40th anniversary

# CBC Pension Plan

## Annual Report 2001

CBC Radio-Canada

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# PROFILE

The Canadian Broadcasting Corporation Pension Plan (the Plan) was established by the Canadian Broadcasting Corporation (CBC) effective September 1, 1961, pursuant to the Broadcasting Act. The Plan is primarily a contributory defined benefit pension plan covering substantially all employees of the CBC. The Plan also incorporates an additional contributory component at no cost to the Plan which provides employees the flexibility to improve the provisions determining the calculation of their benefit through tax-deductible contributions. The Plan is federally regulated and is governed by the provisions of the Pension Benefits Standards Act (the “Act”), and the Regulations thereof.

The assets of the Plan are administered by the CBC Pension Board of Trustees by virtue of the Trust Deed between the CBC and the Trustees.

The primary purpose of the Plan is to provide defined benefits for its members in accordance with the Trust Deed and other documents from time to time describing the Plan.

The CBC Pension Board of Trustees, directly or through agents retained by it, is responsible for investing the Fund and in doing so, identifies and pursues investment opportunities in accordance with the Act, the regulations and the Fund's Statement of Investment Policy and Goals.

The investment objective of the Fund over the long term (e.g. 10 year period) is consistently to achieve time weighted average annual rates of return which exceed the increases in the consumer price index by a minimum of 3.75%. The Fund Manager’s objective is to generate returns after deductions for management fees and administrative costs related to the investment activity that equal the annual average increase in a benchmark portfolio plus 0.5%, on a four-year moving average basis. The benchmark return is calculated by combining the return of the asset class benchmark indices in the proportions in which they are represented in the Fund’s asset mix.

The long-term asset mix of the Fund is: 58% equities, 31% fixed income and 11% strategic which includes property and private placements.

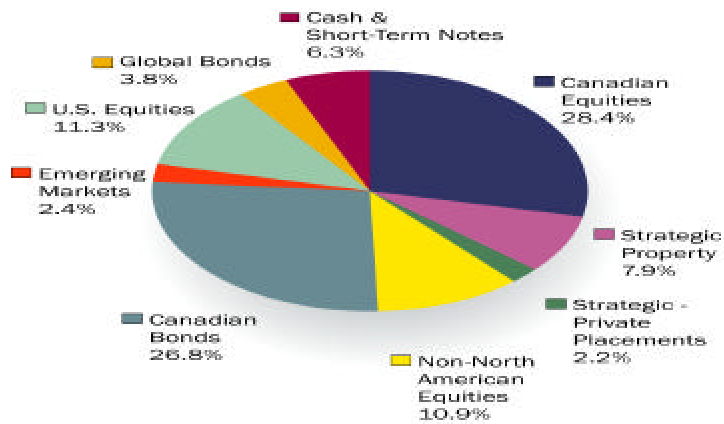
# Overview of the Year's Financial Operations

The Fund's net assets available for benefits decreased $265.5 million (6.8%) from $3,919.0 million at December 31, 2000 to $3,653.5 million at December 31, 2001.

Over the year, the funding excess, which is the actuarial value of net assets available for benefits less the accrued pension benefits, increased by $2.6 million from $657.0 million in 2000 to $659.6 million at the end of 2001.

The Fund uses an external firm which specializes in providing performance measurement data. For the year ending December 31, 2001, the one year rate of return was -1.87% and 7.52% over a four year period. For the ten year period ending on the same date, the time weighted compound annual rate of return for the Fund was 9.5%. The consumer price index increased at the equivalent of a compound annual rate of 1.6% during the same ten year period.

**Asset Mix at Fair Value**
**as at December 31, 2001**




The year to year comparative change in net assets is as follows:

| | 2001 (million $) | 2000 (million $) | Increase (Decrease) $ | Increase (Decrease) % | |
|---|---|---|---|---|---|
| Net Assets Available for Benefits at the Beginning of the Year | 3,919.0 | 3,905.0 | 14.0 | 0.4 | |
| Add: | | | | | |
| Investment Income | 124.7 | 130.9 | (6.2) | (4.7) | Primarily lower interest rates. |
| Current Year Change in Fair Value of Investments and Currency | (233.3) | 180.5 | (413.8) | (229.3) | Primarily a decrease in unrealized gains due to market conditions. |
| Contributions: | | | | | |
| Employer | 0.0 | 0.3 | (0.3) | (100.0) | 100% rate reductions for 2001 and 2000 |
| Employee | 23.6 | 20.7 | 2.9 | 14.0 | Primarily past service buy-back. |
| Less Expenditures: | | | | | |
| Benefit Payments | 168.8 | 169.3 | (0.5) | (0.3) | |
| Contribution & Interest Refunds | 3.2 | 139.8 | (136.6) | (97.7) | 17.2% refund of historical contributions and interest to employees and retired employees. |
| Administrative Expenses | 8.5 | 9.3 | (0.8) | (8.6) | Primarily professional and management fees. |
| (Decrease) Increase in Net Assets | (265.5) | 14.0 | (279.5) | (1,996.4) | |
| Net Assets Available for Benefits at the End of the Year | 3,653.5 | 3,919.0 | (265.5) | (6.8) | |

# Trustees Report

## Financial Health of the Plan

The year 2001 provided various shocks to the world's financial markets. The U.S. recession and the unforgettable events of September 11th, contributed to a minor negative return on the Fund. However, the Plan's actuaries spread the realized and unrealized gains or losses over a four year period in order to determine the Plan's funding excess. When the Plan's excellent performance in the three previous years is taken into account in the smoothing exercise, the Plan was able to maintain a funding excess of $659.6 million at the end of 2001 as compared to $657.0 million at the end of 2000.

In 2000, following the three year actuarial valuation of December 31st, 1999, the CBC as plan sponsor decided to refund $143 million of historical contributions and related interest to employees and retired employees, permanently reduce the employee contribution rate by 17.2% and to eliminate employer contributions for a three year period commencing in 2000. The outcome of these decisions on the reduction to the funding excess was known, unlike the impact of the major shocks. We are confident however, that the policy to amortize the actuarially determined surplus over a 10 year period, as recommended by the Board of Trustees and approved by the CBC Board of Directors in 1997, contributed to safeguarding a major portion of the surplus through an intense period of market volatility.

## Asset Mix

The target asset mix for the year 2001, as approved by the Trustees in their annual review of the CBC Pension Fund Statement of Investment Policy and Goals was 58% equities, 31% fixed income and 11% strategic which includes property and private placements. In 2001, there were ongoing modifications to the portfolio structures within the asset classes in order to enhance the Fund's ability to achieve value added objectives and risk management.

The Board of Trustees planned to have a major asset mix review in the second half of 2002. However, subsequent to the market correction after September 11th, the Trustees, on the side of prudence, decided to accelerate this review and expects the results in the first half of 2002. If changes are required to achieve an optimum asset mix, such changes will be incorporated in the Statement of Investment Policy and Goals in 2002.

## Governance

The ultimate mission of the Plan is to deliver the pension promise to its members. The Board of Trustees maintains an ongoing commitment to effective pension plan governance since it is essential in achieving this objective.

In accordance to the adopted recommendations on principles and self assessment best suited for the Plan as issued in 1999 by the Joint Task Force on Pension Plan Governance, the Board of Trustees, with the assistance of its consultants, undertook a performance assessment of the Board as a group. The Trustees rated the performance of the Board favourably, however, consistent with the intent of the exercise, some areas for enhancement in the governance process were identified and acted upon.

In 2001, the Board received the results of a high level assessment of the risk management infrastructure at the Plan. Three key operational and investment risks were identified, studied and where necessary resources were allocated to ensure the effective management of the risks.

The Board also requested a Performance Standard Survey be undertaken to ensure that members and users were satisfied with the services provided by the Pension Benefit Administration Department. The response rate to the survey was extremely high and the results were very positive.

In closing, the Board recognizes that 2001 was a very difficult year in the financial markets. The Fund's performance, although negative in 2001, was better than the annual benchmark portfolio return for a third consecutive year. This reflects well upon management's commitment to the achievement of our objectives.

On behalf of CBC Pension Board of Trustees

Thomas Wilson

# Managing Director/CEO Report

The year 2001 will always be remembered for the terrorist attack on September 11th. The short term effect of this event on already fragile world economies was dramatic, however, equity markets recovered to pre September 11th levels mid way through the fourth quarter. A slowdown in world economies, led by the United States, became evident early in 2001 and continued throughout the year. This global weakness led to significant declines in the major equity markets around the world. Within this negative environment, the CBC Pension Fund performed reasonably well ending the year with a -1.87% annual return compared to the benchmark return of -2.38%. On a four year basis the Fund's average return was 7.52% which exceeded the benchmark return of 7.28% by 24 basis points.

Net assets available for benefits declined by $266 million from $3.919 billion at the end of 2000 to $3.653 billion at the end of 2001. Approximately 50% of the decline in assets can be attributed to the net difference between benefit payments of $169 million less employee contributions of $24 million and the balance relates mainly to the negative return.

Market fluctuations such as those experienced in 2001 can have a dramatic impact on the surplus of the Plan. In order to help minimize this impact, the Plan has three main practices and processes. First, the Investment Policy provides management the essential guidelines on asset mix to limit risk exposure; second, the actuaries use an averaging methodology for plan assets and third, the surplus is amortized over a 10 year period. Consequently, the Plan remains financially healthy.

## Highlights

- The Contribution Refund to members was completed. Approximately $143 million was distributed, an average of $9,500 per member;
- The Domestic Bond asset class was restructured from one portfolio to three (government, corporate and passive);
- A survey of pensioners and CBC human resource personnel was undertaken to determine the level of satisfaction with the activities of the Pension Benefit Administration Department;
- A risk assessment of the activities of the Plan was undertaken.

While 2001 proved to be a very difficult year for investing, the Plan continues to have a sizable surplus at the end of the year. The diversification measures that have been taken have helped to minimize losses. A major asset mix review planned for early 2002 will extend the commitment to ensure the on-going financial health of the Plan.

I would like to thank all the staff for their hard work in this difficult year.

Stephen Cotsman
Managing Director/CEO

# Pension Plan Governance

## Overview

Pension plan governance means the process and structure adapted by the Board of Trustees in order to direct and manage the business and affairs of the CBC Pension Plan with the objective of optimizing the Plan's performance while ensuring that the Plan is financially able to discharge its responsibilities. The process and structure define the division of responsibilities and establish the mechanisms for achieving accountability among the Board of Trustees, pension plan management and the plan members. The direction and management of the Plan should take into account the impact on other stakeholders such as the CBC and its Board of Directors. The practice of good governance allows the Trustees to fulfill their fiduciary obligations since effective pension plan governance is crucial to delivering the pension promise.

By virtue of the Trust Deed between the CBC and the Trustees, the CBC Pension Board of Trustees is responsible for the administration of the Plan including the management of the fund's assets and the payment of benefits promised to plan members and their survivors. In discharging the fiduciary responsibilities, the Trustees must exercise the care, diligence and skill in the administration and investment of the pension fund that a person of ordinary prudence would exercise in dealing with the property of another. The fiduciary duties oblige Trustees to invest assets in a prudent manner taking into account all factors that may affect the funding and solvency of the Plan and the ability of the Plan to meet its financial obligations. The CBC Pension Board of Trustees has a Statement of Investment Policy and Goals defining investment policies, principles and eligible investments which are appropriate to the needs and objectives of the Plan and the Fund.

Through it's ongoing commitment to good governance practices, the Board of Trustees has developed a Governance Framework to ensure that the Plan is managed effectively, prudently and in compliance with all legal requirements. This framework, which has evolved over time, started with corporate governance guidelines as approved by the Toronto Stock Exchange in 1995 and updated in 1997 and 1998 to take into account guidelines issued by the Pension Investment Association of Canada (PIAC) as well as those issued by the Office of the Superintendent of Financial Institutions on May 1, 1998. In 2000, the Board of Trustees adopted recommendations on principles and self assessment best suited for the Plan as issued on December 21, 1999 by the Joint Task Force on Pension Plan Governance. The Joint Task Force was established to address the Standing Senate Committee on Banking, Trade and Commerce's specific recommendation that plan administrators adopt industry best practices with respect to pension plan governance.

The principles which the Joint Task Force found to be essential to achieving effective governance of a pension plan are:

1. Pension plans should have a clear mission.
2. Pension plans have a primary fiduciary duty to plan beneficiaries:
   - Pension plan governors and administrators owe a duty of loyalty to the plan and its beneficiaries over and above any constituency interests.
   - A code of conduct, including conflict of interest policies and procedures, covering benefits administration and funding, as well as investments, should be clearly articulated and monitored.

3. Responsibilities/accountabilities should be allocated clearly in order to identify stakeholders, allocate responsibilities and define roles:

   - The plan's governors and administrators should define the responsibilities of each participant in the governance, management and operations of the pension plan, and clearly identify the stakeholders to whom each are accountable.

   - Accountability is enhanced through disclosure and transparency.

4. Performance should be measured and reported:

   - The plan's governors should measure performance, including pension administration and funding status as well as investments, against pre-defined goals, adjusted for differing needs over time.

   - Measuring performance facilitates the separation of the supervision of operations from their execution.

   - Performance objectives and measures should be tailored to each plan's specific requirements.

   - Results should be reported to the appropriate stakeholders.

5. The pension plan administrator should be qualified and knowledgeable:

   - Each person involved in plan administration should have, or acquire, knowledge and skills that are current and appropriate for the responsibilities and accountabilities they carry.

6. Governance self-assessment:

   - The governance process should be reviewed and modified over time to ensure its effectiveness, with reporting to the appropriate stakeholders.

The CBC Pension Plan Governance Framework is consistent with the Joint Task Force recommendations. Further, a CBC Pension Plan Responsibility Chart, which clearly defines the responsibilities and accountabilities of the participants in the governance, management and operations of the Plan, is appended to the By-Laws of the CBC Pension Board of Trustees.

In 2000, the Trustees went through a very thorough governance self-assessment exercise using the Joint Task Force on Pension Plan Governance Self Assessment Questionnaire. Detailed results of that exercise were published in last year's annual report. In 2001, the Trustees, with the assistance of external consultants, performed a Governance review and self examination of their role as Trustees as a group. Overall, Trustees rated the performance of the Board during the past year favourably. The exercise allowed the Trustees to identify and act upon some areas for enhancement in the governance process.

In November 2001, the Joint Committee on Corporate Governance issued their final report entitled *Beyond Compliance: Building a Governance Culture*. Sponsors of that project were the Canadian Institute of Chartered Accountants (CICA), the Canadian Venture Exchange (CDNX) and the Toronto Stock Exchange (TSE). This report was focused towards corporate governance rather than pension plan governance, however, it was noted through our review that the objective, processes and benefits of good governance are very similar and will add value to corporate or pension fund assets.

## Board of Trustees Composition

The Trust Deed identifies that the Board of Trustees is comprised of seven individuals. Two Trustees are designated senior officers of the Corporation to include the Senior Vice President, Human Resources and Organization, and the Vice President & Chief Financial Officer. The five remaining Trustees must be appointed by the CBC Board of Directors of which two must hold office as Directors or be officers of the Corporation employed full time by the Corporation, and three are general appointments. Currently, the five appointed Trustees include two members of the CBC Board of Directors, and the three general appointments include two employees, as recommended by members of a committee for staff benefits, and the third is a retired member who is recommended by the Board of Directors of the National Pensioners Association.

## Board of Trustees Committee

The Board of Trustees functions as a single general committee which addresses all subject matters, including benefits, investments and audit, as part of the operating agenda for the Trustees at their meetings.

## Independence of the Board

The Board of Trustees is required to act independently not as representatives of any interest, whether CBC, active employees or pensioners. The Board of Trustees administers the pension plan and pension fund as a trustee for the employer, the members of the pension plan, former members, and any other persons entitled to pension benefits or refunds under the plan. The Board of Trustees meets with outside advisers on any issue which may require clarification or independent opinion in order to assist the Board in discharging it's responsibilities. The Board appoints and meets with external auditors to review their findings. The auditor's report is submitted to the Corporation in conjunction with the financial statements within 90 days following the close of each fiscal year of the Fund.

