2006 Annual Report

CBC PENSION PLAN

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 Procedures.

During 2006, the CBC Pension Board of Trustees continued to implement changes to the Fund's asset mix following the revision in 2005 of the investment management strategy of the Fund. The strategy is designed to more closely match the Fund's assets to its pension obligation liabilities and to reduce Plan surplus volatility.

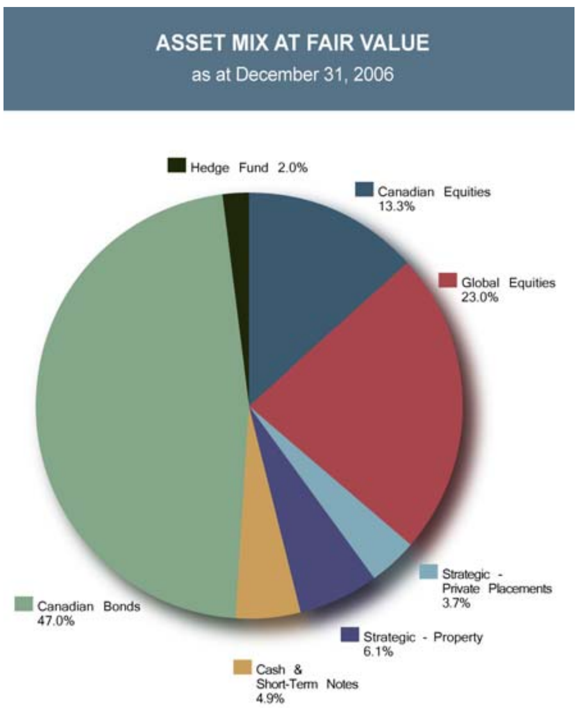
The long-term objective of the Fund is expressed as a function of its liabilities, i.e. to exceed by a minimum of 1.1% a benchmark made up of a mix of long-term bond and real-return bond indices. At the total Fund level over the long-term, this objective is designed to generate a rate of expected return that will allow the Plan to meet its obligations while mitigating the risk of Plan deficit. Up to September 2005, the long-term investment objective of the Fund had been expressed as the average annual rates of return required to exceed 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% (0.35% during the transition to the new asset mix), 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: 50% fixed income, 34% equities and 16% strategic alternatives (formerly 55% equities, 34% fixed income and 11% strategic alternatives). The target long-term asset mix also calls for the hedging of interest rate risk created by the equity and strategic alternative portfolios, which by their nature are not matched to the Plan's pension liabilities.

Overview of the year's financial operations

The Fund's net assets available for benefits increased $302.3 million (7.4%) from $4,064.9 million at December 31, 2005 to $4,367.2 million at December 31, 2006. The increase is primarily attributed to a change in fair value of investments totalling $247.9 million due to favourable Fund returns in the domestic and global financial markets and in strategic investments.



Over the year, the funding excess, which is the actuarial value of net assets available for benefits less the accrued pension benefits on a going concern basis, increased by $88.0 million from $344.9 million in 2005 to $432.9 million at the end of 2006.

For the year ending December 31, 2006, the one-year rate of return was 10.2% as compared to 9.3% for the benchmark return, and 10.9% over a four-year period compared to the benchmark of 10.6%. For the ten-year period ending on the same date, the time weighted annual rate of return for the Fund was 8.1%. Over the same ten-year period the investment objective was to achieve a time-weighted average rate of return of 7.8%.

Trustees Report

Financial Health of the Plan

The CBC Pension Fund delivered a solid investment performance in 2006, its fourth consecutive year of positive returns. The rate of return of 10.19% overachieved the yearly benchmark portfolio objective by 0.87%. The long-term 10-year investment objective was overachieved by 0.36% as well as the actuarial long-term assumption for the asset rate of return by 1.88%.

The latest actuarial valuation, as required by the Office of the Superintendent of Financial Institutions (OSFI), was performed as at December 31, 2006. At that time, it was determined that the Plan's surplus on a going concern basis, which is used for financial reporting purposes, was $433.0 million, providing for a funding ratio of 112.2%. This represents an increase of $88.1 million over the surplus of $344.9 million reported at December 31, 2005 and the Plan continues to be in a sound financial condition.

The actuarial valuation determined that on a solvency basis, which simulates the wind-up of the Plan, there is a surplus of $131.1 million at the end of 2006 as compared to a deficit of $89.1 million at the end of 2005. The reversal of the deficit is due to the strong investment performance in 2006 and changes in the level of long-term interest rates. The Plan's solvency ratio is 103.1% as at December 31, 2006. According to a recent Canadian pension industry study, this places the Plan in the estimated 27% of plans that have a solvency ratio greater than 100%, out of a database of 761 plans.

The Plan sponsor made special solvency contribution payments of $11.3 million to the Pension Plan in 2006, due to the solvency deficit position at the end of 2005. As the Plan has a solvency surplus at the end of 2006, such special solvency contributions will no longer be required. Under current federal income tax legislation, because the going concern surplus funding ratio at December 31, 2006 is greater than 110%, the Plan sponsor cannot contribute to the Plan until the going concern surplus has been reduced by $77 million. By regulation, the next actuarial valuation of the Plan must be performed by December 31, 2009.

