer
Halifax, Nova Scotia

Mr. Ross Nicholls

President and Chief Executive Officer
Defence Construction (1951) Limited
Ottawa, Ontario

Mr. Michael G. Nurse

Associate Deputy Minister
Public Works and Government Services Canada
Ottawa, Ontario

Ms. Nancy M. Penner

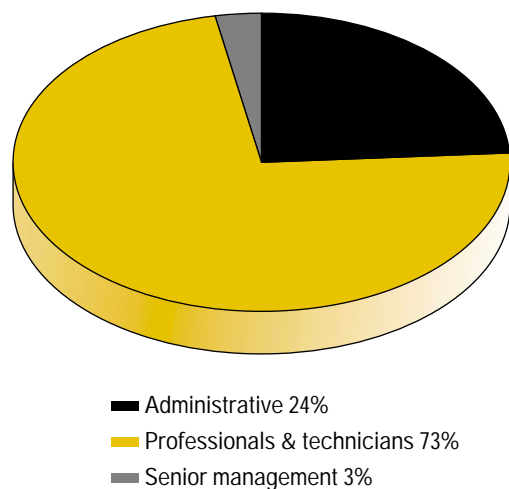
Partner
Parlee McLaws LLP
Calgary, Alberta

HUMAN RESOURCES

DCC acknowledges that its chief asset is people and that corporate successes are dependent on employee abilities and dedication. One of DCC's strengths is its dedicated workforce of professionals. The team consists of a mix of engineers, engineering technicians and technologists, environmental scientists, and experienced tradespeople. Other specialists in finance, human resources, information technology, and administration support these professionals.

FIGURE 6

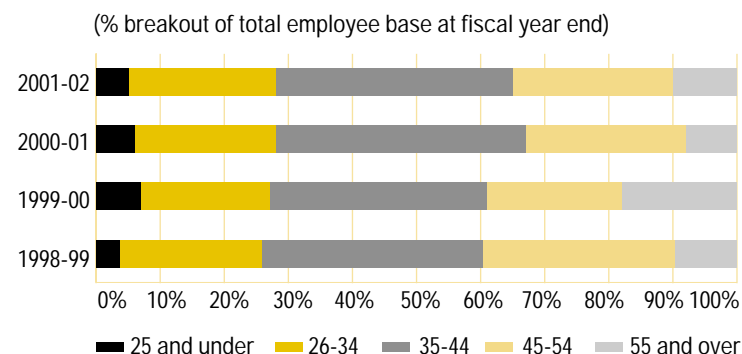
DCC WORKFORCE



At the end of the fiscal year, DCC employed 267 continuing, term and temporary employees, of whom approximately 18% have been employed for at least 15 years. In the past two years, approximately 4% of employees have returned to work for DCC following a brief departure. Employees acknowledge that working for DCC is interesting, challenging, never boring, and that employees respect each other.

FIGURE 7

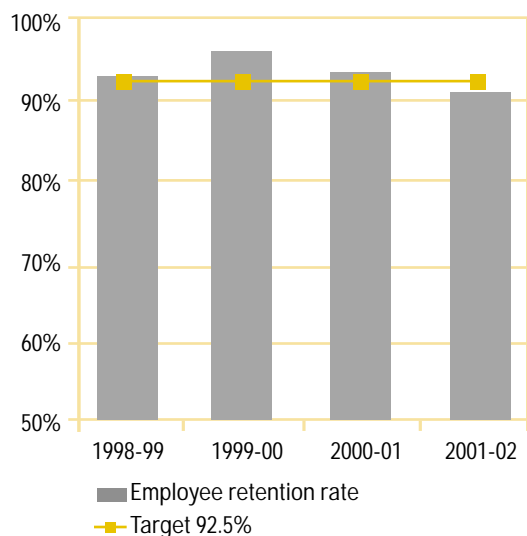
EMPLOYEE DEMOGRAPHICS



Recruitment practices are focused on engaging professionals who strive to maintain the Corporation's continued success, and who take pride in achieving their personal goals. DCC internal recruitment practices supported 34 employees along their career paths through promotions and transfers during the past year. Even though DCC's work environment is somewhat seasonal, the Corporation has consistently upheld a retention rate above 90% over several years.

FIGURE 8

EMPLOYEE RETENTION RATE





Head office staff on the steps of the Supreme Court Building in Ottawa, September 2001.

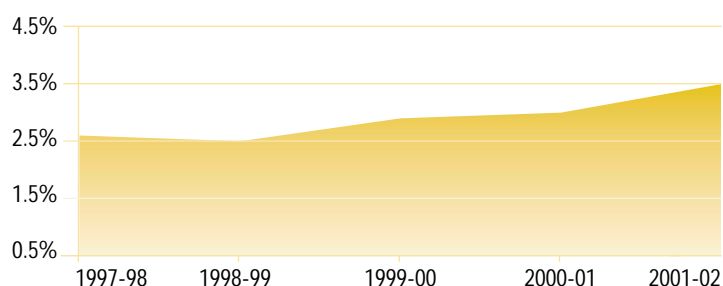
DCC views the employee retention rate as a measure of employee satisfaction with DCC's working environment. Initiatives regarding the employee retention rate were outlined in DCC's corporate plans for 1999-2000 and 2000-01. As Figure 8 indicates, the retention rate dropped slightly in 2001-02 to 90.8% from 92.7% in 2000-01. To address this situation, and to be competitive with private and public sector competition, DCC revised its compensation structure. In order to maintain DCC's attractive work environment, the Human Resources Department promotes employee opportunities for training and lateral transitions within the Corporation.

STAFF TRAINING AND DEVELOPMENT

The employees of DCC form a specialized team, and consequently DCC encourages ongoing professional development and staff training. Figure 9 illustrates the financial commitment that DCC makes to this area. DCC's target for training as a percentage of salary cost is 2.5%. DCC has constantly achieved or exceeded this target. In 2001-02, DCC achieved a result of 3.5%, which increased from 3.0% in 2000-01. This increase is due to educational expenditures associated with the 50th anniversary National Conference, which focused on employee development, and to costs for information and technology training associated with the upgrade of the enterprise software system. Note that the value of time associated with training is not included in the figure.