The Board also appoints actuaries in order to obtain an actuarial report on the financial condition of the Plan. A copy of the report, which must be prepared at least once every three years, is to be submitted to the Corporation within sixty days following receipt of same. The Board of Trustees must also submit a recommendation to the Corporation as to the action to be taken in respect of the results of the actuarial valuation. The Corporation is ultimately responsible for the decisions with regards to surplus utilization or the funding of deficits as well as the level of contributions.

## Effectiveness of the Board

In the oversight role Trustees should have the qualities necessary to oversee a complex financial business therefore prudence requires that a Trustee should have an understanding of financial markets, risk management and actuarial principles.

The Board of Trustees has a formal orientation program for new and existing Trustees to assist them in executing their fiduciary and governance duties. The program includes sessions on legal responsibilities, governance concepts and practices, investment management and finance, and, actuarial concepts and approaches. The education sessions and material are provided by external experts and staff specialists.

The Board of Trustees also has a continuing education program which includes a full day meeting as well as dedicated time at regular meetings. Topics are varied and timely in order to enhance the Trustees knowledge base required to properly discharge their fiduciary duties. One of the topics examined in 2001 was Socially Responsible Investing (SRI), which is defined as the process of selecting or managing investments according to social or environmental criteria. Having evaluated the subject, the Board of Trustees unanimously passed a motion whereby:

- the Plan continues with its existing investment evaluation process where social/ethical issues are not directly addressed but rather monitored in terms of the potential effect they may have on the company's long-term value;

- the Plan continue to monitor how the investment industry adapts to social/ethical investing;
- the Plan consider screening in unique cases where the Government of Canada gives direction.

In 2001, the Board received the results of a high level assessment of the risk management infrastructure at the Plan. Three key operational and investment risks were identified:

- **Succession planning and staff retention**

  A further study was undertaken by consultants specializing in the investment industry. Based on the results of this study the Trustees approved amendments to the Compensation Policy whereby staff progression and allowances for succession planning were introduced to stabilize the risk.

- **Surplus at risk**

  Surplus at risk is a tool which provides a statistical measure of the degree of potential underfunding of the Plan. Currently there are no economically acceptable monitoring packages or services available to the Plan that would provide for continuous monitoring of surplus at risk. The concept of "surplus at risk" is an essential element of the asset mix review being conducted in early 2002.

- **Trade plus one settlement day**

  This change in industry practice will cause major changes to processes and practices in all areas such as financial systems, custodial banking, broker relationship etc. Implementation by the industry has now been delayed until June 2005, however, planning for the change is already underway.

Also in 2001, the Board requested that a Performance Standard Survey be undertaken to ensure that members and users were satisfied with the services provided by the Pension Benefit Administration Department. The response rate to the survey was extremely high and the results were very positive.

The Board of Trustees has Terms of Reference which clearly identify its role on an overall basis as well as its role related to investment, pension administration, audit and actuarial activities. The Board of Trustees has also issued to the CBC Board of Directors guidelines for the selection of Trustees which identify the attributes of a Trustee. These guidelines are intended to be used for the selection and appointment of Trustees as well as a review of the qualifications and effectiveness of Trustees on a continuing basis.

The CBC Pension Plan has in place standards of business conduct to govern the activities of Trustees and other individuals in discharging their duties to the Plan. The Code of Conduct Policy which includes conflict of interest, personal trading, confidentiality, business conduct, and gifts and other benefits, is supplemented by the CBC Pension Fund Code of Ethics and, Standards of Professional Conduct and Employee Personal Investment Guidelines which applies to designated investment professional employees of the organization only.

In 2001, the Board of Trustees met 5 times. Under the By-Laws of the Board of Trustees, the Trustees must meet a minimum of 4 times per year.

## Role of Management

The Board of Trustees has defined management responsibilities for planning, operating and reporting activities of the Plan.

These responsibilities, which include the investment management of the fund, administration of the benefits associated to the Plan, human resources, communications, operations and control, have been delegated to the Managing Director/CEO, who reports to the Board of Trustees.

Subject to Board approval, management develops and implements all relevant policies including those in the areas of investment, communications, integrity and control, organization and compensation, and operations and administration. Subject to these policies, management develops and implements the investment program and develops and monitors service quality standards for the plan members.

Throughout the process, management ensures that the Plan is administered in compliance with the policies and ensures that all regulatory requirements are met.

## Management Performance

The CBC Pension Fund Statement of Investment Policy and Goals defines the investment policies, principles, and eligible investments which are appropriate to meet the objectives of the Plan. It takes into account all factors that may affect the funding and solvency of the Plan and its ability to meet its financial obligations. Operationally, it defines the long-term asset mix targets and the permitted ranges around those targets.

Reviewed annually, the Statement of Investment Policy and Goals identifies that over the long term (e.g. 10-year period), the investment objective of the Fund is to consistently achieve time weighted average annual rates of return which exceed the increases in the consumer price index by a minimum of 3.75%. In addition, the policy identifies performance benchmarks for the individual asset classes and the total Fund. A competitive compensation policy for the investment professionals, which was implemented in 1997 and revised in 2001, is directly related to the performance benchmarks in the Investment Policy. The remuneration therein provides a progressive base salary and a bonus program which is dependent on the over-achievement of the performance benchmarks over a four year period.

The guidelines for management of the pension benefit administration are contained in a policy entitled Pension Benefit Administration Standards. These performance standards ensure that payment of post employment benefits out of the Pension Fund are executed following efficient practices and processes to respond to client needs in a timely manner.

Management has provided assurance to the Trustees that the Plan was administered in compliance with applicable policies and that all regulatory requirements were met in 2001.

## Communications

The Board of Trustees is accountable and must provide disclosure on the Plan's activities to the CBC as Plan sponsor, as well as to both the active and retired members or their survivors.

The Board of Trustees disclosure and reporting practices include the distribution of a CBC Pension Plan Annual Report Highlights document to all members. Further, the main CBC Pension Plan Annual Report is available to all members as the formal communication on the activities of the Plan for the year. The main report includes a Governance section and a Management Discussion and Analysis section, both of which are integral parts of the Plan's continuous disclosure practice.

Other communications issued during the year include the personalized employee benefit statement, which is a legal requirement, various communication bulletins which are distributed to retired members or their survivors, and miscellaneous announcements which are reported on the direct deposit notices.

Members are invited to communicate in writing, by fax, or on the internet. The addresses are provided on the last page of the annual report.

## Governance Self-Assessment

Governance self-assessment leads to improved plan governance practices which in turn contributes to improved investment performance, efficient use of Plan personnel and reliable assurance to members that the Plan is able to pay current and future benefits.

There is an annual review of the Managing Director/CEO's objectives and performance. The Trustee's, with the assistance of external consultants, also perform a Governance review and self examination of their role as Trustees. Continuing with the ongoing commitment towards excellence in the governance of the Plan, the Trustees have implemented the Joint Task Force on Pension Plan Governance's self-assessment and reported on the results to their constituents in 2000.

# Management Discussion and Analysis

The Management Discussion and Analysis section of the annual report elaborates on the information contained in the audited financial statements. This section, which is prepared by management and reviewed by the Board of Trustees, assists the readers in gaining an appreciation of the Plan's financial position and performance over the past year as well as some brief insight on the year to come. The reader is cautioned that there is a degree of uncertainty in forward looking information pertaining to economics and investments in general.

## Plan Objective

The Plan is required to provide defined benefits for its members in accordance with the Trust Deed and other documents from time to time describing the Plan. The Plan's assets are managed within a moderate level of risk to provide a rate of return sufficient to offset liabilities and attempt to avoid increases in contribution rates.

The investment policy is expressed in a document entitled CBC Pension Fund Statement of Investment Policy and Goals. This policy is reviewed and approved annually by the Board of Trustees as required by the Office of the Superintendent of Financial Institutions.

## Investment Constraints

In accordance with the Pension Benefits Standards Act, (the "Act") the Trustees and management must exercise the care, diligence and skills in the administration and investment of the pension fund that a person of ordinary prudence would exercise in dealing with the property of another. The assets must be invested in a prudent manner taking into account all factors that may affect the funding and solvency of the Plan.

Under other sections of regulations to the Act, the Fund cannot directly or indirectly lend or invest moneys equal to or more than 10% of the total book value of the assets in any one investment. Further, except as permitted in subsection 11(2) of the regulations, the Fund cannot own more than 30% of the voting shares of any one corporation.

Permitted investments and restrictions thereon which are appropriate to the needs and objectives of the Plan and the Fund are identified in the Statement of Investment Policy and Goals.

## Investment Objective

The investment objective of the Fund over the long term (e.g. 10 year period) is to consistently achieve time weighted average annual rates of return which exceed the increases in the consumer price index by a minimum of 3.75%. Over the past four years the rate of return averaged 7.5%, and over the past 10 years 9.5%. After allowing for inflation during these periods, the real rate of return was 5.6% and 7.9% respectively.

The Fund Manager's objective is to generate net returns that equal the annual average increase in a benchmark portfolio plus 50 basis points (0.5%) on a four year moving average basis. The benchmark return is calculated by combining the return of the asset class benchmark indices in the proportion in which they are represented in the Fund's asset mix. For the year ended 2001, the net return exceeded the benchmark portfolio by 51 basis points. On a four year moving average the net return exceeded the benchmark by 24 basis points.

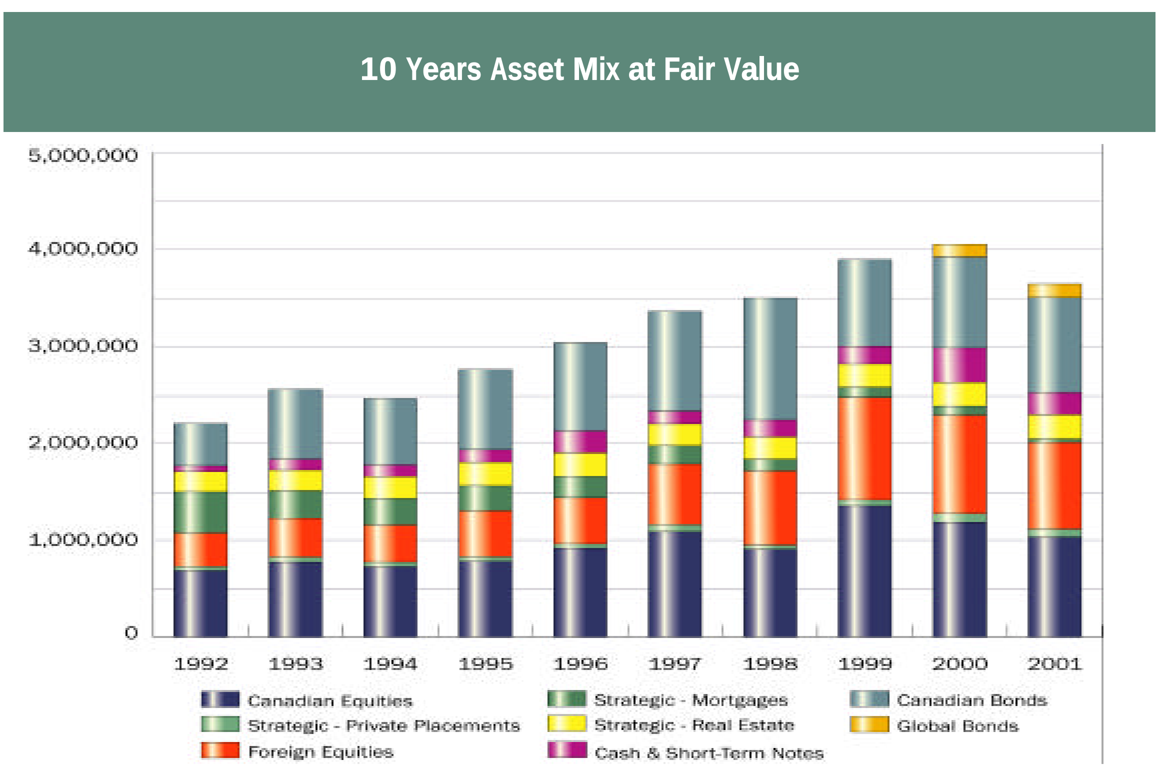
## Asset Mix

For 2001, the long term asset mix of the Fund, as defined in the Statement of Investment Policy and Goals, was 58% equities, 31% fixed income and 11% strategic which includes property and private placements. The objective of the long term asset mix, which was determined through a study undertaken in 1998 by the Fund's actuaries, is to ensure that the Fund's assets will offset the obligations for accrued pension benefits without incurring an increase in employee or employer contributions. There are lower and upper limits to the percentages which allow management the ability to take advantage of market directions and therefore enhance the performance of the Fund. As at December 31, 2001, the asset mix at fair value was 52.9% equities, 37.0% fixed income and 10.1% strategic. In 2002, the initial targeted long term asset mix of the Fund remains unchanged from the year 2001, however the Board of Trustees, management and the Fund’s actuaries will undertake a major asset mix review in the first half of the year. If changes are required to achieve an optimum asset mix such changes will be reflected in the 2002 Statement of Investment Policy and Goals.

## Investment Management Approach

The Fund is actively managed by a relatively small group consisting of the Managing Director/CEO, the Treasurer, five internal portfolio managers and six external investment managers. The Managing Director/CEO provides the general direction on asset mix objectives which is in response to current market conditions and economic forecasts. Internally the portfolio managers and the Treasurer are responsible for the individual buy or sell decisions within their respective portfolios as are the external managers within their mandates. The internal professionals, with the aid of three portfolio assistants, do their research in house by using a network of investment brokers, industry publications, company site visits etc.

It is anticipated that investment decisions will add extra value to the Fund. In 2001 pension payments were 7.1 times greater than contributions. In 2000, employee contributions were permanently reduced by 17.2% and the employer contributions were reduced by 100% until December 31, 2002. The Plan continues to rely on investment income to pay current and future pension benefits.



## RISK MANAGEMENT

The Statement of Investment Policy and Goals defines the investment policies, principles and eligible investments which are appropriate to the needs and objectives of the Plan including the long term asset mix, which identifies the target percentage of asset categories to be held by the fund. Each type of asset has different levels of risks associated to it (i.e. equities are higher risk than government bonds, etc.). The asset model utilized by the Fund is considered moderate in risk, however, it is deemed to be the most appropriate in addressing future liabilities of the Plan. There are a number of risks associated to the Plan and these are identified in Note 3 to the Financial Statements.

### Asset/Liability Matching

The Corporation guarantees pensions and other benefits payable under the terms of the CBC Pension Plan with the exception of the flexible pension provisions in Part III of the Plan. The most recent asset/liability study undertaken by the Plan's actuary concluded that the Plan was in very sound financial condition. The results of the latest triennial actuarial valuation as at December 31, 1999 confirmed that the Fund has a material surplus. The actuarially determined surpluses are amortized over a ten year period to provide an element of protection against the effects of market volatility on the Plan in future years. In 1998, at the request of the Board of Trustees, the actuaries performed an asset mix review in order to determine risk tolerances to achieve moderately higher returns while maintaining adequate assets to offset the obligations for accrued pension benefits and not incurring an increase in employee or employer contributions. Based upon this review and recommendations from the actuary, the Board of Trustees approved and initiated a progressive three year program to change the long term asset mix of the Fund. The year 2000 was the final year of transition and based upon the Fund's performance over the past four years, the program has proven to be very positive. A review of the portfolio structure within the asset classes was also initiated in 2000 to determine if the existing structure was optimal to achieve the Fund Manager's investment objectives. The conclusions from that study revealed that some modifications could enhance the ability to achieve the objectives and contribute to risk management. A plan was developed and partially implemented in 2000 and 2001 with further activity to take place in 2002. As stated elsewhere, a major asset mix review will be undertaken in 2002.

The difference in the long term performance between investment funds is primarily determined by risk differences in the asset mix. Therefore, diversification across various asset classes is an important management tool used in reducing volatility and risk.