Asset Mix Transition

In 2006, the Board of Trustees oversaw the implementation of significant changes to the asset mix and investment policies of the Fund, following an extensive review of the Plan's investment strategy undertaken in 2005. The revised strategy aims to achieve a closer matching of the Plan's assets to its liabilities (i.e. its pension payment obligations) and to reduce Plan surplus volatility, reflecting the level of maturity of the Plan. To this end, changes were made to the asset mix in 2006, increasing the fixed income portion and decreasing the equity portion of the investments. Increased investments in strategic alternatives were also made in 2006 and will continue to be pursued in order to complement the Plan's publicly traded holdings. Risk management strategies will also be employed to enhance asset/liability matching. The objective of these overall changes to the asset mix policy is to mitigate the Pension Plan's deficit risk and provide more stable results while generating appropriate long-term returns at the total Plan level. Assisted by independent external investment management counsel, the Board of Trustees regularly monitored the progress and results of implementing the revised investment strategy and will continue to do so as asset mix transition activities continue into 2007.

Governance

The Board of Trustees maintains a sound Pension Plan Governance framework which continues to evolve over time with leading-edge practices. The Pension Plan Governance framework is based on the pension industry's current best practice standards: the Canadian Association of Pension Supervisory Authorities (CAPSA) Governance Guidelines.

A key element of the CAPSA guidelines is the provision of a risk management framework for the Pension Plan. Building on a framework it developed and implemented over a number of years, the Plan established a formal Risk Management Policy in 2006 and conducted a comprehensive control-self assessment of the risks facing the Plan and the processes in place to manage these risks. Overall risks were found to be well managed and opportunities were identified to further strengthen risk management practices, which will continue to be an area of focus in 2007.

One of the Board of Trustees' practices under its governance framework is to hold periodic Trustee education sessions. Topics covered in 2006 included best practices in governance and self-assessment, investment product developments and innovations, an overview of the infrastructure project sector, an update on the economic environment and a review of pension liability valuation concepts.

Retiring Officer

The Pension Board of Trustees wishes to express its gratitude to and recognize the significant contribution of Mr. Stephen Cotsman, the Plan's Managing Director/CEO, who will be retiring in mid-2007 after twelve years of leading the operations of the Pension Plan. Guided by their succession planning framework, the Trustees carried out a search process for the successor to this key position to ensure the continuity of the Plan's management. The Trustees are pleased to report that Ms. Debra Alves will be the new Managing Director/CEO effective June 2007.

On behalf of CBC Pension Board of Trustees
Hélène F. Fortin, CA

Managing Director/CEO Report

2006 was a very good year for the world economy and the financial markets. The Canadian equity market was up 17.3%; international equities were up 25.9% and the US market was up 15.4%. Canadian bonds provided a return of 4.1%.

In this environment, the CBC Pension Plan achieved a second year in a row double digit return of 10.19% compared to the Benchmark of 9.32% resulting in an added value of 87 basis points. For the four-year moving average, the Fund returned 10.91% which exceeded the Benchmark of 10.58% by 33 basis points.

The assets of the Fund increased from $4,065 million in 2005 to $4,367 million in 2006, an increase of $302 million. This includes the fact that pension payments of $191.6 million exceeded employer and employee contributions of $104.9 million by $86.7 million.

The Accrued Pension Benefits of the Plan represent future pension payments. On a going concern basis, the Accrued Pension Benefits increased by $216 million from $3,339 million to $3,555 million.

All of the above has resulted in a very satisfying improvement in the Plan's financial position in 2006. The going concern surplus is now $433 million ($345 million in 2005) and there is also a solvency surplus of $131 million ($89 million deficit in 2005). The Plan is in a healthy financial position on both measures.

Activity Highlights

- As a result of the Asset Mix Review carried out in 2005, the Fund underwent a major transition of its assets in 2006. Significant effort was made to ensure that the transition was carried out while achieving the following objectives:
    - Timeliness - planned transition milestones and timelines were met;
    - Cost - costs of the transition were contained through measures such as the timing of trading to minimize market impact and where possible by retaining existing holdings;
    - Risk - financial and operational risks were managed on an ongoing basis and no unmanaged risk issues arose during the transition;
    - Disruption to our internal and external managers was minimized through timely notification and transfer of portfolios;
    - The Fund's reputation and market credibility were protected through the maintenance of trading strategy confidentiality and the use of an external transition manager;
    - Custom monthly and quarterly reports were developed and provided a full accounting of the transition to Trustees who also received semi-annual independent confirmation of transition results.
- The Actuarial Valuation as of December 31, 2005 was finalized and filed with the Office of the Superintendent of Financial Institutions (OSFI) by the June 30, 2006 deadline.
- Risk management:
    - The development and utilization of a risk management self-assessment process continued.
    - Management reporting was enhanced, including more timely estimation of pension liabilities.
    - Risk techniques were utilized to control the risk related to the transition of the asset mix.
- A number of investment portfolios were adjusted throughout this transition year and the use of succession planning processes proved most useful.

As I will be retiring in June 2007, this will be my last Annual Report. I would like to take this opportunity to give a heartfelt thank you to the Trustees and staff for their support and effort over the last twelve years. It has been an honour to manage the CBC Pension Plan and I am comforted that I leave the Fund in excellent hands and in a solid financial position.

Stephen Cotsman
Managing Director/CEO

Pension plan governance

Overview

Pension plan governance denotes the processes 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 Procedures defining investment policies, principles and eligible investments which are appropriate to the needs and objectives of the Plan and the Fund.