FIGURE 9

PROFESSIONAL DEVELOPMENT TO SALARY COST RATIO



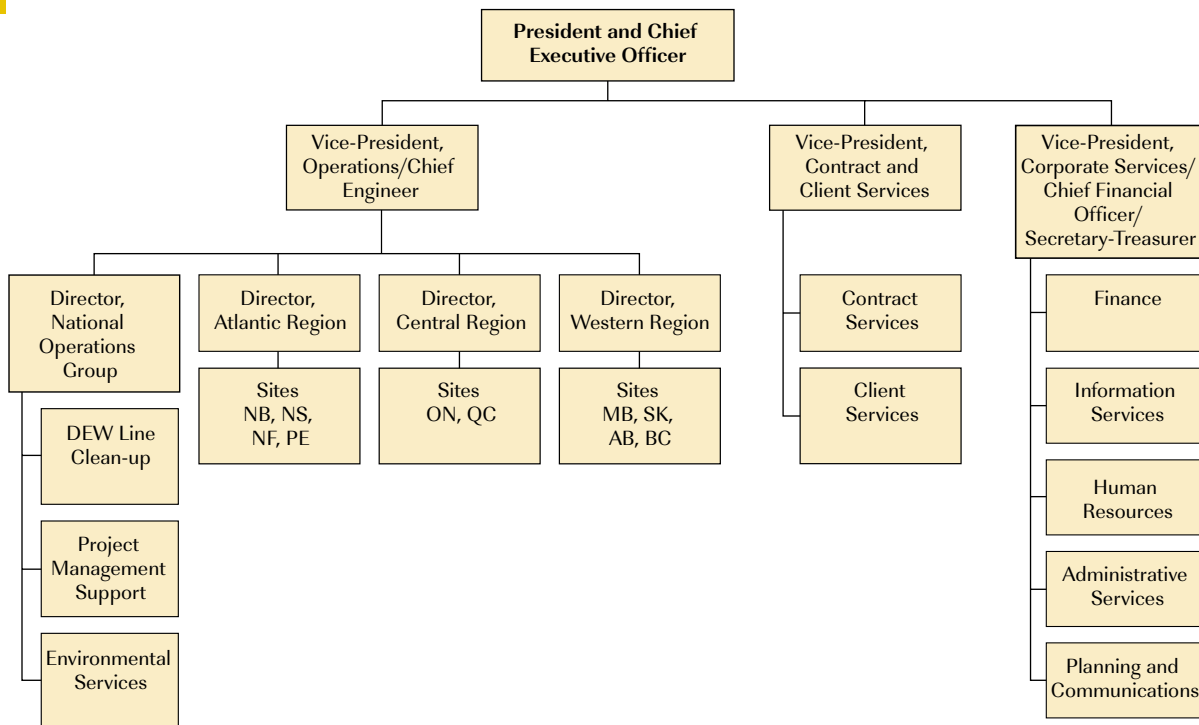
MAINTAINING A SAFE WORK ENVIRONMENT

In 2001-02, two minor accidents involving DCC employees were reported. In neither case did the accidents occur on a construction site. Neither case resulted in serious injury or lost work time. This represents 0.45 accidents per 100,000 work hours and 0.0 lost work hours per 100,000 work hours.

The management of employee occupational health and safety remains a key concern of the Board of Directors and the Environmental, Safety and Health Committee. The creation of a National Safety Coordinator position last year has led to a significant increase in employee awareness regarding workplace health and safety issues, and DCC continues to invest in safety-related communications and training activities. The Committee and the National Safety Coordinator remain highly committed to maintaining DCC's excellent record as a safe work place and a healthy work environment.

FIGURE 10

ORGANIZATIONAL STRUCTURE



NATIONAL AWARDS 2001-2002

DCC President's Award for outstanding contribution to the Corporation

Mr. Tony Knowler, PMP, ASCT, MCIQB –
Project Supervisor, Esquimalt, British Columbia.

DCC Customer Satisfaction Award for outstanding service to clients

Mr. Siva Gnananayakan – MSc., P.Eng. –
Project Engineer, Toronto, Ontario

The Robert Graham Memorial Award for outstanding contribution to safety or the environment

Mr. James Peeling – Contract Co-ordinator,
Trenton, Ontario

Senior Management Team

Mr. Ross Nicholls, P.Eng, PMP
President and Chief Executive Officer

Mr. Russell Perrie, P.Eng, PMP
Vice-President, Operations and Chief Engineer

Mr. Angelo Ottoni, CA
Vice-President, Corporate Services,
Chief Financial Officer and Secretary-Treasurer

Mr. Ronald de Vries, P.Eng, PMP
Vice-President, Contract and Client Services

Mr. Ian Ashton, P.Eng
Director, National Operations Group

Mr. Michael Darrow, P.Eng
Director, Atlantic Region

Mr. Marc Lanteigne, P.Eng
Director, Central Region

Mr. Steve Karpyschin, P.Eng
Director, Western Region

DCC maintains a presence throughout Canada with three regional offices and 28 site offices located in the same regions where there are Canadian Forces bases and wings. In addition, to manage the DEW Line Clean-Up project in the Arctic, DCC established smaller, remote offices in the Canadian North. Outside of Canada, DCC has one site office in Bosnia-Herzegovina, from which it supports the Canadian Forces deployed in Operation PALLADIUM.



The Auditor General of Canada, Mrs. Sheila Fraser (right), presents the 2000-2001 Auditor General Award for Excellence in Annual Reporting by Crown corporations to DCC Chairman, Mr. John D. McLure (centre) and DCC President, Mr. Ross Nicholls (left). This award is intended to promote enhanced accountability through improved disclosure of information on corporate performance.