The Fund's objective is to select eligible investments that produce acceptable rates of return to meet the future obligations of the Plan. If the Fund's investment portfolio was risk free, the rates of return would be low and stable and would require higher contributions in the future. If the Fund's investment portfolio was aggressive, the rates of return would be potentially higher but the results would be more volatile due to higher risk; however, the contributions may be lower if high returns are earned or the contributions could be much higher if there was a major long term correction in the market.

### Interest Rate Volatility

The Plan's liabilities are sensitive to changes in the long term rates on asset return, salary escalation and inflation. Note 3d(i) indicates that if our assumed long term rate of return, which is used in actuarial valuations, were to decrease from the existing 6.75% to 5.75% the pension liabilities would increase by approximately $415.0 million. This increase in liabilities relates directly to the long term effect of lower earnings. Declining rates of return over a prolonged period could cause an increase to contribution rates in order to meet the Plan's liabilities.

### Financial Market Volatility

The Fund's total investments at December 31, 2001, were $3.642 billion at fair value. Of this total, $1.928 billion was in equities. This substantial amount exposes the Fund to domestic and foreign market volatility. Historically, equities have a negative return about once every five years, however, their long-term performance expectations outweighs the risks of short-term cyclical volatility. A further influence on market volatility risk is that our direct investments in foreign markets were limited in 2001 to 30% of the book value of the Fund. As at December 31, 2001, the Fund's direct foreign investments equalled 24.7% of the Fund's total assets at book value. The Fund also invests in index futures units which are considered Canadian content however the objective of the units is to replicate the rates of return of foreign indices. When these units are taken into account, the Fund's total foreign exposure is 30.0% of the Fund's total assets at book value. When the Fund operates within the 30% limit it means that 70% of the total Fund must be invested in domestic markets and these domestic markets account for only 3% of the total world markets. Therefore, if a major long-term correction takes place in Canada, the Fund runs the risk of a sustained decrease in relative performance, which could cause an increase in contribution rates.

In 2002, the Federal Government's foreign investment rule will remain at 30%. The Fund's foreign exposure and performance benchmarks are on an unhedged basis. Management has an ongoing examination process of its foreign investment strategies in order to determine the optimal direct and indirect exposure level.

## Liquidity Risk

Liquidity risk refers to the cash available for new investments net of pension payments and operating costs. In 2001, benefit payments from the main plan, contribution and interest refunds, and administration costs which totalled $180.6 million were partially offset by employee contributions to the main plan of $22.8 million. The cash flow requirement for the balance of benefit payments was generated through investment income of $124.7 million and proceeds on disposal of assets which included net realized gains of $4.7 million.

In 1997, the Board of Trustees recommended to and the CBC Board of Directors accepted that actuarially determined surpluses be amortized over a 10 year period. The latest actuarial valuation as at December 31, 1999 determined that the Plan had a surplus of $616.2 million. Subsequently the CBC Board of Directors decided to refund a portion of historical employee and retiree contributions, and permanently reduce the employee contribution rate by 17.2%. Further, the CBC was provided with a 100% contribution rate reduction applied from January 1, 2000 to December 31, 2002. These reductions in contributions and an anticipated expansion in the number of pensioners and benefit payments increases the liquidity risk of the Fund. Management has taken action to address the major cash demand and the liquidity risk by adjusting short-term targets for cash and short-term notes. The target adjustments will ensure that adequate cash is available to meet the outflows associated with benefits as well as management of investment portfolios.

## Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. Every time the Fund makes an investment decision it is exposed to the risk that the security issue, be it a government or a corporation, may default on payments or becomes insolvent. The Fund's Statement of Investment Policies and Goals provides guidelines and restrictions for eligible investments taking into account credit ratings, maximum investment exposure and other controls in order to limit the impact of this risk. Note 3 d)(ii) provides more detail on this subject.

## Foreign Currency and Exposure Risk

The Fund invests in non-Canadian equities, bonds and money market securities for which the fair value may fluctuate due to the economic and political environment of individual countries as well as the relative value of the Canadian dollar.

Occasionally, the Fund invests in forward currency agreements in order to reduce the foreign currency risk. With the exception of currency forwards contracts held as part of the Global Bonds portfolio, the forwards total market value in any one foreign currency never exceeds the total market value of the Fund's investments in the hedged foreign currency at the time the hedge was placed. As at December 31, 2001, the Fund had 33 forward currency agreement hedges in place with a net negative notional amount totalling $2.5 million and a net unrealized loss of $1.1 million. As at December 31, 2000, the Fund had 34 such agreements with a net negative notional amount totalling $3.9 million and a net unrealized gain of $2.0 million. In 2001, to avoid any tax penalty, the maximum value of direct foreign investments, as defined under the Income Tax Act of Canada, permitted in the Fund could not exceed 30% of the book value of all the Fund's assets.

In order to increase foreign exposure, the Fund invested in fully unhedged index futures units which are considered Canadian content, however, the returns are based on the performance of the various indices related to the chosen markets.

## INVESTMENT PERFORMANCE

The Fund uses an external firm which specializes in providing performance measurement data for balanced portfolios.

The Fund's total rate of return in 2001 was -1.9% which was 2.5% lower than the median rate of return of 0.6% for balanced funds. In 2000, the Fund's total rate of return was 8.2% which was 1.6% lower than the median rate of return of 9.8% for balanced funds. After adjusting for the Consumer Price Index, the Fund's real rate of return for 2001 was -2.6% as compared to 5.0% in 2000.

The table provides a comparison of the one year rates of return for the individual asset categories. Reported are the asset weights and the actual returns by asset category compared to benchmark returns. In 2001 the total Fund return exceeded the benchmark portfolio by 0.5%. In 2000 the total Fund return exceeded the benchmark portfolio by 1.9%.

| | 2001 | | | 2000 | | |
|---|---|---|---|---|---|---|
| **Asset Categories** | **Categories as a % of Total Assets** | **Benchmark Return** | **Actual Return** | **Categories as a % of Total Assets** | **Benchmark Return** | **Actual Return** |
| Cash and Short-term Investments | 6.3 | 4.7 | 5.3 | 8.7 | 5.5 | 6.4 |
| Bonds - Canadian | 26.8 | 8.1 | 7.8 | 23.2 | 10.3 | 10.1 |
| - Global | 3.8 | 5.4 | 6.2 | 3.2 | 5.8 | 6.3 |
| Canadian Equities | 28.4 | (8.4) | (4.7) | 29.3 | 19.0 | 23.1 |
| Foreign Equities - U.S. | 11.3 | (6.4) | (11.7) | 11.0 | (6.3) | (6.6) |
| Non-North American Equities | 10.9 | (16.5) | (16.4) | 11.9 | (10.4) | (9.7) |
| Emerging Markets | 2.4 | 3.6 | (2.2) | 2.1 | (29.4) | (34.1) |
| Strategic | 10.1 | 4.6 | 3.8 | 10.6 | 10.0 | 9.2 |
| Total | 100.0 | (2.4) | (1.9) | 100.0 | 6.3 | 8.2 |

# ASSET REVIEW

## The Economic Environment

The year 2001 will be remembered for a number of incredible events. It was the year when the U.S. Federal Reserve (Fed) cut interest rates an unprecedented eleven times in the span of one year. It will also be remembered for the tragic and shocking events of September 11th. It was a year that tested a new U.S. president to recount his way to the top and to be faced with war within months of his ascendancy. It will also be recalled for the amazing resiliency of U.S. consumers, whose patriotic spirit and insatiable appetite propelled them to spend even as their debt levels soared and their homeland security undermined. The year will also be remembered for the second consecutive year of negative equity returns culminating in the largest corporate bankruptcy in U.S. history.

The year started with signs that U.S. economic growth was beginning to falter. Capital expenditures, until recently the mainstay of U.S. economic growth, were declining due to the existence of excess global capacity. Overall manufacturing activity weakened with declines in production and new orders being widely reported. U.S. unemployment began to rise as companies faced with increasing global competition and decreasing pricing power announced employee layoffs. The Fed quickly recognized the signs of weakness and began an aggressive program of steadily cutting short-term interest rates throughout the year. The offset to weaker manufacturing was to be found in the domestic consumer. In spite of declining confidence, U.S. consumers continued to spend. The sales of homes and autos, highly sensitive to declining interest rates, were strong and provided support to the ailing economy. The strong U.S. dollar also spurred on sales of imports but resulted in a further deterioration in the U.S. trade position. Amidst the weakness, many corporations, anxious to sell their inventories undertook a program of price-cutting and offering low-rate financing. In this environment, corporate earnings remained under pressure thereby causing U.S. stock markets to fall.

Canada's economy, dependent largely on exports, felt the effects of the slowing U.S. and global economies. The reduction in global demand for technology, telcom and other machinery hurt exports. The weakening demand for oil and gas was masked by the temporary rise in the price of these commodities. However overall commodity prices slumped. These factors dragged on the Canadian economy. The domestic consumer however was being heavily stimulated. Federal and provincial budgets offered lower taxes. In addition, the Bank of Canada also followed a program of lowering interest rates throughout the year. This proved a boon for Canadian home and auto sales. Overall Canadian Gross Domestic Product ("GDP") grew at a rate slightly higher than that of the United States.

The international economies of Europe and Japan also showed signs of global contagion. The manufacturing countries in Europe, such as Germany and Italy, could not withstand the consistent deterioration in global manufacturing conditions. Industrial production across the region fell for most of the year. Higher energy prices along with rising unemployment hurt business and consumer sentiment of the Euroland (the 12 nation members of the European economic union) countries. Even France, which heretofore displayed stronger consumer spending patterns, signaled signs of economic slowdown. The European Central Bank, determined in its mission to keep inflation in check, did not cut interest rates as aggressively as the rest of the global central banks.

The Japanese economy remained on its downward trajectory. Household consumption and general spending weakened further even though prices continued to fall and interest rates were near zero. Corporate profits declined. As the business outlook deteriorated, business investment and industrial production fell. Unemployment rose to record levels further reinforcing consumers unwillingness to spend. Consumer spending makes up two-thirds of the Japanese economy. With such dismal consumer spending, GDP was negative in both the first and second quarters of their fiscal year. Political efforts to tackle the larger issue of fiscal reform have been sidelined as the government tried to find ways to move the economy out of its inertia.

Generally a global growth slowdown is negative for emerging market economies. Economies such as those of Taiwan and Korea, that have become intertwined with the U.S. technology and telcom industries, suffered as excess global capacity reduced demand for their exports. Weak commodity prices also hurt those economies dependent on resource exports. In addition, some emerging market countries like Turkey and Argentina suffered from specific domestic events. As the year progressed, rising risk aversion by investors compounded the problems by slowing the rate of capital and investment into the region.

## Investment Strategy

The Fund's investment policy provides the latitude to vary the weighting of the assets within an operational range around the actuarially determined long-term asset mix target. On a quarterly basis the Fund reviews its asset mix, and based on forecasted returns can increase the weighting of the asset classes that are expected to perform well and reduce the exposure to those asset classes that are forecasted to underperform.

The investment strategy for 2001 was based on the forecast that the U.S. economic slowdown would have a negative impact on corporate earnings and would result in lower interest rates. The Fund's strategy therefore held an increasing overweight in bonds and cash while underweighting equities. The unprecedented events of September 11th and the potential war response caused the strategy, in the fourth quarter, to increase cash positions further to 5% versus the 3% policy weight. The expectation that the Canadian economy was better positioned to withstand the U.S. led global slowdown resulted in larger equity underweights in U.S., EAFE (Europe, Australia and the Far East) and emerging market equities.

Given the diminished global economic activity for the year, the deterioration in actual corporate earnings and the decline interest rates, December 31st marked another negative year of returns for the stock markets and another year of positive returns for the bond markets. The total return (in Canadian dollars) of the TSE 300 cap 10 index was -8.4%, -6.4% for the S&P 500, -16.5% for the EAFE markets and 3.6% for the Emerging Markets, 8.1% and 4.7% for the Canadian bond and money markets respectively. The overall returns are misleading however as performance varied significantly depending on the quarter. For example, in two out of the four quarters, stock markets generated positive returns. In the fourth quarter alone, amid a time of terror and international war, the Canadian stock market returned 12.9%.

## Cash and Short-Term Investments

The Fund invests in equities, bonds, property and private placements in a range according to the limits set within the Statement of Investment Policy and Goals. Further, the Fund is responsible for the cash demands relating to the benefit payments and administrative expenses of the Plan.

To accommodate the flexibility required to manage the cash demands, the Fund invests its cash in quality and highly liquid money market investments in order to maximize returns on total available funds.

Canadian short-term interest rates declined throughout 2001 as the Bank of Canada (BOC) lowered rates 9 times in response to the economic downturn. The average yield for 91 day Treasury Bills for the month of December 2000 was 5.6%. In 2001, the average monthly yield started at 5.3% in January and finished at 2.0% in December, a decline of 3.6% or 360 basis points (bps). The annualized return for these money market investments was 4.7% in 2001 as compared to 5.5% in 2000. The average Canadian monthly Treasury Bill interest rates started the year 20 basis points lower than their U.S. counterpart. However, throughout the year, the U.S. Fed decreased rates at a more aggressive pace than the BOC which resulted in U.S. Treasury Bill rates being on average 30 basis points lower than their Canadian counterpart through the year and finishing 22 basis points lower at year end.

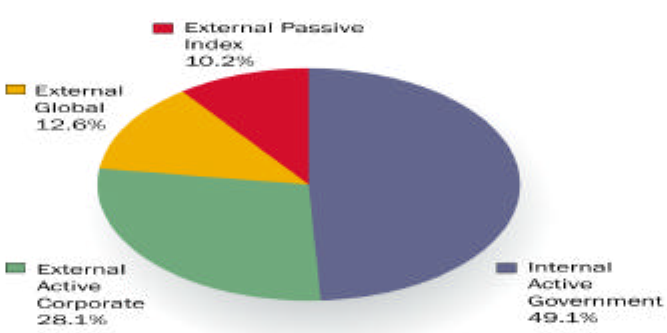
The Fund had on average approximately $169.7 million or 4.6% of assets in cash and short-term investments. Of this total, the average short-term investments were $159.7 million in Canadian denominated assets, and $10.0 million in U.S. denominated assets.

During the year, the internally managed portfolio of the Fund earned $8.6 million in interest on cash and short-term investments. The one year rate of return for 2001 was 5.3% which was 60 basis points above the benchmark return of 4.7%. Over a four year period the rate of return was 6.4%, which was 150 basis points over the benchmark return of 4.9%. At December 31st, 2001, cash and short-term investments represented 6.3% of the Fund's investments at fair value.

## Bonds

The year 2001 involved transitioning the large single internal Canadian bond portfolio into three separate portfolios. The Canadian bond asset class now consists of an internally managed government bond portfolio, an externally managed corporate bond portfolio and an externally managed index portfolio. This latter portfolio was introduced to accommodate asset mix shifts and as a complement to the other more active bond portfolios. The Fund also has a Global bond portfolio within its fixed income assets. The following chart identifies the percentage distribution of bonds by portfolio. As at December 31st, 2001, bonds totaled $1,118.3 million, which represents 30.7% of the Fund's investments at fair value.

**Market Value of Bonds**
**as at December 31, 2001**
**$1,118.3 million**




The year started with a bang as the U.S. Fed on January 3rd, unexpectedly lowered the Fed funds target by ½%. By the end of the August, the Fed had moved a total of 7 times, reducing the funds level from 6.5% to 3.5%. The impetus for such drastic action was initially the steep decline in the manufacturing sector, with capacity utilization reaching levels not seen since the recession in the early '80s. The manufacturing meltdown led to a sharp fall in payrolls. Just when it appeared that the U.S. economy might have averted a recession, the horror of September 11th hit, causing the Fed to move into high gear. The Fed eased 4 more times, with the funds rate hitting an unprecedented 1.75%! The collapse of economic growth in September did throw the U.S. into a technical recession, but the economy bounced back nicely in the fourth quarter.

The Bank of Canada (BOC) largely followed the Fed's lead, but was somewhat more cautious as the Canadian economy initially held up better than the U.S. and may have avoided an official recession. Overall, the BOC lowered the overnight rate 9 times in 2001 to 2.25% from 5.75%, a reduction of 350 basis points.