Through its 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 has evolved over time with best practices and currently reflects the eleven governance principles contained in the Canadian Association of Pension Supervisory Authorities (CAPSA) Pension Plan Governance Guidelines.

The essential principles required to achieve effective governance of a pension plan are:

1. **Fiduciary Responsibility**

   The plan administrator has fiduciary and other responsibilities to plan members and beneficiaries. The plan administrator may also have fiduciary and other responsibilities to other stakeholders.

2. **Governance Objectives**

   The plan administrator should establish governance objectives for the oversight, management, and administration of the plan.

3. **Roles and Responsibilities**

   The plan administrator should clearly describe and document the roles, responsibilities, and accountability of all participants in the pension plan governance process.

4. **Performance Measures**

   The plan administrator should provide for the establishment of performance measures and for monitoring the performance of participants who have decision-making authority in the governance process.

5. **Knowledge and Skills**

   The plan administrator, directly or with delegates, has a duty to apply the knowledge and skills needed to meet governance responsibilities.

6. **Access to Information**

   The plan administrator and, as necessary, any delegates should have access to relevant, timely and accurate information.

7. **Risk Management**

   The plan administrator should provide for the establishment of an internal control framework, commensurate with the plan's circumstance, which addresses the pension plan's risks.

8. **Oversight and Compliance**

   The plan administrator should provide for the establishment of appropriate mechanisms to oversee and ensure compliance with the legislative requirements and pension plan documents and administrative policies.

9. **Transparency and Accountability**

   The plan administrator should provide for the communication of the governance process to plan members, beneficiaries and other stakeholders to facilitate transparency and accountability.

10. **Code of Conduct and Conflict of Interest**

    The plan administrator should provide for the establishment of a code of conduct and a policy to address conflicts of interest.

11. **Governance Review**

    The plan administrator should conduct a regular review of its plan governance.

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 2006, the Trustees, with the assistance of external consultants, performed an annual Governance review and self examination of their role as Trustees as a group. The assessment focused on the structure and processes at the Board level. 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.

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 its responsibilities. At its meetings, the Board of Trustees has in camera sessions, without management present, to discuss any matters or subjects it sees fit. The Board appoints and meets with external auditors to review their findings. The auditors' 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 Corporation is 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.

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 CBC Board of Directors has issued 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 guidelines, 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 2006, 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 Procedures 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 and approved annually by the Trustees, the Statement of Investment Policy and Procedures identifies the long-term (e.g. 10-year period) investment objective of the Fund. Effective October 2005, the long-term investment objective of the Fund is expressed in relation to the Plan's liabilities, i.e. to exceed by a minimum of 1.1% a liability benchmark comprising a mix of real-return and long-term bond returns. Up to the end of September 2005, the investment objective was to consistently achieve time weighted average annual rates of return which exceeded the increases in the consumer price index by a minimum of 3.75%.

The Statement of Investment Policy and Procedures identifies performance benchmarks for the individual asset classes and the total Fund. A competitive compensation policy for the investment professionals 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 the 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 by the Pension Administration Centre following efficient practices and processes to respond to client needs in a timely manner.

Management has provided assurance to the Trustees regarding compliance with applicable policies and reported that all regulatory requirements were met in 2006.

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 participants and members who have retired 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 the Financial Report, a Governance section and a Management Discussion and Analysis section, all of which are integral parts of the Plan's continuous disclosure practice. The Board of Trustees also follows the practice of issuing Communiqués following each of its meetings, summarizing key items discussed and distributing this communication through web-based channels accessible to members.

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

The above noted information including the Annual Report are available to members on the Pension Benefit Administration web site at *www.pensionweb.ca/cbc-radiocanada*. General information as well as the Annual Report are available on the CBC main web site *www.cbc.radio-canada.ca/about/pension*. Active members or members who have retired are invited to communicate in writing, by fax, or through 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 contribute 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 Trustees also perform a Governance review and self examination of their role as Trustees.

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 Procedures. 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 Procedures.

Investment Objective

The long-term objective of the Fund is expressed as a function of the Plan liabilities. The long-term objective is to exceed by 1.1% the return on a liability benchmark consisting of 50% long-term bonds and 50% real return bonds. This objective was adopted in October 2005 by the Board of Trustees following a detailed review of the investment strategy with the assistance of independent external investment counsel. The objective is intended to enhance management of the Fund's assets in relation to the pension obligations and to mitigate the Plan’s deficit risk. Up to September 2005, the investment objective of the Fund over the long-term (e.g. 10-year period) was expressed as the time weighted average annual rates of return required to consistently exceed the increases in the consumer price index by a minimum of 3.75%. .