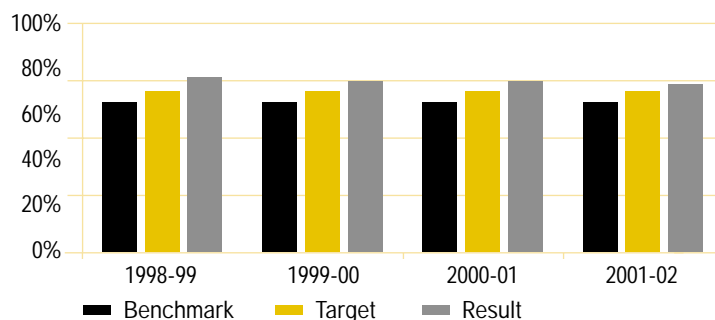
HUMAN RESOURCES MANAGEMENT MEASURES

UTILIZATION RATE

The utilization rate (see Figure 11) is an important performance indicator as well as a key financial management tool. It describes the amount of time, in terms of hours, spent on contract-related functions, and shows the client how much time DCC spends on the client's work. The utilization rate (73.1% in 2001-02 against an industry benchmark of 65%) is consistently high, indicating the exceptional productivity of DCC employees. The slight decrease in the utilization rate in 2001-02 compared to 2000-01 (74.4%) is attributable to a slow start on construction projects during the early part of the year.

FIGURE 11

UTILIZATION RATE



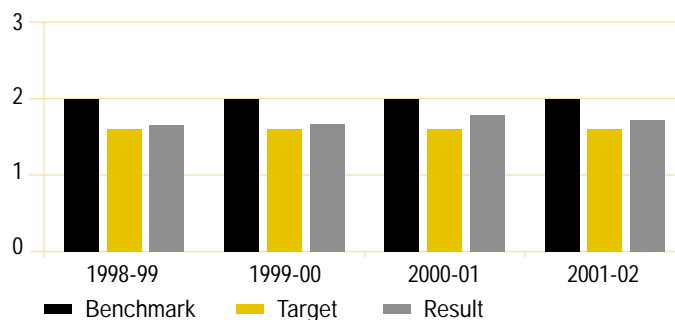
ACTUAL PAYROLL MULTIPLIER

A second key financial measure is the payroll mark-up multiplier. This measure provides the factor by which DCC multiplies the payroll costs (i.e., salary and benefits, including leave) that are directly related to the client's work, in order to cover overhead costs.

The target rate of 1.5 is used as a budgeting baseline for establishing billing rates. The target rate excludes the portion of the multiplier that relates to employee leave. Billing rates are set at the beginning of each fiscal year when the service agreements with the client are negotiated. The "actual payroll multiplier" (see Figure 12) is the ratio of actual service revenue to actual direct payroll costs that is calculated at year-end. In 2001-02, the actual payroll multiplier was 1.72, compared to 1.79 in 2000-01. A decreasing multiplier in 2001-02 indicates that DCC is providing its services more efficiently and effectively.

FIGURE 12

ACTUAL PAYROLL MULTIPLIER



MANAGEMENT DISCUSSION AND ANALYSIS

STRATEGIC SITUATION

THE ROLE OF DCC AND GOVERNMENT PRIORITIES

The Speech from the Throne, the primary means by which the Government's strategic agenda is outlined, was last delivered by the Governor General on January 31, 2001. It is important to note that the speech was delivered prior to the tragic events of September 11, 2001. The focus of the Government has changed since that time to include a new emphasis on national security and public safety. However, the Government continues to stress the importance of forging partnerships, an important factor in DCC's success. The Government seeks flexible, cost-effective ways to succeed in the highly competitive global economy. The Speech from the Throne identified a number of key areas on which the Government will focus.

DCC plays a direct and indirect role in helping the Government realize success in each of its priorities. The Corporation encourages business opportunities and competition, factors that contribute to a strong economy. DCC helps drive innovation with its industry partners, takes measures to protect the natural environment, and plays a role in the Government's national security agenda. Actions such as supporting employee involvement in local communities, building strong relationships with Canada's Aboriginal communities, and increasing participation in Canadian peacekeeping missions overseas, demonstrate DCC's indirect support for the Government's strategic commitments.

THE ROLE OF DCC AND DND PRIORITIES

DCC recognizes that its client is an important national institution that serves as a significant component of Canada's national security framework. DCC's primary contribution is to support the Minister of National Defence's construction and maintenance management mandate, outlined in Section 4 of the *National Defence Act*. With DCC originating from the *Defence Production Act*, there is a clear link between DCC's corporate role and helping DND meet its security obligations.

DND's mission is "to defend Canada and Canadian interests and values while contributing to international peace and security." Within this mission, National Defence priorities lie in a number of assigned responsibilities. The conduct of these responsibilities is outlined in several strategic plans, namely the 1994 Defence White Paper and *Shaping the Future of the Canadian Forces: A Strategy for 2020*. These strategies outline the means by which DND and the Canadian Forces will meet the Government's defence and national security responsibilities in the future. Additionally, the Minister of National Defence has made Canada's response to the new global security environment and its contribution to national security departmental priorities.



The DCC site office in Kingston, Ontario undertakes an archeological investigation prior to construction of Fort Sauvé at the Royal Military College.

The implementation of each of these strategies and priorities has significant construction, real property and contracting components. They include the construction and renovation of facilities to meet new equipment procurement or operational requirements, recapitalization of older facilities, and support for the realignment of units and elements of the Canadian Forces. Additionally, DCC plays a significant role in supporting the Department's strategic management goals by partnering with it to provide more cost-effective solutions in non-core activities. DCC successes in facilities management in southwestern Ontario and contract management in Bosnia-Herzegovina are indicative of this support.

UPDATE ON DCC CORPORATE STRATEGIC COMMITMENTS

QUALITY

Commitment: To develop a quality framework that will establish a process for reviewing "non-conforming" services, and to ensure that corrective action is taken.

In 1999, DCC began to manage, more formally, the quality of its services in accordance with widely recognized industry practices. The first major milestone was achieving ISO 9001 certification of the contracting function in 2000-01.



Photo courtesy of DND

Canadian Forces on patrol in Tomislavgrad, Bosnia-Herzegovina, to monitor the health and welfare of the residents, as part of Operation PALLADIUM.