Unlike money market yields, two-year Canada bonds were largely unchanged in the first half, after erasing an initial 50 basis point decline. However, 2-year yields fell precipitously in the second half of the year, finishing the year at 3.15%, down from about 5.10% at the beginning of the year. Longer-term interest rates were also volatile. The 30-year Government of Canada yield stayed in a tight range in the first quarter, but moved sharply higher in the second quarter as a stock market rally combined with lower short-term rates fueled expectations that the economy would quickly recover. From a high of about 6.1% in May, the 30-year yield then fell steadily to about 5.6% at the end of October. However, on October 31st the U.S. Treasury announced that the U.S. would suspend further issuance of 30-year bonds indefinitely. This announcement appeared to be designed to lower long-term yields in the U.S., which, as in Canada, had fallen modestly compared to shorter-term yields. The impact was spectacular and immediate, but short-lived. In Canada, the 30-year yield dove down to a yield of 5.25% before rebounding right back to 5.65% at year-end.

For the year as a whole, the change in the yield curve was dramatic. Short-term yields dropped roughly 350 basis points; 2-year yields fell about 200 basis points while 30-year yields were virtually unchanged. From a bond portfolio perspective, bonds in the 4 to 6 year maturity sector provided the greatest return, although the volatile market and constantly changing yield curve meant that nimble traders with an accurate crystal ball could significantly outperform the market.

The internally managed active domestic government bond portfolio was established in June 2001. The portfolio performed well in the third quarter. However, the underweight position in long-term bonds and overweight position in mid-term bonds that worked well in the third quarter proved to hinder the performance in the fourth quarter following the surprise announcement by the U.S. Treasury on October 31st.

The corporate bond portfolio provides the Fund with exposure to the increasing universe of Canadian corporate bonds. The minimum credit rating for these bonds is BBB and is structured to be a high credit quality portfolio. This portfolio was introduced in the second half of 2001. These bonds, like all bonds, benefited from the decline in interest rates. Corporate bonds, however, saw their spreads vis-à-vis government bonds rise as investor risk aversion rose later in the year. Widening spreads managed to eke away some of the returns but the portfolio still generated positive returns since its inception.

The Canadian bond asset category rate of return for 2001 was 7.8%, some 30 basis points below the benchmark return of 8.1%. Over a four year period the rate of return was 6.2% which was 30 basis points lower the SLM Universe Bond Index (Government of Canada, Provincials and Corporate Bonds). At year-end, Canadian bonds represented 26.8% of the Fund's investments at fair value.

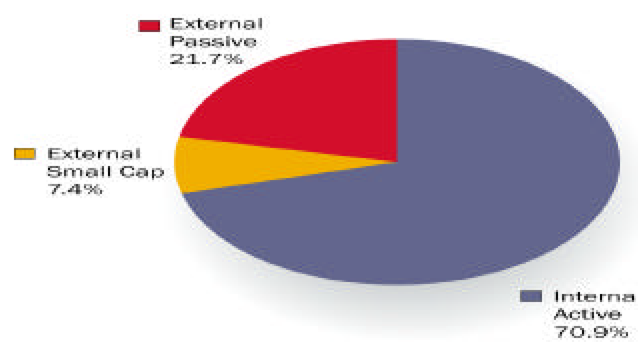
Global bonds, introduced in 2000, provide diversification beyond equities in the Fund's exposure to foreign markets.

The slowing economic scenario with its declining interest rates allowed global bonds to rally in 2001. This externally managed portfolio invests in non-Canadian investment grade bonds. Besides declining interest rates, the portfolio benefited from its exposure to U.S. and European bonds and currencies; and, from its underweighted exposure to Japanese bonds. The portfolio maintained a high quality focus holding more government than corporate names. In 2001, the portfolio generated returns of 6.2% versus it's benchmark 5.4%. At December 31st, 2001, global bonds represented 3.8% of the Fund's investments at fair value.

### Canadian Equities

The Fund's Canadian Equities asset class has three components. An actively managed internal portfolio, and externally managed passive portfolio which replicates the rates of return of the TSE Cap 10 Index and, an active externally managed small capitalization portfolio. The following chart identifies the percentage distribution of Canadian equities by portfolio. At December 31st, 2001, Canadian equities totalled $1,033.4 million, which represents 28.4% of the Fund's investments at fair value.

**Market Value of Canadian Equities as at December 31, 2001 $1,033.4 million**



2001 proved to be another volatile year in the Canadian Market as investors struggled with balancing the effects of rapidly eroding corporate profits and record level of interest rate cuts. The first quarter saw earnings warnings from Nortel Networks and other technology stocks drive the market lower, with the TSE 300 losing 14.5%. In the second quarter, resource based stocks led the market to a modest 1.7% return. The sell-off continued in the third quarter, and intensified after the September 11th terrorist attacks in the United States. The TSE 300 Index lost 11.3% in the third quarter. After bottoming on September 24th, the market staged an impressive 12.9% rally in the fourth quarter as the Bank of Canada aggressively cut interest rates. The TSE 300 closed the year down 12.6%, the second worst loss in the past 25 years.

On a positive note, the broader market actually experienced a decent year. The TSE 299 (which is the TSE 300 Index less Nortel Networks) was up 0.9% with 54% of stocks having positive returns.

Twelve of the fourteen sectors comprising the TSE 300 Index outperformed the index in 2001. Leading the winners were the Transportation sector with a total return of 48.6%, Conglomerates up 23.4%, Consumer Products up 20.3% and Golds up 18.3%. Leading the losers were the technology weighted Industrial Products sector down 49.2%, Utilities down 22.8% and Communication and Media down 7.5%.

The chart on page 21 shows the 2001 total returns of the fourteen groups comprising TSE 300 Index.

**TSE 300 Index Price - 2001**

Some of the major factors influencing the Canadian market in 2001 were:

- The collapse of technology stocks, especially Nortel Networks which dominates the TSE 300 Index. Nortel Networks stock fell a staggering 75.3%, accounting for approximately a 15% loss in the TSE 300 Index in 2001. Surprisingly, as at December 31st, 2001, Nortel Networks remained the most heavily weighted stock in the Index, with a 5.34% weighting.

- Aggressive interest rate cuts by both the Bank of Canada and the Federal Reserve in the United States.

- High number of takeover/merger activity, particularly in the Oil and Gas sector. These include: Solectron takeover of C-MAC Industries, Shire Pharm Group takeover of Biochem Pharma, Burlington Resources takeover of Canadian Hunter Exploration, Conoco takeover of Gulf Canada Resources, Devon Energy takeover of Anderson Exploration, Teck Corp.'s merger with Cominco Ltd. to name few.

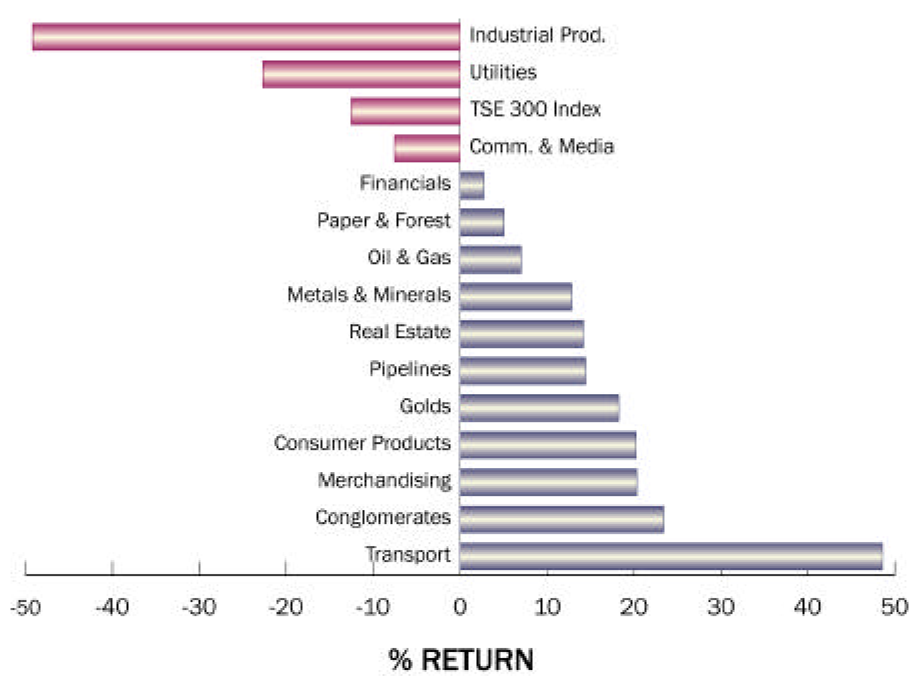
- Impact from the terrorist attacks on September 11th. Aerospace and travel related stocks were negatively affected. Gold stocks benefited.

- Weakening economies worldwide.

The Canadian Equity asset category rate of return for 2001 was -4.7% some 370 basis points better than the benchmark return of -8.4%. Over a four year period the rate of return was 10.1% which was 60 basis points above the benchmark return of 9.5%. The superior performance of the actively managed internal portfolio accounts for this asset class solid performance. The strategies and activities which contributed to the internal portfolio's performance in 2001 included:

- Overweight positions in the Metals and Minerals, Golds, Oil and Gas, and Consumer Products sectors.

## TSE 300 Index Group Returns - 2001



- Underweight positions in Industrial Products (particularly Nortel Networks), Utilities and Communication and Media sectors of the market that all posted very negative returns.

- Active takeover activity in the Canadian market which resulted in 10 of our holdings being acquired or pursued for significant premiums.

- Active management in the selection of specific securities within each sector. The portfolio outperformed in 9 of the 14 sectors of the market. Active portfolio management was important to avoid the big losers that severely impacted the market's return.

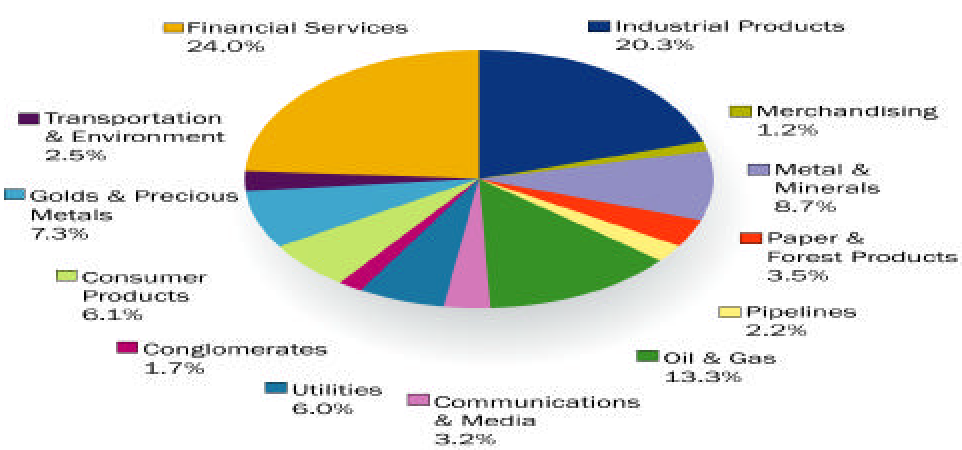
The Canadian small cap market rallied strongly in 2001 outperforming, for the first time in four years, the larger stocks within the universe. Once again the small cap index's relative performance benefited from its heavy resource weighting and not having any exposure to Nortel Networks, as well from specific merchandising stocks.

Looking ahead to 2002, it is expected that the Canadian market will continue to be volatile as fears of a worldwide economic recession loom. There are a number of economic indicators and issues that need to be resolved including:

- Rising number of job losses and unemployment;
- Consumer confidence and spending;
- Eroding corporate profits;
- Controversial accounting issues that are surfacing.

With the strong rally in the fourth quarter of 2001, the stock market has shown some resilience. Going forward, sectors like the banks, retailers and travel-related industries may have some difficulty. However, basic industries including forest products, mining, oil and gas, fertilizers and pharmaceuticals offer good value. The actively managed internal portfolio is structured to benefit from an upwardly biased market with a solid selection of resource and economically sensitive stocks. It will be a stock pickers market in 2002 due to the high level of uncertainty and numerous crosscurrents in the market.

**Actively Managed Internal Portfolio**
**Canadian Equities**
**Asset Mix (%)**

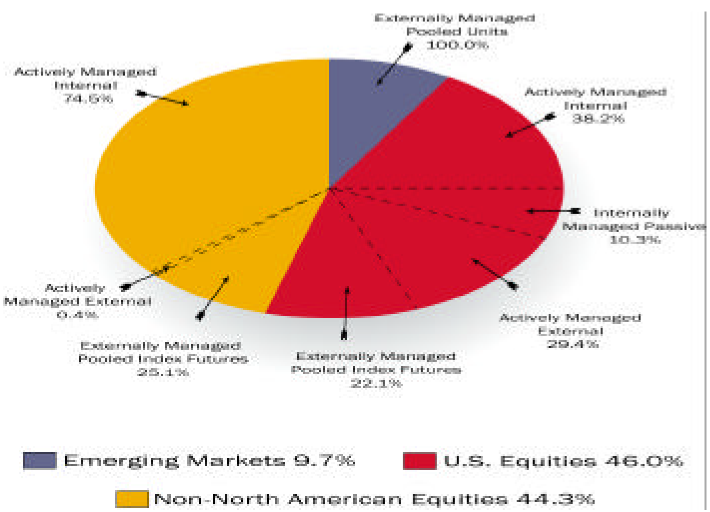


## Foreign Equities

The Fund's Foreign Equities asset class is broken down into three components:

- U.S. equities which include an actively managed internal portfolio, an actively managed external S&P 500 enhanced index portfolio, externally managed pooled index futures and an internally managed passive portfolio.
- Non-North American equities which include an actively managed internal portfolio and externally managed pooled index futures.
- Emerging Markets equities which are primarily externally managed pooled units and a small portion within an actively managed internal portfolio.

**Market Value of Foreign Equities**
**as at December 31, 2001**
**$894.2million**




### U.S. Equities

The year 2001 was another disappointing year for investors in U.S. securities. All the major indices generated negative returns with the NASDAQ hit particularly hard. Price earnings multiples contracted in most sectors and many investors left their money in short term money market accounts as they waited out the economic malaise. The events of September 11th further damaged investor confidence, albeit temporarily, and markets still looked uncertain into the end of the year.

In 2001 investors focused on three main concerns:

- The first was the continued contraction of the technology industry, particularly anything connected to telecommunications spending. After the aggressive growth in this industry leading up to the Y2K changeover, many CEO's found that their companies had overspent and as such, many capital expenditure budgets were sharply reduced. The resulting slowdown for many technology companies was dramatic and largely unforeseen. Surprised by the speed with which their businesses slowed, many technology companies became very cautious about forecasting any upturn and the expression "limited visibility" became a watchword for many investors.
- The second issue was the economic slowdown. Early in the year, many economists forecast a small, shallow recession with growth resuming by the third or fourth quarter of the year. In part, these economists were depending on the U.S. Fed to lower rates sufficiently to rekindle growth quickly. The Fed lowered rates an unprecedented 11 times in 2001 from a rate of 6.50% at January 1st to 1.75% by December 31st, 2001, but it was not enough. Instead, the decline in manufacturing brought about by the sharp fall off in capital expenditures deepened throughout the year and led to widespread declines in employment. U.S. unemployment rose to 5.8% at the end of the year from 4.0% at the beginning. Corporate results reflected this slowdown and most analysts spent much of the year lowering their earnings estimates. The market followed earnings revisions downward as investors decided to wait for clear evidence of an upturn before committing their money.

- Finally, the events of September 11th, 2001 had several effects on both the economy and stock markets. At first, the attacks generated widespread fear that the already weakened economy would slump further as consumer confidence, the last bastion of strength in the economy in 2001, would now fall and consumer spending would finally dry up. The equity markets reacted to these fears with a dramatic sell-off once they were re-opened on September 17th. However, it soon became apparent that consumers were still willing to buy, aided in part by aggressive marketing from major corporations, including 0% financing from the big three auto companies. The markets reacted and put in a strong rally in the fourth quarter. In particular, many of the larger companies whose stocks had been so battered in the first three quarters of the year moved up very aggressively into year end.