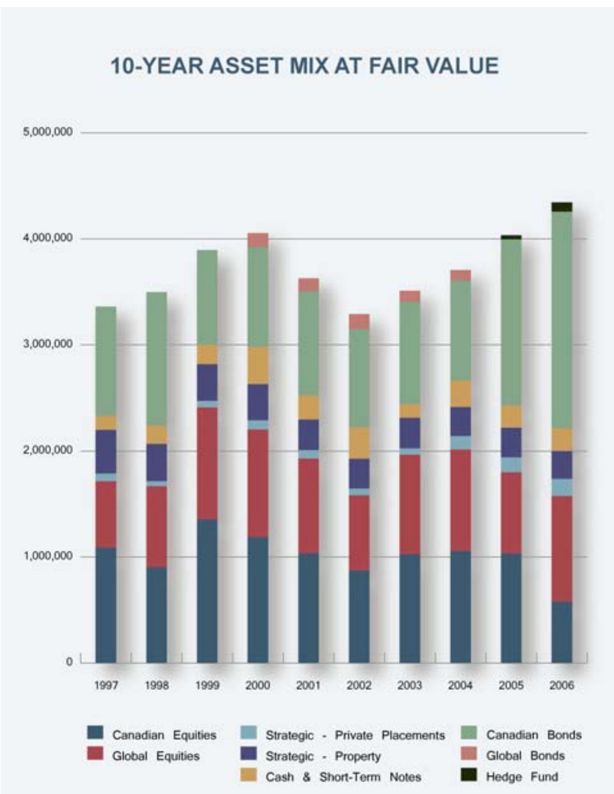
Over the past four years the Fund's rate of return averaged 10.9%, and over the past 10 years 8.1%. On a basis that combines the new objective adopted in October 2005 with the former objective up to that time, the Fund's overall long-term objective was 10.6% over the past four years and 7.8% over the past 10 years.

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. During the transition period from the former investment strategy to the new strategy approved by the Board of Trustees in 2005, this objective is reduced to 35 basis points or 0.35%. The transition continued in 2006 and is expected to be completed in 2007. 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 2006, the Fund's net return of 10.2% overachieved the benchmark portfolio by 87 basis points. On a four-year moving average the Fund's net return of 10.9% exceeded the benchmark return by 33 basis points.

Asset Mix

The long-term asset mix target of the Fund as defined in the Statement of Investment Policies and Procedures is 50% fixed income, 34% equities and 16% strategic investments which include property, private placements and hedge funds. As stated above, under the revised investment strategy this target mix was modified effective October 2005. The revised strategy also provides for hedging of the interest rate risk in the 50% of the portfolio that is not invested in fixed income instruments. Up to the end of September 2005, the asset mix target was 55% equities, 34% fixed income and 11% strategic.

The objective of the long-term asset mix is to ensure that the Fund's assets will offset the obligations for accrued pension benefits. There are lower and upper limits to the percentages which, once the transition to the new strategy has been substantially completed, allow management the ability to take advantage of market directions and therefore enhance the performance of the Fund. As at December 31, 2006, the actual asset mix at fair value was 52% fixed income, 36% equities and 12% strategic.



Investment Management Approach

The Fund is actively managed by a relatively small group consisting of the Managing Director/CEO, the Secretary/Treasurer, four internal portfolio managers and eight 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 Secretary/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 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 2006 pension payments were 1.8 times greater than contributions and the Plan continues to rely on investment income to pay current and future pension benefits since these expenditures continue to be greater than the contribution income.

Risk Management

The Statement of Investment Policy and Procedures 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. Asset /Liability studies are undertaken periodically to review the risk/reward associated with the existing long-term asset mix policy, analyze the risk/reward profile that would result from alternative asset mix policies, and consider the impact of various economic environments on both the assets and liabilities. The last such study was carried out in 2005 and the long-term asset mix was revised as described above, reflecting a revised investment strategy that is expected to result in a closer matching of the Plan's assets to its liabilities and to reduce the volatility of Plan surplus. Changes to the asset mix and to the diversification of manager mandates within the asset categories began in 2005 and were executed throughout 2006, with implementation expected to be completed in 2007. Diversification across various asset classes and managers continues to be 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 assumption on the long-term rates on asset return, salary escalation and inflation. Note 3c(i) indicates that if our assumed long-term rate of return, which is used in actuarial valuations, were to decrease from the existing 6.25% to 5.25% the pension liabilities would increase by approximately $480.0 million. This increase in liabilities relates directly to the long-term effect of lower earnings. However, if the assumed long-term rate of return were to increase by 1%, the pension liabilities would decrease by approximately $445.0 million. 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 assets at December 31, 2006, were $4.4 billion at fair value. Of this total, $1.6 billion was in equity investments. This substantial amount exposes the Fund to domestic and foreign market volatility. This volatility is managed by diversifying across industry sectors and international equity markets. Historically, equities have a negative return about once every five years. The year 2006 provided the fourth consecutive year of positive returns after two straight years of negative returns on domestic and three years on major international equity markets. The long-term performance expectation outweighs the risks of short-term cyclical volatility. The Fund further mitigates this risk by investing in strategic assets such as real estate and private placements, including infrastructure projects, with longer-term investment horizons. Financial market volatility risk is also mitigated by investing in hedge fund assets, which are expected to generate more stable returns.

Liquidity Risk

Liquidity risk refers to the ability of the Fund to meet its financial obligations as they fall due. Liquidity relates to cash available for new investments net of pension payments and operating costs. In 2006, benefit payments from the main plan and administration costs totalled $209.6 million. These expenses were partially offset by employee contributions to the main plan of $45.0 million, and employer contributions of $58.8 million, which included special solvency funding contributions of $11.3 million. The cash flow requirement for the balance of benefit payments was generated through investment income of $158.2 million and proceeds on disposal of assets.

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 issuer, be it a government or a corporation, may default on payments or become insolvent. The Fund's Statement of Investment Policies and Procedures 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 c)(ii) provides more detail on this subject.