In 2001-02, the Operations Division took the next steps towards establishing a corporate-wide quality system by reviewing all operations, and establishing a program of quality audits. This work forms the basis for advancing the process of continuous improvement. Currently, DCC has started to develop a methodology template for the audit of operations activities that includes: training auditors and staff, assessing operations risks, establishing an audit plan and schedule, and establishing measurement criteria to evaluate the quality of contract management. Work in this area will continue in 2002-03.

RISK MANAGEMENT

Commitment: To develop and implement a risk management policy. This policy will review the risks associated with all functional areas, identify those risks that have the greatest potential to harm the Corporation, and formally bring a consideration of these important risks into the strategic planning process.

DCC has a record of successful risk management, which has been made possible by senior management's involvement in key decision-making processes. Since 2000, DCC has worked towards developing a more formal, comprehensive risk management framework. This framework will help both management and employees identify, evaluate, mitigate and communicate strategic business risks. A review of the existing processes pointed out measures already in place, and drew DCC's attention to areas for improvement. Currently, management is overseeing the elaboration of this framework. DCC has assigned high priorities to activities such as the publishing of a financial management policy and process manual and the carrying out of operational audits. In the coming fiscal year, DCC will integrate existing risk management systems, including those for managing DCC's safety, environment, finance and internal audit activities, into its strategic planning process.

E-COMMERCE

Commitment: To undertake a review of DCC's role in the Government On-Line initiative and developments within DCC's industry in order to move into the delivery of services via e-commerce.

Commencing in 2001-02, DCC worked to gain a better understanding of the Government On-Line (GOL) initiative. A goal of this work was to ascertain how GOL and e-commerce trends in the construction and consulting industries will affect DCC's business.

Discussions with DND and the Canadian Construction Association, and a review with Public Works and Government Services Canada (PWGSC), have not identified a major role for DCC in advancing either industry or government systems or practices. The limited opportunity for immediate action does not change the importance of e-commerce to DCC's future. It does, however, change the timing of allocation of resources required by DCC to implement any technology changes to its operations.

The upgrade of DCC's enterprise software, which has been planned for five years and is underway now, will allow for e-commerce expansion. Efforts will continue to identify synergies and enhancements of e-business practices between DCC and DND, PWGSC and industry partners.

FINANCIAL PERFORMANCE

FINANCIAL MANAGEMENT POLICY

DCC financial management policy is to generate sufficient cash to meet the Corporation's anticipated operating and capital requirements. In conjunction with this policy, cash levels are constantly reviewed by management and any surpluses or shortfalls that may occur from time to time, are dealt with in subsequent operating periods.

Under the fee-for-service revenue generation method that commenced in the year ended March 31, 1998, the Corporation had been accumulating cash surpluses. This accumulation was initially viewed as necessary since this method of revenue generation entailed a higher level of risk management than was necessary under the previous appropriations-based funding method. After several years of operations under the fee-for-service approach, management, based on experience, is in a better position to determine the levels of funding required for operating needs and various business contingencies. However, there will always remain a certain level of planning and forecasting risk inherent in the nature of the Corporation's operations and stated mandate.

In accordance with the stated policy, during the year ended March 31, 2001, \$639,331 of surplus was returned to DND by way of a rebate. During the current fiscal year, the Corporation operated at an approximately break-even level and therefore there was no surplus returned to the client.

SIGNIFICANT DEVELOPMENTS

When the Corporation moved to a fee-for-service revenue generation method, management decided to accumulate a reserve in the financial statements to manage the risk of potential legal liabilities arising from the provision of services. The amount of the reserve set up on the balance sheet was \$265,000.

During the current year ended March 31, 2002, the negotiation of an Annex to the Memorandum of Understanding (MOU) signed in 2001 was concluded. The Annex clearly states that; the settlements resulting from the resolution of any existing or future legal claims will be entirely funded by DND, in the year of settlement. Thus, during the year ended March 31, 2002, the Corporation reversed into income, through the reduction of its operating and administrative expenses, the reserve of \$265,000 that had been recorded in the balance sheet.

FISCAL 2001-2002 COMPARED WITH FISCAL 2000-2001

(All dollar amounts reported in thousands
unless otherwise indicated)

SERVICES REVENUE

	2001-02		2000-01		Variance
Construction contract management	\$ 11,823		\$ 11,588		\$ 235
Contracting	2,378		2,135		243
Traditional services	14,201	71%	13,723	71%	478
Environmental	2,627		3,144		(517)
Project management support	1,199		835		364
Commissioning	444		466		(22)
Facilities management	408		252		156
Other	1,173		990		183
Non-traditional services	5,851	29%	5,687	29%	164
	\$ 20,052		\$ 19,410		\$ 642

Services revenue increased in the year ended March 31, 2002 by \$642 or approximately 3% over the previous fiscal year. This increase is attributable to a combination of increases in billing rates and changes in staff mix of billable resources used. The relative percentages of total revenue generated from traditional services and non-traditional services in the year ended March 31, 2002, remained constant at 71% and 29% respectively, with those of the previous year. This revenue mix approximates DCC's objective to grow non-traditional services to at least 30% of the overall service offerings. The decrease in environmental services revenue during the fiscal year ending March 31, 2002 is attributable to a decrease in environmental staff resources in the Ottawa region. However, this reduction was more than compensated for by increases in other non-traditional services, particularly in project management support, facilities management and energy performance projects.

INTEREST REVENUE

2001-02	2000-01	Variance
<u>\$ 102</u>	<u>\$ 171</u>	<u>\$ (69)</u>

Interest revenue decreased in the year ended March 31, 2002, by \$69 or approximately 40%. This decrease is attributable to a combination of reduction in short-term interest rates and lower average cash balances during the year ended March 31, 2002, compared to the previous year.

Salaries increased in the year ended March 31, 2002, by \$554 or approximately 4%. This increase is primarily attributable to cost of living and merit increases given to the staff. Staff levels remained, for the most part, constant over the two fiscal years.