The actively managed internal portfolio had adopted a passive strategy through the second half of 2000. Based on a shared belief with most main stream economists that the U.S. Fed's actions would be enough to stimulate growth in 2001, the portfolio returned to an active strategy early in the year. The focus was primarily on companies with the strongest growth outlook in technology, financial services and healthcare. These groups had sold off in late 2000 and their prospects for strong performances in 2001 looked good. However, the length and severity of the manufacturing recession resulted in a large negative impact on the technology and financial sectors. The portfolio's emphasis on economic growth was rewarded late in the year as investors began to see an end to the U.S. recession. Fourth quarter performance showed a sharp improvement; however, the extent of the downturn on the sector selections was not fully offset by the late rally. As such this portfolio significantly underperformed the benchmark S&P 500 index.

The optimism shown by investors in the fourth quarter of 2001 should be borne out as U.S. manufacturers start spending again. Many of the market sectors hurt the most in 2000 and 2001, including technology may likely lead the market higher in 2002. We have experienced in 2001 an unprecedented level of monetary stimulus, and barring any further terrorist attacks, that money will find its way into equity markets as investor confidence returns. The lower interest rate environment should bode well for the Fund's financial stocks. In the healthcare arena, we will be looking at opportunities in biotechnology, believing that over the long run this is an industry with tremendous potential. Overall, the internally managed portfolio will be maintaining it's active strategy with a continued focus on those companies with the fastest growth outlooks.

The actively managed external S&P 500 enhanced index portfolio consists of approximately 325 U.S. stocks attempts to generate slightly higher than index returns while maintaining risk statistics that are similar to that of the S&P 500 index. In 2001 this portfolio maintained its index-like risk characteristics and managed to add value by slightly outperforming the index.

The final components of the U.S. equities, which includes externally managed pooled index futures units and an internally managed passive portfolio, were successful in adding value by slightly outperforming the S&P 500 index.

For the year 2001, the total U.S. equities one year rate of return was -11.7% which was 530 basis points lower than the benchmark S&P 500 Index return in Canadian dollars. Over a four year period the rate of return was 7.6% which was 90 basis points lower than the benchmark return of 8.5%. At December 31st, 2001, the U.S. equities represented 11.3% of the Fund's investments at fair value.

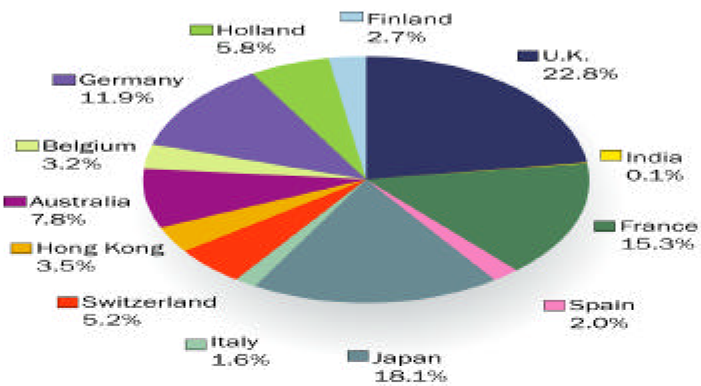
## Non-North American Equities

Non-North American markets had another difficult year in 2001 with all major markets generating negative returns. Within the EAFE markets (Europe, Australia and the Far East) as a whole, European equities relatively outperformed their Asian counterparts. However, in both areas, currency was an added negative for international investors as both the Euro and Yen showed significant weakness throughout the year. Country selection became very difficult. Changes such as political leadership in Japan influenced investor confidence levels and money flows. Subsequent disappointment with the slow speed at which policy changes were introduced in that country had an adverse effect.

The weak U.S. market, a declining Euro and the failure of the European Central Bank (ECB) to lower rates in step with the U.S. Fed, all weighed on European equities. Canadian investors benefited to some degree by a weakening Canadian dollar which acted to offset the weaker Euro. The entire European market suffered from the highly restrictive policies of the ECB. As had happened in much of 2000, the ECB continued to view its mandate as fighting inflation, not stimulating growth. The decline in the Euro had caused many input prices in Europe to rise and the ECB felt it was crucial to keep these price increases contained with a tight monetary policy. The continued slide in the currency and evidence throughout the year that the recession would likely be deeper and longer in Europe than in the U.S., led many investors to reduce their exposure to these countries. The FTSE index in the U.K. was able to outperform the continental countries as consumers there seemed more resilient in their spending habits. In addition, investors perceive the U.K. economy to be more closely tied to that of the U.S. and as such, likely to emerge from the economic slowdown earlier.

Given the sharp declines of the past two years, valuations have reached compelling levels in many countries. If, as is widely expected, the U.S. economy recovers later in 2002, European economies will likely follow suit. Many European corporations may further benefit in 2002 as the pace of corporate reform is slowly accelerating and that may well help to drive earnings later in the year. Finally, many analysts believe the Euro has been unfairly sold off and may finally stabilize in 2002 and then eventually add to returns for international investors.

**Non-North American Equities
Actively Managed Internal Portfolio
International Mix (%)**




The Japanese public became more aware of their country's economic problems as unemployment began to rise from 4.9% in December 2000 to 5.6% in December 2001. The massive government spending programs of previous years had immunized the public, however the magnitude of the problem led the Japanese citizens to elect a new reform minded Prime Minister in May. Many investors believed that fundamental changes were going to take place. The new Prime Minister's programs were mostly delayed or blocked due to the continued entrenchment of old guard politicians combined with the potential pain that would be inflicted if true economic reform took place. Investors reacted swiftly and the Nikkei set record lows in the fall of 2001.

Reform is slowly taking place. The anticipated banking crisis may act as the necessary catalyst to real changes in the banking system. This should lead to the eventual write-off of huge levels of bad loans currently sitting on Japanese bank balance sheets. The write-off of these loans is crucial to any meaningful changes to the structure of the economy. Unfortunately, the past year's -28.3% (Cdn $) performance of the Nikkei Index has demonstrated that investors will not return to this market until those changes are made.

The internally managed portfolio was market weighted Japan for much of the year, believing the political changes would enact reform. Given the poor performance of the Nikkei, this decision lowered the portfolio's overall performance, over the short term. However, through stock selection, the portfolio outperformed most of the local indices and ended the year only slightly behind the benchmark. Selected country index returns and the portfolio's performances and weightings in those countries are outlined in the table below.

| | INDEX RETURNS | CBC RETURNS | % of EAFE PORTFOLIO |
|---|---|---|---|
| U.K. | -10.33% | -11.27% | 22.57% |
| FRANCE | -19.43% | -16.03% | 15.38% |
| GERMANY | -16.11% | -15.26% | 11.89% |
| JAPAN | -28.36% | -25.44% | 18.14% |

Pursuant to the change in the Fund's policy, which removed the requirement to hedge foreign currency exposures, existing hedged pools were converted into unhedged holdings. These two portfolios are managed by an external manager to obtain both market and currency exposure to the S&P 500 and the MSCI EAFE index through the use of unleveraged derivatives. Given the relative strength of the U.S. dollar against the Canadian dollar during the year, the unhedged S&P 500 pool generated greater returns than a hedged position. This was however somewhat offset by the unsteady performance of the Euro currency during the year.

For the year 2001, the total Non-North American equities one-year rate of return was -16.4% which was 10 basis points better than the benchmark return of the EAFE Index return in Canadian dollars. Over a four year period the rate of return was 5.4% which was 190 basis points above the benchmark return of 3.5%. At December 31st, 2001, Non-North American equities represented 10.9% of the Fund's investments at fair value.

## Emerging Markets

The Emerging Markets are the stock markets of low/middle income developing countries with annual per capital GNP of less than U.S. $9,000. Their populace represents 85% of the world's population but only 45% of world GDP. With this type of disequilibrium, the impetus to improve standards of living, accelerate economic growth and introduce market-oriented reform is anticipated to mean higher earnings and stronger stock markets. Although these markets are more volatile, they have the potential to add significant return. This asset class recognizes the Fund's good financial health and it's ability to take on additional risk.

In 2001, even though the emerging market economies suffered weakness, their stock markets generated positive returns. For the most part, many investors were slow to recognize the deepness of the global economic slowdown and were in fact anticipating significant rebounds. At the start of an economic upturn, emerging markets performed well. For much of the year these markets saw investment inflows as pundits incorrectly called the end of the economic slow down. As reality sank in and revenue expectations declined, these markets faced increased risk aversion from investors. The Fund's Emerging Market portfolio is managed by an external manager. This portfolio generated a return in Canadian dollars of -2.2% versus the MSCI Emerging Market Index of 3.6%. At December 31st, 2001, the Emerging Market Portfolio represented 2.4% of the Fund's investments at fair value.

## Strategic

There are two components to the Fund's strategic investments. Property, which includes real estate and mortgages, and private placements.

## Property

In 2001, the investment climate for real estate, as with other capital market sectors, was focused on the North American economy.  The U.S. was perceived to be heading towards recession and there was uncertainty to the consequential affect on Canada. Investors had to recognize that an "event driven economy" was more the order of the day, as compared to a "trend driven economy" experienced over the past 4 to 5 years. The magnitude of this change was highlighted by investor concern towards the technology industry's outlook and the tragedy of September 11th. These two events removed the aura of compliancy towards the information age and introduced international terrorism and geopolitics to the investment decision-making process in real estate.  The adopted process became a cautious wait and see approach before completing transactions.

On a micro level, the real estate industry was:

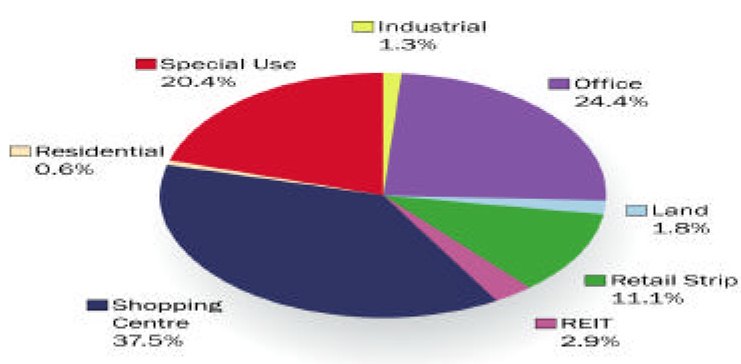
- A beneficiary of a low interest rate environment thus providing no shortage of equity capital seeking entry into the real estate sector
- A healthy market sector due in large part to positive fundamental changes which have evolved over the last 10 years
- A market that placed a premium price on fully leased buildings and stable cash flows from strong tenant covenants
- A market where investment sales were due to inventory re-balancing and/or rationalization of corporate activity
- A market where general activity distribution was approximately 35% pension funds, 30% REITs and Operating Companies, 15% private investors

Notwithstanding any solid trend to the economy in the short term, the outlook for real estate suggests

- A solid supply of product to digest
- Good lender demand for high quality security
- A sense capital markets will provide fresh equity capital to REITs
- A continuance of positive fundamentals for investment which developed over the last decade

The real estate portfolio maintained a fully invested position throughout 2001 and continues to re-balance its investment profile away from concentration in retail product.  Distribution of property holdings is highlighted in the following chart.

**Property Type**



### Mortgages

While ample funds were made available to the marketplace, underwriting standards and stewardship was concentrated in the hands of well-capitalized institutions with strict adherence to investment grade loans. The yield attractiveness of this asset class throughout 2001 is illustrated below.

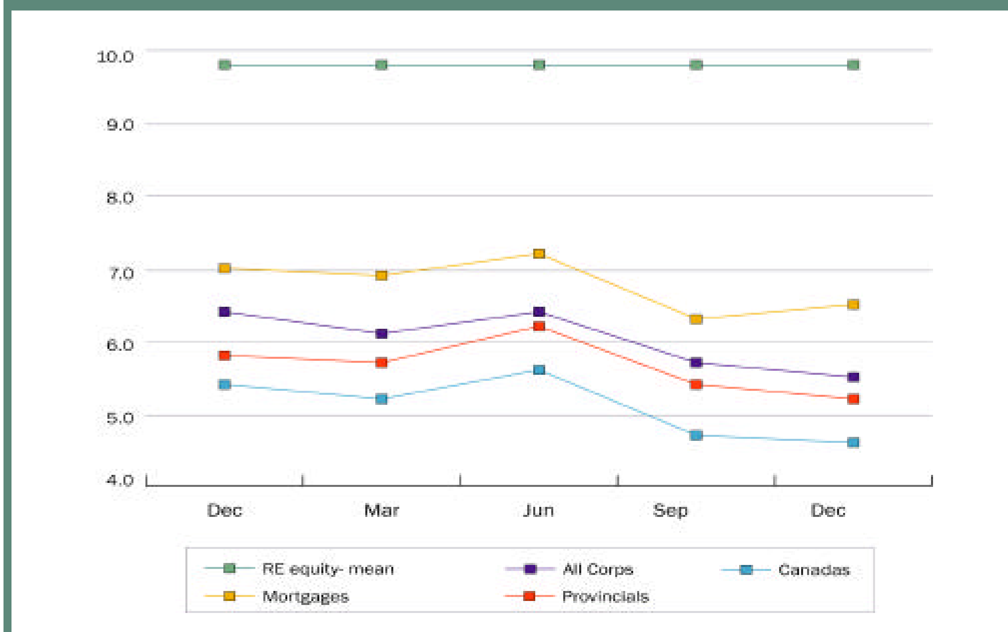
In 2001, a substantial reduction was made to this portfolio primarily through asset sales. Proceeds were re-invested in higher yielding cash-on-cash real estate equity investments.

In 2001, the total Property Portfolio one year rate of return was 9.5% versus the benchmark 4.5%. Over a four year period the rate of return was 8.8% which was 360 basis points over the benchmark return of 5.2%. At December 31st, 2001, the portfolio represented 7.9% of the Fund's investments at fair value.

### Private Placements

Private placements are primarily non-publicly traded equity and debt instruments. Special investments are anticipated to provide higher than average investment returns, over the long term, in order to compensate the Fund for their higher risk profile and lower market trading ability. They also provide insight into certain sectors where the Fund may hold public securities or access where no such public companies exist. To reduce these risks, this portfolio is invested in many small companies operating in varying stages of development, involved in various industries. The year 2001 was particularly difficult for this portfolio. With the higher risk aversion in the market, many of the technology companies that previously were able to find cheap financing were unable to do so. Valuations came down and more time and money was spent keeping solid companies afloat. The portfolio also suffered the bankruptcies of some of the early stage companies. In 2001 the portfolio generated returns of -14.9% Over a four year period the rate of return was -2.2% which was 1670 basis points lower than the benchmark return of 14.5%. At December 31st, 2001, this portfolio represented 2.2% of the Fund's investment at fair value.

**2001 Contract Yield Matrix - SCM Averages**



## Change in Net Assets Available for Benefits

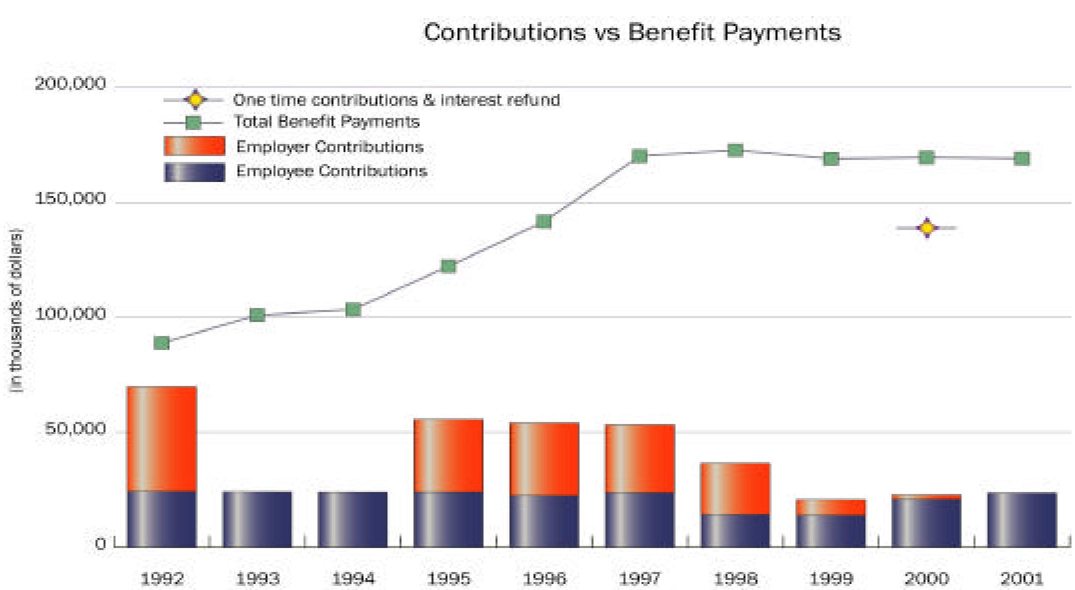
The Fund's net assets available for benefits decreased $265.5 million from $3,919.0 million at December 31, 2000 to $3,653.5 million at December 31, 2001. Over the same period, the cost of net assets decreased $27.3 million from $3,662.4 million to $3,635.1 million.