Foreign Currency and Exposure Risk

The Fund invests in non-Canadian equities, private placements, hedge funds 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. These investments contribute to the diversification of the portfolio.

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 Hedge Fund 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.

Investment Performance

The Fund uses an external firm which specializes in providing portfolio performance measurement and benchmark data.

The Fund's total rate of return in 2006 was 10.2% which was 0.9% higher than the Fund asset portfolio benchmark of 9.3%. Comparatively, in 2005, the Fund's total rate of return was 12.2% which was 1.1% higher than the asset portfolio benchmark of 11.1%.

The overachievement of the benchmark in 2006 was primarily attributed to the positive performance of our domestic and foreign equity portfolios, along with strong returns in our strategic asset class holdings. On a four-year basis, the total Fund return was 10.9% which exceeded the asset portfolio benchmark return of 10.6% by 0.3%.

The table on page 11 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.

Asset Review

The Economic Environment

In 2006, global economic growth proved robust and expansionary. Concerns early in the year that global growth would not broaden beyond the U.S. and China subsided as domestic consumption in Europe and Japan eventually sprung to life. More importantly, beyond a mere geographical expansion, there was also a transfer of growth between the trade and domestic sectors. In the United States, growth broadened from consumers to include businesses and in Europe, Japan and China growth spread from businesses to consumers. As a result, labour markets expanded, pushing global unemployment rates to multi-year lows and raising global wages. By mid-year however, the slowdown in the U.S. housing market caused U.S. growth to moderate. With the moderation, the earlier fears of rising inflation subsided. Commodity prices, which rose for much of the year, stabilized by year-end to lower levels. The welcomed break in the pace of U.S. consumer activity may set the stage for a change in global monetary policy. The possibility of lower interest rates, moderating oil prices and rising incomes are all positives for ongoing consumption.

The US economy continued to be the engine of world growth, anchored by robust consumption and low inflation. In 2006, the gross domestic product (GDP) was up by 3.4% despite concerns that the cooling housing market would dampen the economy. Although there was some slowing of economic growth in the latter half of 2006 due to lower residential investment growth, consumption (which accounts for 71% of GDP) remained robust supported by productivity growth and employment gains. The effects of the housing market correction remains limited to the housing sector and the much feared contagion to the rest of the economy so far has not materialized. Consumer spending was supported by both strong job and real income growth. Retail sales were stronger-than-expected, growing by 5.4% for the year. Additionally, the unemployment rate trended downward to a five-year low at 4.5% for December. Surprisingly, even with the robust demand for labor, wage inflation remained restrained. Also, although energy prices started the year high, they trended downward towards the end of the year. All in all, overall inflation pressures seemed contained with the personal consumption expenditure index (PCE) at 2.3% and core PCE inflation slightly elevated at 2.2%. As a result, the Federal Reserve's Federal Open Market Committee (FOMC) retained a bias toward tightening due to concerns over inflationary pressures on the domestic economy. It raised its target monetary policy rate, the Fed funds rate, four times, starting the year at 4.25% and ending the year at 5.25%.

Overall the Canadian economy in 2006 was strong. Over the last year the economy remained close to potential, as robust domestic demand offset weakness in net exports. After a strong first half in 2006, economic activity slowed, primarily due to moderating U.S. economic growth. With Canadian exports accounting for about 40% of total GDP and exports to the US accounting for 77% of all exports, any slowing of the U.S. economy has a significant impact on the Canadian economy. In addition, the 28-year high value of the Canadian dollar versus the U.S. dollar did not benefit Canada's exports. However, domestic demand remained robust, thanks to a 30-year low unemployment rate and solid gains from personal disposable income. Also, the demand for Canadian commodity exports such as oil and gas was strong as global commodity prices reached record levels. Inflationary pressures appeared to be contained with the overall consumer price index (CPI) growing by a low 1.6% and core CPI at 1.5%. As a result, the Bank of Canada, in balancing the need to support the domestic economic activity and to maintain price stability, raised the overnight lending rate a total of four times in 2006 to 4.25%.

	2006			2005		
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	4.9	4.0	4.5	5.2	2.6	3.0
Bonds - Canadian Nominal	35.6	4.6	4.9	26.0	6.6	6.4
- Canadian Real Return	11.4	(3.3)	(3.3)	12.8	4.7	4.7
- Global[(1)]	-	-	-	-	(8.0)	(5.9)
Canadian Equities	13.3	17.3	18.5	24.6	24.1	22.2
Global Equities	23.0	19.7	22.1	20.0	6.2	9.0
Strategic	11.8	7.5	9.6	11.4	10.0	19.0
Total	100.0	9.3	10.2	100.0	11.1	12.2

(1) to September 30, 2005

Management Discussion and Analysis

After years of lackluster economic activity, the Euro area's real GDP grew by 3.3% year-over-year in 2006 compared with 1.9% in 2005. Economic growth improved particularly in the first half of 2006 and even though economic activity leveled off in the third quarter it still remained robust. Overall growth is being driven primarily by domestic demand, suggesting that the expansion may be self-sustained. The recovery in consumption seems established as labor markets and consumer confidence continued to be positive. Investment spending was also strong, as well as business confidence, suggesting overall a healthy corporate sector. In addition, the contagion effect from the U.S. slowdown should be minimal as the share of Euro-area exports to the U.S. has steadily declined to 16%. The intra-European market is far more important for the major European economies. On closer examination, the economic performance in the major European economies is a mixed one with France not performing as well as Germany. The German economy has been revitalized due to the repositioning of German companies in the global marketplace after cutting costs over the past two years, investing abroad, and holding down wages. This has given the country a competitive advantage over France, Italy and Spain, where wages have soared.