Employee benefits increased in the year ended March 31, 2002, by \$388 or approximately 13%. This increase is the result of several factors. Provincial payroll taxes, Canada Pension Plan (CPP), Employment Insurance (EI) and Public Service Superannuation Plan benefits, which are based on salaries paid, increased by approximately 12% and this increase is directly attributable to the increase in salaries. Group benefit costs, which include health, disability and life insurance benefits, increased by approximately 17%. This increase resulted from a combination of higher salaries and from the higher costs of providing these types of benefits. The other major factor influencing the increase in benefits is the cost of employee future benefits relating to severance, which increased by approximately 13%. This increase is due to more conservative estimates of future salary increases, inflation, health costs, and mortality rates.

Operating and administrative expenses decreased during the year ended March 31, 2002, by \$252 or approximately 8%. However, \$265 of the decrease was the result of the reversal of a liability for potential legal claims of \$265 that was recorded as an expense in prior fiscal years. Excluding this adjustment, operating and administrative expenses increased by \$11, representing an increase of less than 1%.

SALARIES AND EMPLOYEE BENEFITS

	2001-02	2000-01	Variance
Salaries	\$ 13,294	\$ 12,740	\$ 554
Benefits	3,406	3,018	388
	<u>\$ 16,700</u>	<u>\$ 15,758</u>	<u>\$ 942</u>

OPERATING AND ADMINISTRATIVE EXPENSES

	2001-02	2000-01	Variance
Telephone & communication	\$ 593	\$ 505	\$ 88
Staff training & development	466	379	87
Rent	452	471	(19)
Travel	313	325	(12)
Other overhead expenses	1,180	1,576	(396)
	<u>\$ 3,004</u>	<u>\$ 3,256</u>	<u>\$ (252)</u>

During the year ended March 31, 2002, the Corporation allocated greater resources to areas that are critical to meeting the expectations of its client while reducing the overall rate of expenditure growth. For example, additional expenditures were made on wireless communication and information technology such as Internet access for all employees. These expenditures contributed to the increase in telephone and communication expenses. The Corporation also continued the trend of expanding the knowledge base of its employees by increasing staff training and development expenditures. Expenditures were made to enhance employees' knowledge of operations, administration and information technology systems.

LIQUIDITY AND CAPITAL RESOURCES

	2001-02	2000-01	Variance
Cash	<u>\$2,259</u>	<u>\$3,741</u>	<u>(\$1,482)</u>
Accounts receivable	<u>\$3,708</u>	<u>\$2,646</u>	<u>\$1,062</u>
Current liabilities	<u>\$1,797</u>	<u>\$2,486</u>	<u>(\$689)</u>

The Corporation's liquidity and capital resources position continues to be strong, with cash and accounts receivable at March 31, 2002, exceeding current liabilities by \$4,170 and exceeding total liabilities by \$1,157. The decrease in cash balance at March 31, 2002, compared to the previous year is primarily the result of a combination of higher accounts receivable and lower current liabilities balance at March 31, 2002. The increase in accounts receivable of \$1,062 as at March 31, 2002, compared to the balance at March 31 of the previous year is primarily due to a higher concentration of revenue in the month of March 2002 compared to March 2001, and also to an increase in the average collection period of outstanding trade receivables to 42 days at March 31, 2002, from 36 days at March 31, 2001.

The decrease in current liabilities of \$689 includes the reversal of a liability for potential legal claims of \$265, which did not require cash. Therefore, the decrease in current liabilities that contributed to the decrease in the cash balance is \$424. This decrease is primarily due to the timing of expenditures and payments.

The Corporation currently does not have any segregated funds, and cash in excess of short-term operational requirements is invested in accordance with the investment policy approved by the Board of Directors.

EMPLOYEE FUTURE BENEFITS - ACCRUED SEVERANCE BENEFITS

2001-02	2000-01	Variance
<u>\$ 2,853</u>	<u>\$ 2,477</u>	<u>\$ 376</u>

The Corporation records a liability for the estimated cost of employee severance and health care benefits for its retirees. This estimate is actuarially determined. The accrued severance benefits balance at March 31, 2002, increased by \$376 or approximately 15% over the balance in the previous year. The balance increased by the amount of benefits accrued in the current fiscal year of \$563 and decreased by the amount of benefits paid in the current fiscal year of \$187. This liability is considered long term in nature as the exact timing of payouts is not determinable. Although the Corporation has not specifically segregated funds for this obligation, the Corporation possesses sufficient capital resources to meet its severance payment obligations as they become due.

FISCAL 2001-2002 COMPARED TO PLAN

The 2001-02 to 2005-06 Corporate Plan Summary was tabled in the House of Commons in the summer of 2001. The table on the right indicates the Corporation's actual performance for fiscal 2001-02 compared to the projections in the Plan. The Plan information has been reclassified to conform with the presentation format adopted in the current year financial statements.

Services revenue was \$359 or approximately 2% higher than plan. This variance is not considered significant or attributable to any specific set of circumstances and is primarily attributable to the inherent level of uncertainty in the preparation of the plan.

There was no significant variance in interest revenue compared to plan.

Salaries and employee benefits were \$721 or approximately 5% higher than plan. The variance is attributable partially to the variance in services revenue, and partly to the higher costs of benefits, particularly for severance benefits.

FISCAL 2001-2002 COMPARED TO PLAN

Revenue	Actual	Plan	Variance
Services	\$ 20,052	\$ 19,693	\$ 359
Interest	102	103	(1)
	<u>20,154</u>	<u>19,796</u>	<u>358</u>
Expenses			
Salaries and employee benefits	16,700	15,979	721
Operating and administrative	3,004	3,987	(983)
Amortization of capital assets	436	436	-
	<u>20,140</u>	<u>20,402</u>	<u>(262)</u>
Net Income (Loss)	<u>\$ 14</u>	<u>\$ (606)</u>	<u>\$ 620</u>

Operating and administrative expenses were \$983 or approximately 25% below plan. This significant variance is attributable partially to the reversal into income of a reserve for legal claims that had the effect of reducing operating and administrative cost by \$265, and partially to a conscious effort by the Corporation's management to reduce discretionary spending during the first half of the fiscal year when services revenue was tracking below plan. Services revenue rebounded in the second half of the year, and although there was some easing on the constraint on discretionary spending during the latter part of the fiscal year, significant reductions in overall operating and administrative expenses totalling \$718 or approximately 18%, were still realized by the year end date.