Total investment income of $124.7 million, which includes interest and dividends earned during the year as well as income from real estate properties net of operating and interest expenses, decreased by $6.1 million when compared to the previous year. This decrease was due primarily to the effect of interest rate reductions on cash and short term notes and bonds.

Total contributions of $23.6 million reflect an increase of $2.6 million when compared to the previous year's total of $21.0 million. In 2001, the number of contributors increased from 7,060 as at December 31, 2000 to 7,246 at the end of December 2001. In total, employee contributions to the main plan increased $3.1 million primarily in past service costs. Employee contributions to the flexible pension provision of the plan, which started in July 1998, totaled $0.8 million in 2001 as compared to $1.0 million for the previous year.

Expenditures out of the Fund totalling $180.6million reflect a decrease of $137.8 million when compared to the previous year's total of $318.4 million. Of this total decrease, $136.6 million relates to contributions and interest refund, $0.8 million to administrative expenses and $0.4 million to benefit payments.

This chart provides a 10 year historical comparison of contributions and benefits. Based upon the results of the actuarial valuation as at December 31, 1999, which reported that the Plan had excess funding of $616.2 million, the CBC decided that it's employer contributions for the years 2000 to 2002 would be covered by the funding excess and that normal employee contributions would be reduced by 17.2% from January 1, 2000 onwards. Figures for 1999 reflect the results of actions taken subsequent to the December 31, 1996 actuarial valuation whereby the employer and employee contribution rates had been reduced by approximately 50% for 1998 and 1999 as partial utilization of the then existing $234 million surplus. Figures for 1993 and 1994 reflect that the CBC had a 100% contribution rate reduction. This was subsequent to the 1991 actuarial valuation which determined that the Plan had $161.0 million excess funding. Various amendments improving the benefits provided by the Plan were introduced at that time.



## Benefits

The plan paid $168.8 million in benefits during 2001, a decrease of $0.4 million when compared to the $169.2 million in 2000. Pension payments increased by $5.8 million due primarily to a 2.55% cost of living adjustment effective January 1, 2001 and an increase of 48 in the number of pensions being paid. The plan requires an averaging method for calculating the inflation adjustment rates for pensions which is different than the year-over-year rate of inflation. Transfers of contributions and refunds decreased $5.7 million due to a decrease in the number of member separations from the Corporation which in 2000 were affected by a voluntary retirement incentive program and a workforce adjustment.

## Administrative Expenses

In accordance with the Trust Deed, the total operating expenses relating to the Fund and pension benefit administration are to be paid out of the Fund.

Administrative expenses for 2001 totalled $8.5 million, a decrease of $0.8 million over the previous year. The decrease related primarily to professional fees in the fund administration which decreased $0.6 million.

In 2001, the total unit expenses for the Fund management, including Board of Trustees expenses, was 18.0 cents per $100 of average assets under management. According to a study undertaken in 2000, the comparative benchmark operating cost for a fund of our size, asset mix and nationality is 34.0 cents per $100 of average assets under management. The expenditures for the CBC Pension Fund are therefore approximately $5.9 million lower than the benchmark costs for similar funds. When the pension benefit administrative expenses are added to the total, the overall unit costs for the administration of the Plan are 22.1 cents per $100 of average assets. These unit costs continue to be amongst the lowest in the industry.

The approved budget for 2002 remains fairly static at the total operating level. There will be fluctuations to the various expense categories reported in Note 12 in the Financial Report section. As reported in the 2000 Annual Report, a portfolio structure review was undertaken to determine whether there was sufficient style and risk diversification within the portfolios to support the Fund in meeting its investment objectives. There will be new external asset management mandates awarded in 2002 as final phases of the plan derived from the review are implemented. Further, based on a risk management assessment finalized in 2001, the compensation policy for the professional staff at the Fund was revised to address succession planning and staff retention which were identified as key operational risks in the study.

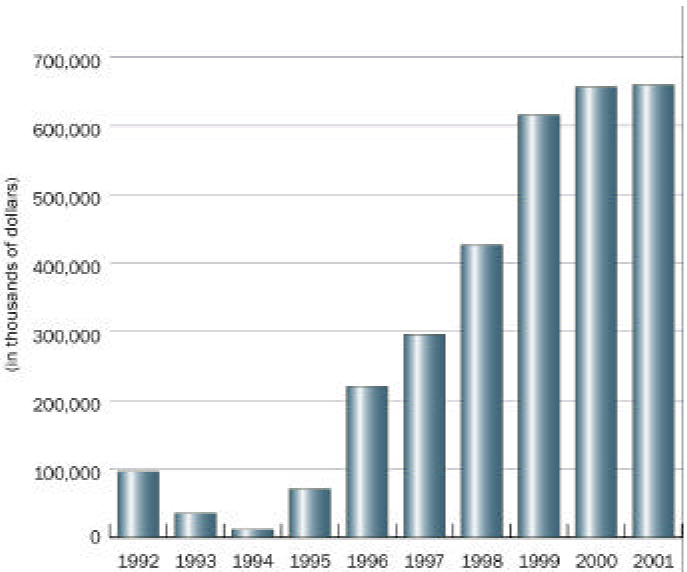
## Accrued Pension Benefits

The Fund's assets are managed to provide a rate of return sufficient to offset the liabilities and attempt to avoid increases in contribution rates. Further, higher returns contribute to the funding excess or surplus as determined through an actuarial valuation.

A formal actuarial valuation is prepared by the Plan's actuaries, a minimum of every three years, the latest of which was at December 31, 1999. This valuation determines the accrued pension benefits and an actuarial value of net assets available for benefits. If the results of the valuation indicate that the net assets available for benefits are greater than the accrued benefits, the Plan has a funding excess or surplus. The opposite results in the Plan having a funding deficiency or deficit. The results from the valuation are used by the CBC in determining the contribution rates required to offset the future liabilities. At the end of each year in preparing our financial statements, the actuary uses the result of the formal valuation and for those years where a formal valuation is not performed, the actuary extrapolates from the results of the previous formal valuation using the projected benefit method prorated on service and management's best estimate of expected economic trends. The results from these valuations are reported in the financial statements.

As at December 31, 2001, the accrued pension benefits were $2,973.8 million, an increase of $95.5 million from the previous year's total of $2,878.3 million. Over the same period, the actuarial value of net assets available for benefits increased $98.2 million from $3,535.3 million to $3,633.5 million. The net result was an increase of $2.7 million to the funding excess at the end of 2001.

**Funding Excess as at December 31**




## Benefit Administration

The Board of Trustees is responsible for the administration of the Plan which includes the payment of post employment benefits out of the Pension Fund to those who have retired or resigned, and to survivors of those whose death occurred in service or after retirement. The activities associated to discharging this and other pension related responsibilities have been delegated to the Pension Benefit Administration Department (PBA).

Performance standards for the pension benefit administration area address the practices and processes required to execute, in a timely and efficient manner, the major responsibility noted above as well as other varied functions in pension related activities such as:

- calculations in connection with the purchase of previous service;
- the transfer of pension entitlements under the terms of reciprocal transfer agreements;
- coordinating the division of pension credits on marriage breakdown;
- gathering and verifying declarations by active pensioners or their power of attorney;
- determination of spousal and/or children's insurance benefits;
- processing pension benefit adjustments related to indexation, ad hoc adjustments, retroactive salary adjustments, garnishments, etc.

Early in 2001, the Board of Trustees engaged consultants to conduct a survey of the CBC Pension Plan's pensioners and surviving spouses, as well as the local CBC human resources representatives who interact with the PBA as part of their day-to-day work. The survey, which was mailed to all recipients in May, was designed to assess the satisfaction levels of the adequacy of services provided by the PBA to their clients.

The response rate amongst pensioners/surviving spouses to the completely anonymous survey was extremely high at almost 50%. Positive comments outnumbered negative comments by almost 10 to 1. The results of the survey were very positive, however, some comments suggested that there is some confusion as to exactly what services PBA is intended to provide as well as a level of uncertainty as to whom to call for which type of information between PBA, local CBC human resources and the Pensioners' Association. A plan will be developed in 2002, the objective of which will be to clearly communicate the roles and responsibilities of the PBA to their clients.

On July 1, 1998, the CBC Pension Plan was amended to incorporate an additional contributory component providing employees with the flexibility to improve the provisions determining the calculation of their benefit through tax-deductible contributions. This modification, which does not entail additional costs to the Plan, is commonly known as FlexPen.

A major amendment to the Plan introduced in 2000 related to a 17.2% refund of historical contributions and related interest to employees and retirees. The department focused it's efforts on this special project through the last half of the year 2000 and the first quarter of 2001. Additional staff consulting fees, mailing costs and other related expenses incurred in 2001 totalled $0.3 million.

The following Table indicates the increasing number of persons to whom pensions are paid from the Pension Fund, and also the number of contribution refunds and pension benefit transfers paid during the year.

During 2001, the number of contributors increased by 186, from 7,060 as at December 31, 2000 to 7,246 as at December 31, 2001.

In 2001, there was a minor increase in the number and a minor change in the mix of pensions being paid as reported in the following table. Also, in 1999 children's pensions were reported on an individual basis whereas in previous years minor children's pensions were attached to the survivor's pension regardless of the number of children receiving pensions. Over a five year period, the total number of pensions being paid increased 5.5% from 7,343 in 1997 to 7,745 in 2001.

The chart on page 33 illustrates the increase in the number of pensioners over the past 10 years.

| **Year Ending December 31** | **2001** | **2000** | **1999** | **1998** | **1997** |
|---|---|---|---|---|---|
| Total number of persons (or estates) to whom contribution refunds and pension benefit transfers were paid during the year | 366 | 285 | 215 | 354 | 474 |
| The number of pensions transferred to other plans (Reciprocal transfers) | 10 | 13 | 5 | 9 | 5 |
| Pension benefit credits transferred to former spouses (active employees) | 9 | 9 | 8 | 11 | 2 |
| **PENSIONS BEING PAID:** | | | | | |
| Pension being paid to ex-employees (Normal - age 65 or over) | 691 | 718 | 734 | 768 | 813 |
| To ex-employees (Early - before age 65) | 5,614 | 5,580 | 5,433 | 5,476 | 5,311 |
| To ex-employees (Disability) | 24 | 28 | 29 | 33 | 34 |
| To spouses of deceased employees and pensioners | 1,309 | 1,265 | 1,218 | 1,171 | 1,117 |
| To former spouses due to division of pension credits | 42 | 38 | 33 | 24 | 21 |
| To children of deceased employees and pensioners | 65 | 68 | 60 | 38 | 47 |
| **Total pensions being paid** | **7,745** | **7,697** | **7,507** | **7,510** | **7,343** |

## Future Issues and Trends

On October 2nd, 2001, the Federal Government of Canada, pursuant to the action taken by the United Nations Security Council enacted Regulations to freeze the assets of suspected terrorists and terrorist organizations.

The Regulations define a list of suspected terrorists and state that "no person in Canada" shall provide or transfer funds to a *"listed person and/or organization"*. This means that (a) no pension plan is permitted to pay benefits to a *"listed person"*; (b) no financial institution or investment manager can invest or deal with any property of a *"listed person"*.

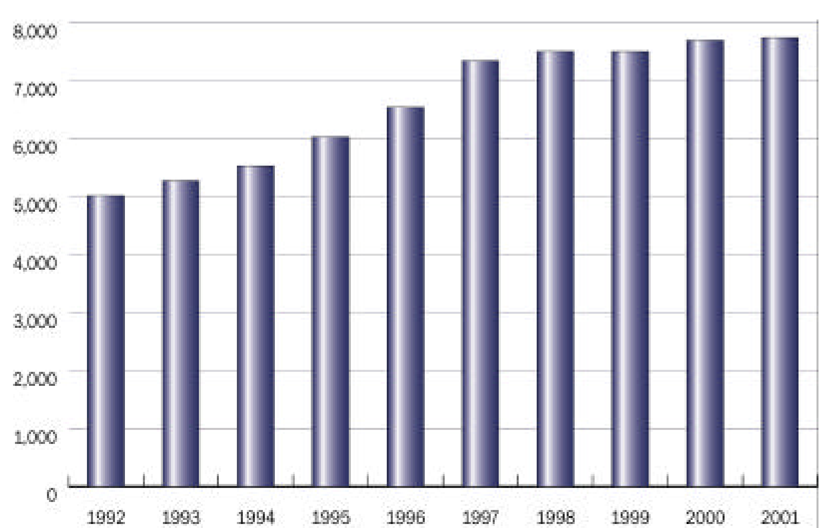
Management of the Plan has ensured that all individuals/firms acting on behalf of the Plan are aware of the prohibitions and mandatory reporting requirements.

We have instituted ongoing monitoring of the situation using information provided by Office of the Superintendent of Financial Institutions (OSFI) to ensure the interests and reputation of the Fund are protected.

As reported last year, the securities industries in Canada and the United States are planning to shorten the time frame required to clear and settle a trade from the existing three days (T+3) to one day (T+1). It is anticipated that this action will enhance the security, efficiency and effectiveness of capital markets. This initiative will encompass investment managers, brokers, exchanges, custodial banks, third party information vendors and others all on whom the investment management activities of the Fund depend. Final implementation of this major change was scheduled for 2004, however subsequent to the events of September 11th, regulators decided to delay implementation until 2005 in order to allow participants to focus on more pressing priorities. The Fund has initiated a formal project to manage this issue and will continue work closely with its service providers to facilitate the exchange of information and integration of activities within the revised timeframe.

The year 2002 is the third and final year where employer contributions are covered by the funding excess as determined by the 1999 actuarial valuation. The reduced levels of contributions and decreased interest rates have added to the liquidity risk of the Fund. However, the risk is being managed in order to ensure that all obligations of the Fund are met and benefits due are paid.

**Number of Pensioners - 10 year history**



# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements and all other information presented in this annual report have been prepared by management, which is responsible for the integrity and fairness of the data presented, including amounts which by necessity are based on management's best estimates as determined through experience and judgement. The financial statements have been properly prepared within reasonable limits of materiality. The accounting policies followed in the preparation of these financial statements conform with Canadian generally accepted accounting principles.

Management of the CBC Pension Board of Trustees maintains books of account, records, financial and management control, and information systems, which are designed for the provision of reliable and accurate financial information on a timely basis. Systems of internal control are maintained to provide assurance that transactions are authorized, that assets are safeguarded, and that legislative and regulatory requirements are adhered to. These controls include a code of conduct and an organizational structure that provides a well defined division of responsibilities and accountability.

The CBC Pension Board of Trustees is responsible for overseeing management and has overall responsibility for approving the financial information included in the annual report. The Board meets with management and the external auditor to review the scope of the audit, to review their findings and to satisfy themselves that their responsibilities have been properly discharged. In addition the firm of William M. Mercer Ltd., consulting actuaries, conducts a formal actuarial valuation of the obligations for pension benefits at least every three years as is required under the Pension Benefits Standards Act.