The Japanese economy in 2006 continued its revitalized expansion after years of deflationary stagnation. For 2006, real GDP grew by 1.8% year-over-year compared with 1.0% for 2005. However, economic growth has not been as broad-based as expected. Real GDP growth was driven mainly by strong U.S. and Chinese export demands and strong business investment and less by private consumption. Japan's economic recovery initially occurred in its export sector as a result of its corporate restructuring. Regulatory response to deflation enabled Japanese firms to gradually move away from costly, inflexible lifetime employment practices and forced financial firms to deal with non-performing loans. Japanese firms also expanded their investment spending as the overhang of fixed assets and debt created in the bubble years diminished. All this resulted in higher corporate profitability, encouraging both investment and employment growth. Business fixed investment rose by its fastest pace in five years due to expectations that productivity performance and export demand would remain high. As corporate profits rose so did the demand for labour. Thus, the unemployment rate continued its downward trend through the year to end at 4.1% for December (at an eight-year low), and the ratio of jobs-to-applicants also continuously improved. However, due to lackluster real wage growth consumption, growth remains relatively low. As for inflation, as measured by CPI, it remained low but positive for most of the year. With the economy recovering and inflation becoming positive, the Bank of Japan (BOJ) normalized its monetary policy. By March 2006, the BOJ was targeting inflation. At the end of December 2006, the BOJ's monetary policy rate, the uncollateralized overnight call rate, was 0.25%.

China is the fourth largest economy in the world and continues to be one of the main growth engines for the global economy. The Chinese economy continued its very strong growth in 2006 increasing by 10.7%. China's rapid economic growth is mainly due to surging exports and related investment growth. In 2006, exports grew by 27% while imports grew by 20%, resulting in a record cumulative trade surplus of U.S. $177.5 billion in 2006, which is a 74% increase from 2005. In addition, fixed investments (which account for 37% of GDP) grew by 24.5% in 2006. With a continuous trade surplus and investment inflows, it is not surprising that China's foreign exchange reserves reached an unprecedented U.S. $1.07 trillion by the end of December. Due to years of rapid growth the People's Bank of China and the National Reform and Development Committee are increasingly concerned about the economy overheating due to: the large trade surplus, the rapidly growing money supply, the quickly expanding credit growth and the excess liquidity in the banking system. As a result, the central authorities have engineered a combination of macro economic and monetary tightening to slow down and rebalance the economy by attempting to increase consumption and lessen its reliance on export-investment led growth. The goal is to reduce the overcapacity in certain sectors, which is leading to widening inequality and trade frictions.

The United States will continue for some time to have the largest footprint in the global economic arena, however this year, we started to see the resurgence of international domestic activity. What is different this time, is that unlike prior periods, the burgeoning emerging markets of South East Asia are huge and have the potential, within years, to have GDP levels that surpass some developed market economies. Within Europe, Germany appears to have taken the lead but the drive to become globally competitive will likely also spur other European economies. Global growth will benefit from a broader more diverse group of economic contributors. As this transition from U.S. consumer to other consumers expands, it will give the U.S. government some leeway to focus on fixing its trade and current account deficits. In addition, a moderation in global growth allows for inflationary pressures to subside and extends the growth cycle.

Investment Strategy

The investment policy allows for the Fund to make tactical calls that vary the weighting of the assets within an operational range around the actuarially determined long-term asset mix target. On a quarterly basis, based on a forecasted outlook for the global economy and the financial markets, the Fund increases its weighting of those asset classes expected to perform well and reduces the weights of those asset classes that are expected to underperform. In 2006 the strategy of making tactical quarterly asset mix calls around the long-term target was suspended. In its stead, all asset mix activity concentrated on transitioning the Fund's holdings towards the new asset mix policy weights. The new policy, which was introduced in the fourth quarter of 2005 involves holding assets that are better matched to the Fund's liabilities.

Cash and Short-Term Investments

The Fund invests its cash in quality and highly liquid money market investments. This activity contributes to maximizing returns on total available funds and accommodating the flexibility required to manage the cash demands related to the Fund's investments, the Plan's benefit payments and total administration expenses.

In 2006, the Bank of Canada increased short-term interest rates four times, in January, March, April and May. The average yield for Canadian 91-day Treasury Bills was 4.0% in 2006 as compared to 2.6% in 2005.

In 2006, the Fund had on average approximately $211.9 million or 5.1% of assets in cash and short term investments. The one-year rate of return for the internally managed portfolio of the Fund was 4.5%, which was some 50 basis points above the benchmark return of 4.0%. Over a four-year period the rate of return was 3.4%, which was 40 basis points over the benchmark return of 3.0%. At December 31, 2006, cash and short-term investments represented 4.9% of the Fund's investments at fair value.