There was no variance in amortization of capital assets compared to plan.

The significant variance in net income of \$620 (from an actual income of \$14 to a planned loss of \$606) is attributable to higher revenue of \$358, the reversal of the reserve for legal claims of \$265 and the reduction in operating and administrative costs of \$718, which was partially offset by higher salaries and employee benefits of \$721.

FIVE-YEAR FINANCIAL REVIEW

(in \$ thousands)

	2001-02	2000-01	1999-00	1998-99	1997-98
Revenue					
Services	\$ 20,052	\$ 19,410	\$ 17,362	\$ 15,006	\$ 14,559
Interest	102	171	288	107	204
	<u>20,154</u>	<u>19,581</u>	<u>17,650</u>	<u>15,113</u>	<u>14,763</u>
Expenses					
Salaries and employee benefits	16,700	15,758	13,369	11,825	11,260
Operating and administrative	3,004	3,257	2,819	2,490	2,464
Amortization of capital assets	436	525	540	553	785
	<u>20,140</u>	<u>19,540</u>	<u>16,728</u>	<u>14,868</u>	<u>14,509</u>
Income before rebate	14	41	922	245	254
Rebate	-	(639)	-	-	-
Net income (loss)	<u>\$ 14</u>	<u>\$ (598)</u>	<u>\$ 922</u>	<u>\$ 245</u>	<u>\$ 254</u>
Surplus, beginning of year	<u>2,590</u>	<u>3,188</u>	<u>2,266</u>	<u>2,021</u>	<u>1,767</u>
Surplus, end of year	<u><u>\$ 2,604</u></u>	<u><u>\$ 2,590</u></u>	<u><u>\$ 3,188</u></u>	<u><u>\$ 2,266</u></u>	<u><u>\$ 2,021</u></u>
Assets					
Cash and short term investments	\$ 2,259	\$ 3,741	\$ 4,004	\$ 2,970	\$ 3,322
Accounts receivable, prepaids and advances	3,908	2,830	3,491	4,032	2,500
Capital assets	1,247	1,098	817	806	1,152
	<u><u>\$ 7,414</u></u>	<u><u>\$ 7,669</u></u>	<u><u>\$ 8,312</u></u>	<u><u>\$ 7,808</u></u>	<u><u>\$ 6,974</u></u>
Liabilities					
Account payable and accrued liabilities	\$ 1,282	\$ 2,024	\$ 2,565	\$ 3,051	\$ 2,648
Deferred revenues	-	-	-	-	77
Provision for employee benefits	3,528	3,055	2,559	2,491	2,228
	<u>4,810</u>	<u>5,079</u>	<u>5,124</u>	<u>5,542</u>	<u>4,953</u>
Capital Stock and Surplus					
Common shares	0.032	0.032	0.032	0.032	0.032
Surplus	2,604	2,590	3,188	2,266	2,021
	<u>2,604</u>	<u>2,590</u>	<u>3,188</u>	<u>2,266</u>	<u>2,021</u>
	<u><u>\$ 7,414</u></u>	<u><u>\$ 7,669</u></u>	<u><u>\$ 8,312</u></u>	<u><u>\$ 7,808</u></u>	<u><u>\$ 6,974</u></u>
Cash flows from (used in)					
Operating activities	\$ (895)	\$ 586	\$ 1,587	\$ (146)	\$ 2,312
Acquisition of capital assets	(587)	(849)	(553)	(206)	(154)
	<u>(1,482)</u>	<u>(263)</u>	<u>1,034</u>	<u>(352)</u>	<u>2,158</u>
Cash, beginning of year	3,741	4,004	2,970	3,322	1,164
Cash, end of year	<u><u>\$ 2,259</u></u>	<u><u>\$ 3,741</u></u>	<u><u>\$ 4,004</u></u>	<u><u>\$ 2,970</u></u>	<u><u>\$ 3,322</u></u>

Note: Certain prior years' numbers have been reclassified to conform with the presentation format adopted in fiscal 2001-02.

FUTURE OUTLOOK

In the past fiscal year, the Minister of Public Works and Government Services announced the results of the review of DCC's mandate. The Minister advised the Board of Directors in May 2001 that the Corporation will remain within the Minister's portfolio, and it will maintain its current legislated mandate. This renewed confidence in the value that DCC provides to the client groups within the Department of National Defence (DND) and the Canadian Forces signals a strong future for DCC.

During the mandate review, it was recognized that the legislated mandate is, in fact, wider than DCC's current mission statement. As a result, DCC will continue to be open to new opportunities to serve DND and the Government. DCC's growing environmental services are indicative of the possibilities. Management is working to create a business environment that is dynamic, and that encourages creativity and initiative among its employees.

The external environment in which the Corporation operates has not changed significantly in the past year. The pace of the construction and consulting industries is slowing slightly in response to the overall economic pulse of Canada. This drop will reduce somewhat the pressure on the limited supply of skilled professionals, tradespeople and building materials that DCC's industry partners have experienced over the last few years of booming economic growth.

The government environment is not undergoing any major change that will affect DCC operations, aside from the heightened profile of security and national defence issues in the wake of the September 11, 2001 tragedy. The global war on terrorism has not translated into any significant new or increased activity for DCC in the short term, but there will be an effect on the way DCC supports DND in the management of its infrastructure and real property in the intermediate to long term.



Photo courtesy of DND

A CC130 Hercules aircraft destined for Kandahar, Afghanistan takes off from 8 Wing Trenton. In the short term, the global war on terrorism has not resulted in any increased activity for DCC.

Internally, DCC continues to face the challenge of recruiting and retaining skilled employees in a job market that remains tight despite the general economic deceleration. Furthermore, the need to train staff to meet client needs, to communicate DCC's value-added services, and to deliver high quality services remain critical ongoing objectives.

Over the short term, management has identified significant corporate initiatives to be undertaken in the current planning horizon. DCC's commitment for the next five years will be to build on three ongoing initiatives and to introduce one new one.