Deloitte & Touche LLP, the Plan's external auditor appointed by the Board, has conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and procedures as they consider necessary to express the opinion in their report to the CBC Pension Board of Trustees. The external auditors have full and unrestricted access to the Board to discuss their audit and related findings as to the integrity of the Plan's financial reporting and the adequacy of internal control systems.

S. Cotsman
Managing Director/CEO
CBC Pension Plan

Don Grant
Treasurer

February 8, 2002

# ACTUARY'S OPINION

William M. Mercer Limited was retained by the CBC Pension Board of Trustees (the "Board") to estimate the going concern liabilities and calculate the value of the assets of the CBC Pension Plan (the "Plan") as at December 31, 2001, for inclusion in the Plan's financial statements. As part of our work, we examined the Plan's recent experience with respect to the investment of the pension fund assets and presented our findings to the Board.

The valuation of the Plan's actuarial liabilities is based on an extrapolation of the results of the December 31, 1999 actuarial valuation and takes into account:

- membership data provided by the Canadian Broadcasting Corporation (the "Corporation") as at December 31, 1999;
- information provided by the Corporation with respect to actual terminations and retirements, including data with respect to plan members who retired under the Voluntary Retirement Incentive Program in 2000;
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- assumptions about future events (for example, future rate of inflation and future rates of return on the pension fund) which have been communicated to us as the Board's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements represent the Board's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have tested the data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation and the assumptions are, in aggregate, appropriate for the purposes of the valuation. Our opinions have been given, and our valuation has been performed, in accordance with accepted actuarial practice.

Sylvain Poirier
Fellow of the Canadian Institute of Actuaries

William M. Mercer Limited
Ottawa, Ontario

February 8, 2002

# AUDITOR'S REPORT

To the CBC Pension Board of Trustees

We have audited the statement of net assets available for benefits and accrued pension benefits and funding excess of the CBC Pension Plan as at December 31, 2001 and the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in funding excess for the year then ended. These financial statements are the responsibility of the Board of Trustees' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and funding excess of the CBC Pension Plan as at December 31, 2001 and the changes in net assets available for benefits, accrued pension benefits and funding excess for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants

Ottawa, Ontario
February 8, 2002

# CBC PENSION PLAN

## STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS AND FUNDING EXCESS AS AT DECEMBER 31

| | 2001 | 2000 |
|---|---|---|
| | (in thousands of dollars) | |
| **NET ASSETS AVAILABLE FOR BENEFITS** | | |
| **ASSETS** | | |
| Investments (Note 3) | $ 3,642,305 | $ 4,053,243 |
| Accrued Investment Income | 19,750 | 23,686 |
| Accounts Receivable (Note 5) | 5,027 | 6,510 |
| Employee Contributions Receivable | 2,285 | 150 |
| FlexPen Investments (Note 7) | 3,486 | 2,898 |
| | 3,672,853 | 4,086,487 |
| **LIABILITIES** | | |
| Accounts Payable (Note 8) | 19,375 | 167,450 |
| **NET ASSETS AVAILABLE FOR BENEFITS** | 3,653,478 | 3,919,037 |
| Actuarial Asset Value Adjustment (Note 9) | (20,017) | (383,747) |
| **ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS** | 3,633,461 | 3,535,290 |
| **ACCRUED PENSION BENEFITS** (Note 9) | 2,973,835 | 2,878,326 |
| **FUNDING EXCESS** (Note 11) | $ 659,626 | $ 656,964 |

Approved by the Board of Trustees

Trustee

Trustee

Approved by Management

Treasurer

The accompanying notes are an integral part of the financial statements.

# CBC Pension Plan

## Statement of Changes in Net Assets Available for Benefits

## Year Ended December 31

| | 2001 | 2000 |
|---|---|---|
| | (in thousands of dollars) | |
| **NET ASSETS AVAILABLE FOR BENEFITS BEGINNING OF YEAR** | $ 3,919,037 | $ 3,905,000 |
| **INCREASE IN ASSETS** | | |
| Investment Income (Note 3) | 124,736 | 130,854 |
| Current Year Change in Fair Value of Investments and currency (Note 3) | - | 180,538 |
| Contributions (Note 6) | 23,606 | 21,050 |
| **TOTAL INCREASE IN ASSETS** | 148,342 | 332,442 |
| **DECREASE IN ASSETS** | | |
| Current Year Change in Fair Value of Investments and currency (Note 3) | 233,316 | - |
| Benefits (Note 10) | 168,824 | 169,251 |
| Contributions and interest refund (Note 11) | 3,217 | 139,823 |
| Administrative Expenses (Note 12) | 8,544 | 9,331 |
| **TOTAL DECREASE IN ASSETS** | 413,901 | 318,405 |
| **(DECREASE) INCREASE IN NET ASSETS** | (265,559) | 14,037 |
| **NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR** | $ 3,653,478 | $ 3,919,037 |

The accompanying notes are an integral part of the financial statements.

# CBC Pension Plan

## Statement of Changes in Accrued Pension Benefits
## Year Ended December 31

| | 2001 | 2000 |
|---|---|---|
| | (in thousands of dollars) | |
| **ACCRUED PENSION BENEFITS BEGINNING OF YEAR** | $ 2,878,326 | $ 2,821,170 |
| **INCREASE IN ACCRUED PENSION BENEFITS** | | |
| Interest on Accrued Pension Benefits | 197,735 | 200,550 |
| Benefits Earned | 65,774 | 61,570 |
| FlexPen (Note 7) | 824 | 1,048 |
| | 264,333 | 263,168 |
| **DECREASE IN ACCRUED PENSION BENEFITS** | | |
| Benefits (Note 10) | 168,824 | 169,251 |
| Experience Gains (Note 9) | - | 36,761 |
| | 168,824 | 206,012 |
| **NET INCREASE IN ACCRUED PENSION BENEFITS** | 95,509 | 57,156 |
| **ACCRUED PENSION BENEFITS AT END OF YEAR** | $ 2,973,835 | $ 2,878,326 |

## Statement of Changes in Funding Excess
## Year Ended December 31

| | 2001 | 2000 |
|---|---|---|
| | (in thousands of dollars) | |
| **FUNDING EXCESS BEGINNING OF YEAR** | $ 656,964 | $ 616,159 |
| (Decrease)Increase in Net Assets Available for Benefits | (265,559) | 14,037 |
| Change in Actuarial Assets Value Adjustment | 363,730 | 83,924 |
| Increase in Actuarial Value of Net Assets Available for Benefits | 98,171 | 97,961 |
| Net Increase in Accrued Pension Benefits | 95,509 | 57,156 |
| **FUNDING EXCESS AT END OF YEAR** | $ 659,626 | $ 656,964 |

The accompanying notes are an integral part of the financial statements.

# CBC PENSION PLAN

## NOTES TO THE FINANCIAL STATEMENTS
## DECEMBER 31, 2001

### 1. Description of Plan

The following description of the Canadian Broadcasting Corporation Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the text of the Plan as amended.

#### a) General

The Canadian Broadcasting Corporation (the Corporation) established the Plan effective September 1, 1961, pursuant to the Broadcasting Act. The Plan is primarily a contributory defined benefit pension plan covering substantially all permanent employees of the Corporation. The Plan is subject to the provisions of the Pension Benefits Standards Act (PBSA) and Regulations. The Plan's registration number with the Superintendent of Financial Institutions is 55144.

#### b) Benefits

The Corporation guarantees the payment of the pensions (other than the flexible pension provision), and other benefits payable under the terms of this Plan as amended. A member who is a regular employee of the Corporation will receive benefits based on the length of pensionable service and on the average of the best five consecutive years of pensionable salary in the last ten years of employment. A member who is a part-time employee of the Corporation will receive benefits based on an indexed career average salary formula. The benefits are indexed at the lesser of 2.7% or the Consumer Price Index (CPI) effective January 1 of each year.

#### c) Funding

The Plan is funded on the basis of actuarial valuations, which are made at least on a triennial basis. The most recent actuarial valuation of the Plan was made on December 31, 1999, with the cost certificate filed with Regulatory Authorities on June 30, 2000. Employees are required to contribute to the Plan a percentage of their pensionable salary, which is 4.2% of earnings up to the maximum public pension plan earnings ($38,300 in 2001) and 5.5% of earnings in excess of such maximum. The Corporation provides the balance of the funding, as required, based on actuarial valuations.

#### d) Income Tax Status

The Plan is a Registered Pension Trust as defined in the Income Tax Act, and consequently, is not subject to income taxes. The Plan's registration number for income tax purposes is 202895.

## 2. Significant Accounting Policies

### a) Presentation

These financial statements are prepared on the going concern basis and present the financial position of the Plan as a separate financial reporting entity independent of the sponsor and Plan members. The objective of these financial statements is to assist Plan members and other users in reviewing the financial position and results of operations of the Plan for the year. However, these statements do not portray the funding requirements of the Plan or the security of an individual Plan member's benefits.

### b) Consolidation

The financial statements include the accounts of the CBC Pension Plan, its wholly-owned subsidiaries, which hold the Plan's interest in certain real estate and other investments, and a joint venture. The Plan’s interest in the joint venture is accounted for by the proportionate consolidation method.

### c) Investments

Investments are recorded as of the trade date and are stated at fair value (see note 3). Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Cost represents the original cost less write-downs, to reflect other than temporary declines in fair value.

### d) Accrual of income

Interest and dividend income has been accrued to the year-end date.

### e) Current year change in fair value of investments

The current year change in fair value of investments is the difference between the fair value and the cost of investments at the beginning and end of each year adjusted for realized gains and losses in the year.

### f) Accrued pension benefits

Accrued pension benefits related to the defined benefit portion of the Plan are based on an actuarial valuation prepared by a firm of independent actuaries. The determined obligations constitute an extrapolation from the results of the previous formal valuation using the projected benefit method prorated on service and management’s best estimate of future economic events (see note 9). Accrued benefits related to the flexible pension provisions are reported at the fair value of the investments associated with the contributions.

### g) Contributions

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Contributions for past service are recorded in the year received. Cash contributions related to the flexible pension provisions are recorded in the year received and payroll contributions are recorded in the year deducted.

### h) Foreign currency translation and forward currency agreements

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at year-end. Income and expenses are translated at the rate of exchange prevailing at the time of the transactions. Forward currency agreements are fair valued at the reporting date. Gains and losses from translation and forward currency agreements are included in the current year change in fair value of investments.

### i) 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 amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimated.

## 3. Investments

**a)** The following tables show the fair value and the cost of the investments at year-end as well as the current year change in fair value of investments and related income. Real Estate is recorded net of the Fund's proportionate share of property debt of $39.0 million at the end of 2001 ($88.0 million in 2000). Investment income includes interest and dividends earned during the year as well as income from real estate properties which is net of operating and interest expense.

### 2001 INVESTMENTS

| | Fair Value | Cost | Current year Change in Fair Value of Investments | Investment Income |
|---|---|---|---|---|
| | | (in thousands of dollars) | | |
| Fixed Income | | | | |
| Cash and Short-term Investments | $ 229,185 | $ 229,541 | $ (73) | $ 9,218 |
| Bonds - Canadian | 977,572 | 959,353 | 14,057 | 59,926 |
| - Global | 140,711 | 125,000 | 8,220 | 0 |
| | 1,347,468 | 1,313,894 | 22,204 | 69,144 |
| Equities | | | | |
| Canadian | 1,033,444 | 1,007,399 | (71,523) | 16,450 |
| U.S. | 411,053 | 418,475 | (60,660) | 3,534 |
| Non-North American | 396,765 | 401,894 | (92,133) | 4,201 |
| Emerging Markets | 86,356 | 115,570 | (4,737) | 1,509 |
| | 1,927,618 | 1,943,338 | (229,053) | 25,694 |
| Strategic | | | | |
| Property (Note 4) | 286,709 | 298,539 | (7,614) | 29,861 |
| Private Placements | 80,510 | 68,198 | (19,084) | 37 |
| | 367,219 | 366,737 | (26,698) | 29,898 |
| **TOTAL** | $3,642,305 | $3,623,969 | $ (233,547) | $ 124,736 |

## 2000 INVESTMENTS

| | Fair Value | Cost | Current year Change in Fair Value of Investments | Investment Income |
|---|---|---|---|---|
| | | (in thousands of dollars) | | |
| Fixed Income | | | | |
| Cash and Short-term Investments | $ 351,775 | $ 351,702 | $ (250) | $ 14,164 |
| Bonds - Canadian | 939,156 | 931,793 | 24,476 | 64,203 |
| - Global | 132,491 | 125,000 | 7,491 | 605 |
| | 1,423,422 | 1,408,495 | 31,717 | 78,972 |
| Equities | | | | |
| Canadian | 1,186,545 | 985,567 | 274,719 | 14,609 |
| U.S. | 445,398 | 455,060 | (32,143) | 3,038 |
| Non-North American | 482,612 | 424,868 | (59,824) | 3,642 |
| Emerging Markets | 86,556 | 110,051 | (37,104) | 66 |
| | 2,201,111 | 1,975,546 | 145,648 | 21,355 |
| Strategic | | | | |
| Property (Note 4) | 340,734 | 348,292 | (2,985) | 26,930 |
| Private Placements | 87,976 | 64,316 | 9,427 | 3,597 |
| | 428,710 | 412,608 | 6,442 | 30,527 |
| **TOTAL** | $4,053,243 | $3,796,649 | $ 183,807 | $ 130,854 |

### b) Current year change in fair value of investments and currency:

| | **2001** | **2000** |
|---|---|---|
| | (in thousands of dollars) | |
| Unrealized (gain) or loss on investments at the beginning of the year | $ (256,594) | $ (516,444) |
| Net realized gain or (loss) during the year on investments | 4,711 | 443,657 |
| Unrealized gain or (loss) on investments at the end of the year | 18,336 | 256,594 |
| Current year change in fair value of investments | (233,547) | 183,807 |
| Net realized gain or (loss) during the year on currency exchange | 587 | (637) |
| Unrealized gain or (loss) on currency at the end of the year | (356) | (2,632) |
| | 231 | (3,269) |
| Current year change in fair value of investments and currency | $ (233,316) | $ 180,538 |

## c) Determination of fair values:

### i) Cash and short-term investments

Cash and short-term investments, which include bank deposits, treasury bills, bankers' acceptances and short-term corporate notes, are valued at cost which approximates fair value.

### ii) Equities, Bonds and Private Placements

Equities and bonds consisting primarily of listed securities are recorded at prices based on published market quotations.

Private placements consisting primarily of unlisted equities and debentures are valued at prices based on management's best estimates using one of the following methods: trade prices for similar securities, discounted cash flows and appraised values.

### iii) Property

Property consists of mortgages and real estate.

**a)** Mortgages are secured by real estate and generally represent one to five year loans made at commercial mortgage rates to individuals and corporations. These loans are generally amortized over periods ranging from ten to twenty-five years. Mortgages are valued using current mortgage market yields and include accrued interest.

**b)** Real estate projects when in development are valued at the lower of cost and estimated realizable value. Other real estate investments are recorded at estimated fair values and are subject to independent appraisal at least once every three years.

## d) Investment risk

The Plan's performance is subject to a number of risks which are managed using a number of tools and techniques. A discussion of certain of these risks is provided below:

### i) Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities.

The value of the Plan's investments is affected by short-term changes in nominal interest rates and equity markets both domestic and foreign. Pension liabilities are exposed to the long-term assumption for the Plan's rate of return on investments as well as shorter term assumptions on inflation and salary escalation.

The Plan’s primary exposure is the prospect of a decline in the long-term real rate of return which may result in higher contribution rates required to meet pension liabilities. As at December 31, 2001, a 1% reduction in the assumed real long-term rate of return would result in an increase in the pension liabilities of approximately 14%.

It should be noted that short-term fluctuations in the real rate of return would not have a significant impact on the pension liabilities.

Pension liabilities are sensitive to changes in inflation and salary escalation rates. Changes in these parameters as well as interest rates will have a different effect on the values of the assets and pension liabilities, leading to mismatch risk. Given the nature of pension benefits, such risks cannot be eliminated, but are managed through the funding and investment policy of the Plan.