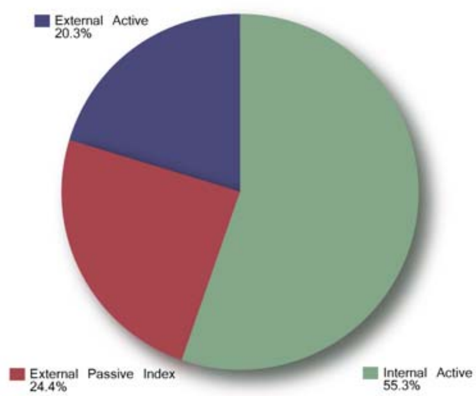
Bonds

The bond market in 2006 can be neatly divided into two halves. In the first six months, yields rose across the yield curve. Both the U.S. Federal Reserve and the Bank of Canada were lifting their benchmark rates as economic growth exceeded expectations and inflationary pressures were building. The peak for the year in yields proved to be late June, coinciding with the last hike in rates by the Fed on June 29 and a month after the Bank of Canada last raised the benchmark. By then, U.S. 10-year yields had climbed over 60 basis points, equal to the increase of about 60 basis points in Canada. The bond market then rallied back to roughly the levels that existed at the beginning of the year before modestly backing up in the final month. For the year overall, bonds in Canada rose about 10 basis points across most of the yield curve, with larger increases in terms shorter than 3 years. Yield increases in the U.S. were greater, ranging from 41 basis points in the 2-year term to 28 basis points for the 30-year bond.

Entering 2006, expectations had been building for the Fed to end its string of rate hikes. However, the economic data for early 2006 proved to be stronger than expected following a weak fourth quarter in 2005. Employment gains were brisk and domestic consumption rebounded. Moreover, inflationary concerns emerged. In addition to the tightness in the labour markets, commodity prices were running rampant. There was considerable trepidation with the changes in the U.S. Fed. Not only were there several new members, but the well respected Alan Greenspan had handed over the reins to Ben Bernanke after eighteen years at the helm. In April, Bernanke's comment suggesting that the Fed may soon halt the tightening process was not taken well by the markets. However, soon all committee members were loudly proclaiming that inflation was their greatest concern.

By mid-year, the housing market appeared to be in full retreat, providing some measure of relief for the bond market. The prevailing belief was that the housing weakness would negatively impact domestic consumption. Moreover, commodity prices generally stabilized, and even showed some weakness in certain markets. Hence the bond market was able to rally strongly even in the face of higher core inflation, spurred on by the decision of the Fed to hold the benchmark rate at 5¼% following seventeen consecutive tightening moves. This rally ended late in November as not only were recent labour payrolls strong, but there were substantial revisions to past payrolls. In effect, this suggested that there was considerably less slack in the U.S. economy than thought, thereby putting upward pressure on labour costs. Also, the Fed continued to warn of inflationary dangers and downplayed the impact of the housing retrenchment. This brought about a backup in yields of 25 to 30 basis points in December.

MARKET VALUE OF BONDS
as at December 31, 2006
$2,043.6 million



In Canada, economic growth lagged the U.S. and inflation was generally better behaved. Unemployment hovered near generational lows, suggesting that there was scant excess capacity. However, the economy was plagued by diverse growth, with the commodity boom substantially benefiting western provinces while the economic heartland of Ontario and Quebec suffered from a weakened manufacturing sector due to the lagged impact of the strong currency. This did provide a problem for the Bank of Canada, although they continued to state that they focused on the economic growth as a whole rather than on regional disparities. However, the manufacturing weakness combined with a firm currency may have played a large role in the Bank of Canada decisively halting in July the tightening of monetary policy via rate hikes.

In 2006, the Canadian corporate bond market continued to benefit from narrowing credit spreads and the positive outlook for interest rates and inflation. Even the rising supply of corporate bonds, as Canadian and international businesses continued to issue debt in record amounts, did not dampen market returns. The Scotia McLeod Corporate Bond Index generated returns of 4.4% in 2006. As part of the new asset mix policy, the Fund sold out of its universe bond mandates and increased its exposure to long Canadian bonds, which have interest rate sensitivities more closely aligned with our liabilities. As part of this transition, the externally managed Canadian corporate bond portfolio was gradually wound down throughout the year and finally terminated in mid-November. For the year, the portfolio contributed a positive return of 3.4%.

In February 2006, a new internally managed long bond portfolio was created in line with the Fund's revised asset mix policy. This portfolio lengthened the duration of the Fund's holdings, providing a better matching of the Fund's assets to the Plan's liabilities. From its inception to the end of December 2006, the new internal domestic long bond portfolio outperformed its benchmark with a return of 6.6% compared to 6.1%, a difference of 50 basis points.

Also in 2006, two new externally managed long bond portfolios were established. One new portfolio is a passive portfolio which holds a subset of the long bond universe and is expected to generate risks and returns similar to the Scotia McLeod Long Bond Index. The portfolio was gradually created over the year as cash became available from the unwinding of other portfolios. In 2006, the portfolio generated a 3.1% return.

In mid-December the Fund also invested in an enhanced long bond portfolio as a temporary exposure while other, higher risk-adjusted return fixed income strategies for this portfolio are considered in 2007. The portfolio invests in a select group of Canadian bonds with risk statistics expected to mimic the index while generating slightly higher than index returns.

Overall, the Canadian bond nominal asset rate of return for 2006 was 4.9%, some 30 basis points above the benchmark return of 4.6%. Over a four-year period, the rate of return was 6.4%, which outperformed the benchmark mix of Scotia Capital Long Term Bond and Universe indices of 6.3%. The Fund also holds real return bonds, which yielded a negative return of (3.3%) in 2006, a reflection of changing market conditions and inflation expectations.