By continuing to *enhance the quality of operations*, DCC aims to build on the first major milestone of achieving ISO certification of the contracting function in 2001. This enhancement will be achieved by establishing a comprehensive audit methodology for contract management activities carried out by the Operations Division; implementing an improved audit plan, and providing training that targets specific deficiencies identified by the audits.



DCC was called upon to project manage, tender, construct and commission the building of two state-of-the-art fire fighting training facilities (FFTF). Shown here, at the FFTF at CFB Halifax, is the helicopter-prop that simulates fires resulting from helicopter crashes on a ship's deck.

The second undertaking lies in the area of *client relations*. The implementation of service billing and the enhancement of service quality have highlighted the need for DCC to improve the ways in which it communicates with its client regarding the Corporation's services, achievement of results and the benefits of using DCC as a service provider. It



In the coming fiscal year, DCC will continue to evaluate and prepare for new developments in e-commerce, in accordance with the Government On-Line initiative.

is also important that DCC improve the mechanisms used to gather feedback from its client on the quality of work and the level of satisfaction with services provided. As the service business evolves, a more sophisticated management system is required to ensure that the right types, levels and quality of services are being provided at all points of delivery. Consequently, DCC will evaluate its service demand to determine whether a new business strategy is required to meet the contemporary needs of its client. Furthermore, DCC will take the steps required to update its management framework for performance measurement and accountability.

The third initiative involves continued evaluation of preparedness for *electronic commerce*. The Corporation's infrastructure is e-business ready, and ongoing discussions with DND, Public Works and Government Services Canada (PWGSC), and the construction industry are keeping DCC up to date regarding the forthcoming changes required to remain abreast with new developments in e-business.

Lastly, the development of an *Enterprise Risk Management Framework* will continue in concert with the implementation of specific risk-mitigation measures such as the maintenance of up to date processes and procedures, and the use of more targeted audit activity.

The future of DCC remains positive. The Board of Directors, senior management and all employees of the Corporation stand committed to DCC's vision: "Building on 50 years of partnership in delivering defence projects, DCC's vision is to become the leading provider of innovative solutions that add value for its client, foster growth in its employees, and make meaningful contributions to its industry." With this commitment, DCC is well positioned to support the missions and objectives of its client.



2001-2002 FINANCIAL STATEMENTS

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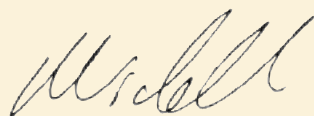
MANAGEMENT RESPONSIBILITY STATEMENT

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and consistently applied. Other financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation. These systems and practices are also designed to ensure that assets are safeguarded and controlled and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing the report thereon.



Ross Nicholls
President
and Chief Executive Officer



Angelo Ottoni
Chief Financial Officer

May 10, 2002



AUDITOR'S REPORT

To the Minister of Public Works and Government Services

I have audited the balance sheet of Defence Construction (1951) Limited as at March 31, 2002 and the statements of operations, surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the by-laws of the Corporation.

A handwritten signature in dark ink, appearing to read 'Shahid Minto', with a horizontal line extending from the end.

Shahid Minto, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 10, 2002

DEFENCE CONSTRUCTION (1951) LIMITED

BALANCE SHEET

AS AT MARCH 31

ASSETS		2002	2001
Current			
Cash		\$ 2,258,698	\$ 3,741,012
Accounts receivable		215,972	220,754
Due from Department of National Defence (note 5)		3,492,490	2,425,459
Prepays and advances		199,851	184,146
		<u>6,167,011</u>	<u>6,571,371</u>
Capital assets (note 3)		1,247,054	1,098,169
		<u>\$ 7,414,065</u>	<u>\$ 7,669,540</u>
LIABILITIES			
Current			
Accounts payable and accrued liabilities		\$ 1,282,038	\$ 2,023,791
Current portion - provision for employee future benefits (note 4)		514,533	462,171
		<u>1,796,571</u>	<u>2,485,962</u>
Provision for employee future benefits (note 4)		3,013,661	2,593,547
		<u>4,810,232</u>	<u>5,079,509</u>
CAPITAL STOCK AND SURPLUS			
Capital stock			
Authorized - 1,000 common shares of no par value			
Issued - 32 common shares		32	32
Surplus		2,603,801	2,589,999
		<u>2,603,833</u>	<u>2,590,031</u>
		<u>\$ 7,414,065</u>	<u>\$ 7,669,540</u>
Contingencies (note 9)			
(See accompanying notes)			

Approved by the Board:



Director



Director

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31

	2002	2001
Revenue		
Services (note 5)	\$ 20,051,955	\$ 19,409,615
Interest	102,184	171,365
	<u>20,154,139</u>	<u>19,580,980</u>
Expenses		
Salaries and employee benefits	16,700,368	15,758,078
Operating and administrative	3,004,121	3,256,392
Recoverable from clients	1,961,127	2,368,681
Recovered from clients	(1,961,127)	(2,368,681)
Amortization of capital assets	435,848	525,013
	<u>20,140,337</u>	<u>19,539,483</u>
Income before rebate	13,802	41,497
Rebate (note 6)	-	(639,331)
Net income (loss)	<u>\$ 13,802</u>	<u>\$ (597,834)</u>

STATEMENT OF SURPLUS

FOR THE YEAR ENDED MARCH 31

	2002	2001
Surplus beginning of year	\$ 2,589,999	\$ 3,187,833
Net income (loss)	13,802	(597,834)
Surplus end of year	<u>\$ 2,603,801</u>	<u>\$ 2,589,999</u>

(See accompanying notes)

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31

	2002	2001
Cash Flows From (Used in) Operating Activities		
Net income (loss)	\$ 13,802	\$ (597,834)
Items not requiring cash		
Provision for employee future benefits	659,530	581,332
Amortization	435,848	525,013
Loss on disposal of capital assets	2,109	42,800
Net increase (decrease) in non-cash working capital balances related to operations	(1,819,707)	119,274
	(708,418)	670,585
Employee severance benefits paid	(187,054)	(84,115)
	(895,472)	586,470
Cash Flows Used In Investing Activities		
Acquisition of capital assets	(586,842)	(849,440)
Decrease in cash during the year	(1,482,314)	(262,970)
Cash at beginning of the year	3,741,012	4,003,982
Cash at end of the year	<u>\$ 2,258,698</u>	<u>\$ 3,741,012</u>

(See accompanying notes)

DEFENCE CONSTRUCTION (1951) LIMITED

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2002

1. AUTHORITY AND OBJECTIVE

Defence Construction (1951) Limited was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and *Canada Business Corporations Act*. The Corporation is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The Corporation is not subject to income taxes.