In 2001, the Plan's Statement of Investment Policy and Goals provided for a long-term target asset mix of 31% fixed income, 58% equities, and 11% strategic investments which includes property and private placements. The asset mix is determined through periodic reviews of the Plan's pension liabilities.

### ii) Credit Risk

**a)** The risk relates to the potential that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Plan’s Statement of Investment Policy and Goals, which is reviewed annually, defines permitted investments, in accordance with the Act and provides guidelines and restrictions on acceptable investments which minimizes credit risk.

The maximum credit exposure of the Plan is represented by the fair value of the investments as presented in the Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Funding Excess.

**b)** Concentration of credit risk exists when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions. Management does not believe that the concentrations described below are unusual when compared to other pension plans.

| | 2001 | 2000 |
|---|---|---|
| | (% of category) | |
| BONDS | | |
| Government of Canada | 36.6 | 56.9 |
| Provinces | 17.2 | 16.6 |
| Corporate | 34.5 | 26.5 |
| Passive | 11.7 | - |
| | 100.0 | 100.0 |

| | 2001 | 2000 |
|---|---|---|
| | (% of category) | |
| CANADIAN EQUITIES | | |
| Metals & Minerals | 6.5 | 3.2 |
| Golds & Precious Metals | 5.6 | 4.1 |
| Oil & Gas | 10.5 | 9.7 |
| Paper & Forest Products | 2.9 | 2.0 |
| Consumer Products | 5.3 | 4.3 |
| Industrial Products | 16.1 | 19.8 |
| Real Estate | 0.3 | 0.3 |
| Transportation & Environmental Services | 2.1 | 2.2 |
| Health Care | 0.0 | 0.2 |
| Pipelines | 1.5 | 1.0 |
| Utilities | 4.4 | 5.2 |
| Communication & Media | 2.5 | 3.2 |
| Merchandising | 1.3 | 1.1 |
| Financial Services | 18.1 | 18.2 |
| Conglomerates | 1.2 | 4.3 |
| Index Units | 21.7 | 21.2 |
| | 100.0 | 100.0 |

### iii) Foreign Currency and Exposure Risk

The Plan invests in non-Canadian equities and money market securities the value of which fluctuates due to changes in foreign exchange rates as well as the economic and political environments associated with the individual countries. Further, the Plan increases its foreign exposure by investing in unhedged index futures units which are considered Canadian content but provide returns based on foreign market performance.

The Plan may, from time to time hedge some of the exposure based on economic fundamentals.

As at December 31, 2001 the Plan had 33 forward currency agreement hedges in place with a net negative notional amount totalling $2.5 million and a net unrealized loss of $1.1 million which is reported within the fair value of holdings. As at December 31, 2000 the Plan had 34 forward currency agreement hedges in place with a net negative notional amount totalling $3.9 million and a net unrealized gain of $2.0 million which is reported within the fair value of holdings.

The Plan's foreign exposure as at December 31 was as follows:

| | 2001 | 2000 |
|---|---|---|
| | (in thousands of dollars) | |
| **UNHEDGED** | | |
| Cash & Short-term Investments | $ 38,569 | $ 3,523 |
| Equities and Global Bonds | | |
| United States | 354,672 | 171,335 |
| Japan | 68,306 | 80,761 |
| United Kingdom | 77,924 | 78,027 |
| Euro Countries: | | |
| - France | 71,268 | 77,184 |
| - Germany | 80,649 | 86,993 |
| - Holland | 19,472 | 28,507 |
| - Finland | 8,221 | 16,982 |
| - Portugal | 2,100 | - |
| - Italy | 4,947 | 3,379 |
| Switzerland | 22,077 | 25,074 |
| Australia | 23,662 | 11,902 |
| Belgium | 9,603 | 11,359 |
| Hongkong | - | 9,275 |
| Spain | 6,130 | 4,518 |
| Denmark | - | 4,266 |
| Others | 86,356 | 88,027 |
| Index Futures Units - United States | 90,613 | - |
| Index Futures Units - Non-North American | 102,410 | - |
| Total Unhedged | 1,066,979 | 701,112 |
| **HEDGED** | | |
| Index Futures Units - United States | - | 316,876 |
| Index Futures Units - Non-North American | - | 131,823 |
| Currency Forwards: | | |
| Japan | 17,293 | 17,253 |
| Euro | (5,230) | (12,020) |
| United States | (6,824) | (10,064) |
| United Kingdom | - | 978 |
| Sweden | (6,381) | - |
| Total Hedged | (1,142) | 444,846 |
| Total Foreign Exposure | $ 1,065,837 | $ 1,145,958 |

## 4. Real Estate Joint Venture

Effective April 1, 2000, the Plan and Edgefund Equities Inc. merged part of their respective real estate holdings to form Pyxis Real Estate Equities, a 30%-70% joint venture. The Plan contributed real estate property to the joint venture for a total consideration of $84 million, of which $60 thousand was received in common shares of Pyxis, and the balance was received as a promissory note secured by the fair market value of all properties.

The following amounts represent the Plan's proportionate interest in Pyxis before consolidation:

| | 2001 | 2000 |
|---|---|---|
| | (in thousands of dollars) | |
| **Assets** | | |
| Cash and Short-term Investments | 3,004 | 3,464 |
| Accounts Receivable | 3,091 | 3,638 |
| Property | 29,856 | 30,230 |
| **Liabilities** | | |
| Accounts Payable | 1,230 | 5,140 |
| Promissory Notes | 30,899 | 31,706 |
| **Earnings** | | |
| Investment Income | 3,665 | 423 |
| Administrative Expenses | 339 | 256 |
| Net Income | 3,326 | 167 |

## 5. Accounts Receivable

| | 2001 | 2000 |
|---|---|---|
| | (in thousands of dollars) | |
| Property | $ 4,662 | $ 5,863 |
| Investment related | 326 | 525 |
| Other | 39 | 122 |
| | $ 5,027 | $ 6,510 |

## 6. Contributions

The following are the contributions for the year:

| | | 2001 | 2000 |
|---|---|---|---|
| | | (in thousands of dollars) | |
| Employer | | $ - | $ 302 |
| Employee | - Current Service | 16,508 | 15,389 |
| | - Past Service | 6,274 | 4,311 |
| | - FlexPen (Note 7) | 824 | 1,048 |
| | | $ 23,606 | $ 21,050 |

## 7. Flexible Pension (FlexPen)

An amendment was made to the Plan effective January 1, 1998, to include a flexible component. Under FlexPen, members can make additional contributions to the Plan, up to limits within the Income Tax Act. Members may choose from various pooled fund investments which are administered by external managers. Contributions and accrued investment income thereon are converted into additional benefits based upon market rates at the earliest of retirement, death or termination of employment.

The liabilities of the Plan with respect to FlexPen are equal to the additional member contributions, plus investment income, plus or minus capital gains or losses thereon less refunds. This portion of the Plan benefits is funded entirely by members.

A summary of the activity for the year ending December 31 is as follows:

| | 2001 | 2000 |
|---|---|---|
| | (in thousands of dollars) | |
| Investments beginning of year | $ 2,898 | $ 2,071 |
| Increases: | | |
| Contributions | 816 | 868 |
| Interest | 8 | 8 |
| Capital Appreciation | - | 172 |
| | 824 | 1,048 |
| Decreases: | | |
| Refunds | 226 | 221 |
| Capital Depreciation | 10 | - |
| | 236 | 221 |
| Investments end of year | $ 3,486 | $ 2,898 |

## 8. Accounts Payable

| | 2001 | 2000 |
|---|---|---|
| | (in thousands of dollars) | |
| Investment related | $ 1,775 | $ 621 |
| Benefits | 14,898 | 158,761 |
| Other | 2,702 | 8,068 |
| | $ 19,375 | $167,450 |

## 9. Accrued Pension Benefits

**(a)** Actuarial valuations are required at least every three years under the Pension Benefits Standards Act. The latest actuarial valuation was made at December 31, 1999, by William M. Mercer Limited, a firm of consulting actuaries. Amounts reported in these financial statements are based on this valuation. The actuarial assumptions used in determining the obligations for accrued pension benefits, which reflect the Board's best estimates of expected economic trends, were as follows:

| | Long term assumptions | |
|---|---|---|
| | 2001 | 2000 |
| Asset rate of return | 6.75% | 6.75% |
| Salary escalation rate* | 4.00% | 4.00% |
| Inflation rate | 3.00% | 3.00% |

* *excluding merit and promotional salary increases*

Select assumptions reflecting the short-term economic environment were also used.

In 2001, there were no experience gains ($36.8 million in 2000 arising from differences between the actual and expected demographic experience of retirement and terminations).

**b)** The actuarial value of net assets available for benefits has been determined at amounts that reflect long-term market trends consistent with assumptions underlying the valuation of the accrued pension benefits. The valuation is based on a four-year moving - average-market method. Under this method the market value is the underlying basis, but fluctuations are averaged over a four-year period. The year over year change in the actuarial asset value adjustment is reflected in the Statement of Changes in Funding Excess.

## 10. Benefits

Benefits for the year ended December 31, were as follows:

| | 2001 | 2000 |
|---|---|---|
| | (in thousands of dollars) | |
| Pensions | $162,843 | $ 157,074 |
| Refunds and related interest | 169 | 635 |
| Net transfer of contributions and related interest | 5,576 | 11,321 |
| FlexPen | 236 | 221 |
| | $168,824 | $169,251 |

## 11. Funding Excess

Through an actuarial valuation as at December 31, 1999 it was determined that the Plan had a funding excess of $616.2 million.

The Corporation has indicated that it's contribution requirements will be covered by the funding excess in 2000, 2001 and 2002. Furthermore, the Corporation earmarked a portion of the funding excess that is reserved for use by the CBC after December 31, 2002, the date of the next actuarial valuation. An amount of $89 million was identified as at December 31, 1999.

An amendment was made to the Plan as at January 1, 2000, whereby 17.2% of member accumulated contributions and interest totalling $143.0 million were refunded in 2000 ($139.8 million) and 2001 ($3.2 million). The amendment also required that future member contributions be reduced by the same percentage. The present value of the future employee contribution reduction is estimated at $129.0 million as at December 31, 2001.

## 12. Administrative Expenses

In accordance with the Trust Deed, all fees, charges and other costs incurred by the Trustees in the setting up and administration of the Plan and in the setting up and management of the Fund are to be paid by the Fund. Expenses for the year ended December 31, were as follows:

| | 2001 | 2000 |
|---|---|---|
| | (in thousands of dollars) | |
| Fund Administration | | |
| Internal Investment Management | | |
| Salaries and employment costs | $ 1,825 | $ 1,592 |
| Professional fees | 367 | 932 |
| Data processing | 861 | 825 |
| Custodial and banking fees | 622 | 652 |
| Office rent | 191 | 194 |
| Other | 150 | 126 |
| Total Internal Management | 4,016 | 4,321 |
| External Investment Management | | |
| Management fees | 1,564 | 1,787 |
| Property management | 425 | 572 |
| Total External Management | 1,989 | 2,359 |
| | 6,005 | 6,680 |
| Pension Benefit Administration | | |
| Salaries and employment costs | 936 | 931 |
| Special project - contribution refund (Note 11) | 291 | 377 |
| Professional fees | 275 | 237 |
| Office rent | 29 | 29 |
| Other | 304 | 327 |
| | 1,835 | 1,901 |
| Board of Trustees Expense | | |
| Professional fees | 149 | 175 |
| Other | 47 | 55 |
| | 196 | 230 |
| GST | 508 | 520 |
| Total Administrative Expenses | $ 8,544 | $ 9,331 |

## 13. Commitments and Contingencies

The Fund is contingently liable to fund cash flow deficiencies and the obligations of its co-investors, including other pension funds, on certain real estate related investments. In addition, the Fund may have to provide financing on certain real estate related investments in the event of the non-availability of financing from other sources.

## 14. Comparative Figures

Certain of the 2000 comparative figures have been reclassified to conform to the current year's presentation.

# Supplementary Financial Information

## Investments Greater than $15,000,000
## as at December 31, 2001

### Bonds - Canadian

| Issuer | Coupon | Maturity Date | Fair Value (in million $) |
|---|---|---|---|
| Emerald Canadian Bond Fund Units | | | 114.26 |
| Government of Canada | 6.000% | Sep 01, 2005 | 79.43 |
| Government of Canada | 6.000% | Jun 01, 2011 | 69.10 |
| Government of Canada | 5.750% | Sep 01, 2006 | 52.35 |
| Province of Quebec | 6.250% | Dec 1, 2010 | 43.14 |
| Government of Canada | 10.250% | Mar 15, 2014 | 32.63 |
| Province of Ontario | 4.875% | Jun 2, 2002 | 30.86 |
| Export Development Corp. | 5.750% | Jun 1, 2011 | 30.31 |
| Government of Canada | 8.000% | Jun 1, 2023 | 29.17 |
| Golden Credit Card Trust | 5.700% | Aug 15, 2006 | 25.83 |
| Government of Canada | 5.750% | Jun 1, 2029 | 21.88 |
| Canada Housing & Trust | 5.527% | Jun 15, 2016 | 20.67 |
| Royal Bank of Canada | 7.100% | Jan 25, 2015 | 20.02 |
| Government of Canada | 7.250% | Jun 1, 2007 | 18.93 |

### Bonds - Global

| Issuer | Coupon | Maturity Date | Fair Value (in million $) |
|---|---|---|---|
| Baring Global Bond Fund | | | 140.71 |

### Real Estate Holdings

| Issuer | % Participation | Fair Value (in million $) |
|---|---|---|
| Pyxis Real Estate | 100.00% | 106.04 |
| Centeur Prop. Ltd. | 100.00% | 19.27 |
| Pensionfund Realty CN Tower | 12.23% | 17.83 |

## Canadian Equities

| Issuer | Fair Value (in million $) |
|---|---|
| Emerald Canadian Equity Fund | 207.12 |
| Royal Bank of Canada | 38.87 |
| Nortel Networks Corp. | 32.18 |
| Toronto Dominion Bank | 28.76 |
| Bank of Nova Scotia | 26.93 |
| BCE Inc. | 25.21 |
| Biovail Corporation | 24.63 |
| Canadian Imperial Bank of Commerce | 21.94 |
| Manulife Financial Corp. | 20.80 |
| Alcan Inc. | 20.34 |
| Bank of Montreal | 19.75 |
| Placer Dome Inc. | 19.14 |
| Bombardier Inc. Class B | 18.97 |
| Inco Limited | 18.93 |
| Sun Life Financial | 18.67 |
| Talisman Energy Inc. | 18.15 |
| Petro Canada | 17.69 |
| Suncor Inc. | 17.03 |
| TransCanada PipeLines Ltd. | 15.90 |
| Barrick Gold Corp. | 15.46 |
| Open Text Corp. | 15.17 |
| Potash Corporation | 15.16 |

## Special & Private Placements

| Issuer | Fair Value (in million $) |
|---|---|
| Skypoint Telecom Fund | 20.48 |
| 1028484 Ontario Inc. Class A | 16.31 |

## United States Equities

| Issuer | Fair Value (in million $) |
|---|---|
| Emerald U.S. Enhanced Fund | 90.61 |
| S&P 500 Depository Receipt | 42.41 |

## Non-North American Equities

| Issuer | Fair Value (in million $) |
|---|---|
| Emerald International Fund | 102.41 |
| Schroder Emerging Market Fund | 75.59 |

## Board of Trustees

Johanne Charbonneau (appointed November 5, 2001)
Vice-President and Chief Financial Officer, CBC

Célestin Hubert
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Stephen Cotsman
Managing Director/CEO
CBC Pension Plan

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Strategic Investments Portfolio Manager

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Portfolio Manager - Domestic Bonds

Donald G. Campbell
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Don Grant
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Foreign Equity Portfolio Manager

William Law
Canadian Equity Portfolio Manager

### PENSION BENEFIT ADMINISTRATION

Lise Gratton
Manager, Pension Benefits Administration

Jeanne Meredith
Secretary, Board of Trustees

We welcome your comments and suggestions for this annual report as well as other aspects of your communications program.

Please address your comments to:

**CBC Pension Board of Trustees**
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