The objective of the Corporation is principally to contract for and manage the architectural, engineering, construction and environmental services to support the infrastructure management requirements of the Department of National Defence, pursuant to a Memorandum of Understanding with the Department.

Until 1997, the Department of National Defence provided the Corporation with funding for its net cost of operations and for the purchase of capital assets. Effective April 1, 1997, revenue is generated from fees charged for specific services provided.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below.

CAPITAL ASSETS

Capital assets are comprised of leasehold improvements, equipment and computers (which includes hardware, purchased software and implementation costs). These assets are amortized on a straight-line basis as follows:

Leasehold improvements - 10 years

All other capital assets - 5 years

EMPLOYEE FUTURE BENEFITS

Non-pension benefits

Employees are entitled to specific severance benefits as provided for by conditions of employment. The liability for these benefits is recorded as the benefits accrue to employees. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected salary escalation, retirement ages of employees and expected health care costs. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the average remaining service period of active employees.

Pension benefits

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contribution to the Plan is currently based on a multiple of the employees' required contributions, and may change over time depending on the experience of the Plan. These contributions represent the total pension obligations of the Corporation and are charged to income on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

REVENUE

Revenue is recognized in the year the service is performed.

MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

3. CAPITAL ASSETS

	2002			2001
	Cost	Accumulated amortization	Net	Net
Equipment	\$ 831,367	\$ 638,817	\$ 192,550	\$ 238,211
Computers	5,653,294	4,679,015	974,279	768,676
Leasehold improvements	110,574	30,349	80,225	91,282
	<u>\$ 6,595,235</u>	<u>\$ 5,348,181</u>	<u>\$ 1,247,054</u>	<u>\$ 1,098,169</u>

4. PROVISION FOR EMPLOYEE FUTURE BENEFITS

NON-PENSION BENEFITS

	2002	2001
Accrued severance benefits	\$ 2,853,148	\$ 2,477,255
Vacation and overtime benefits	514,533	462,171
Furlough benefits	160,513	116,292
	<u>3,528,194</u>	<u>3,055,718</u>
Less: current portion	514,533	462,171
	<u>\$ 3,013,661</u>	<u>\$ 2,593,547</u>

The Corporation provides severance benefits to most of its employees. These benefit plans are not pre-funded and thus have no assets, resulting in a plan deficit equal to the accrued benefit obligation. The projected obligation related to these benefits at March 31, 2002 is \$3,622,789 (2001 – \$3,190,901). The accrued benefit liability recognized in the balance sheet at March 31, 2002 related to these benefits is \$2,853,148 (2001 – \$2,477,255). The current year's expense is \$562,947 (2001 – \$522,463). During the year, the Corporation paid benefits totalling \$187,054 (2001 – \$87,115).

The significant actuarial assumptions adopted in measuring the Corporation's severance benefits are as follows: the discount rate for projected benefits obligation is 6.00% (2001 – 6.00%); the average rate of general salary increases is 2.66% (2001 – 2.90%); the inflation rate is 2.16% (2001 – 2.40%); the average rate of extended health care cost increases is 4.16% (2001 – 4.40%); mortality rates are based on Group Annuity Mortality (GAM) for 1994 (2001 – GAM 1983); retirement age is 59 (2001 – 59).

PENSION BENEFITS

During the year the Public Service Superannuation Plan required the Corporation to contribute to the Plan at varying rates averaging 2.23 (2001 – 2.14) times the employees' contributions. The current year's contributions by the Corporation to the Plan were \$1,318,402 (2001 – \$1,204,482).

5. RELATED PARTY TRANSACTIONS

The Department of National Defence provides office space free of charge for some employees of the Corporation. The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. The Corporation's services revenue is generated from services provided to the Department of National Defence.

6. REBATE

The financial management policy of the Corporation is to maintain sufficient cash balances for operations and specific identified commitments. Any surplus cash accumulated from prior years of operation, which in the opinion of the Corporation's management, is in excess of the future operational requirements is returned to the Department of National Defence. During the year ended March 31, 2002, there was no excess to be returned to the Department of National Defence.

7. LEASE COMMITMENTS

In addition to the free office space provided by the Department of National Defence, the Corporation leases extra accommodation for its operations. The future minimum annual lease payments are as follows:

Year ending March 31:

2003	\$ 469,631
2004	408,691
2005	264,541
	<u>\$ 1,142,863</u>

8. FINANCIAL INSTRUMENTS

Accounts receivable and accounts payable are incurred in the normal course of business and are primarily due on demand and non-interest bearing. The carrying amounts of each approximate fair value because of their short maturity. With the exception of amounts due from the Department of National Defence and other government departments, there is no concentration of accounts receivable with any one customer and, accordingly, no significant credit risk exists.

9. CONTINGENCIES

Letters of credit aggregating \$200,000 (2001 – \$150,000) in respect of contractual obligations are currently outstanding. The Corporation is currently involved in legal claims in respect of contractual obligations totalling \$6,762,000 (2001 – \$7,710,000). In the opinion of management and legal counsel, the position of the Corporation is defensible. However, the final outcome of such claims is not determinable. In accordance with the terms of an Annex to the Memorandum of Understanding concluded during the course of the current fiscal year, the settlements resulting from the resolution of any existing and future legal claims will be entirely funded by the Department of National Defence, in the year of settlement. As a result of this Annex, the Corporation no longer considers it necessary to record any liabilities in its financial statements relating to potential legal claims. Thus, during the current year, the Corporation reversed into income, through a reduction of its operating and administrative expenses, a liability of \$265,000 that was recorded in the balance sheet.

10. COMPARATIVE FIGURES

Certain prior year numbers have been reclassified to conform with the presentation adopted in the current year.