At year-end, Canadian nominal and real return bonds represented 47.0% of the Fund's investments at fair value.

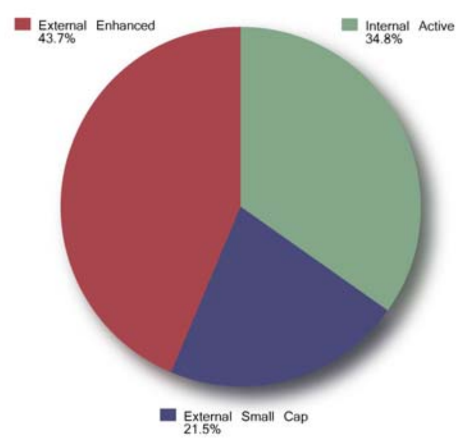
Canadian Equities

2006 marked the fourth year in a row that the Canadian stock market has rewarded investors with solid double digit returns. In the first part of the year, market strength was fueled by continuing strong commodity prices, with copper surging 90% in just a few months, and Crude oil rising to over $75 US/bbl by April. Inflation worries and a severe downturn in the U.S. housing market sent the market in a downdraft in the second quarter with a strong sell-off in financial services and technology stocks. Rising inventories and weakening demand sent energy prices tumbling in the second half of the year, however the overall market was supported by strong gains in the telecom services and technology sectors. Despite a sharp correction to the income trust sector due to the tax announcement by the federal government, the market rallied strongly into the year-end, supported by decent earnings growth and investor optimism. For the year, the S&P/TSX Composite Index returned 17.3%.

The chart on page 15 shows the 2006 total returns for the 10 sectors comprising the S&P/TSX Composite Index.

Market gains were broad based with all ten sectors posting positive returns. Outperforming the market in 2006 was more of a challenge with only four sectors and 42% of stocks returning more than the SP/TSX Composite return of 17.3%. Remarkably, 10 stocks accounted for 50% of the market's return for the year, four of which were banks.

MARKET VALUE OF CANADIAN EQUITIES
as at December 31, 2006
$577.2 million

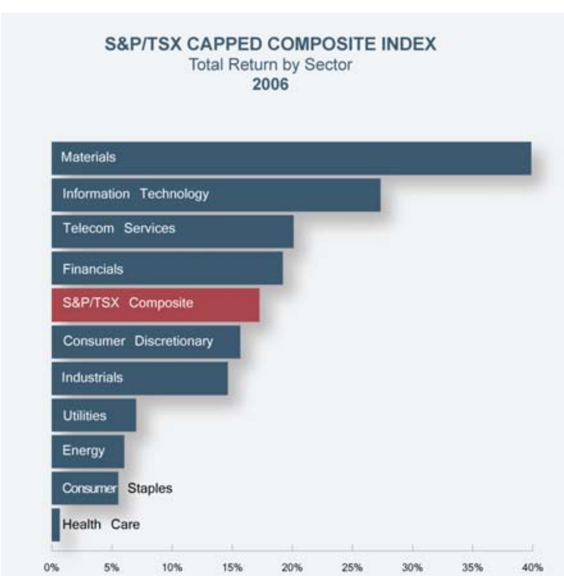


Factors influencing the Canadian Market in 2006 were:

- Volatile energy prices with crude oil rising to $77 US/bbl by August only to correct sharply by year-end, and natural gas prices ranging from a high of $11 US/mcf to a low of $4.2 US/mcf.
- Base metal prices hitting record highs, with zinc, nickel and aluminum particularly strong.
- Surging gold price, rising to a new 25 year high of $715 US/oz in May and closing the year at $637 US/oz, up 23%.
- Record uranium prices, rising 100% to close the year at $72 US/lb.

Leading the market higher was the materials sector up 39.9%, supported by strong base metal and gold prices as well as the takeovers of Inco Ltd. and Falconbridge Ltd. at substantial premiums. The information technology sector performed well with a return of 27.3%, almost entirely due to Research in Motion's 94% return. Also outperforming the market were the telecom services sector up 20.1% and the financial services sector up 19.2% on strong earnings growth.

The health care sector continued to struggle, up only 0.7% in the year. The consumer staples sector was up 5.5% as continuing problems at Loblaw Co. negatively impacted returns. The energy sector was up 6% with losses in the income trusts and falling energy prices tempering returns. The utilities sector also fell victim to the income trust tax announcement in the fourth quarter and finished the year with a total return of 7%. The industrials sector was up 14.6% as the heavy weight Canadian National Railway underperformed. The consumer discretionary sector returned 15.8%, led by strong returns in media stocks and the takeover of Four Seasons Hotels.



- The rise and fall of the Canadian dollar - rising to a 14-year high versus the U.S. dollar, only to correct sharply in the second half as energy prices fell.
- Mergers and acquisitions, including Inco Ltd., Falconbridge Ltd., Four Seasons Hotels, Fairmont Hotels and ATI Technologies being purchased by foreign companies.
- Income trust tax announcement by the federal government on October 31st.

The internally managed portion of Canadian Equities had an excellent year, returning 26.1% and outperforming the S&P/TSX Composite Index by 880 bps. Outperformance can be attributed to overweight positions in the information technology, telecom services and gold sectors, combined with portfolio positioning in the energy sector. Superior stock selection also contributed to outperformance.

Within the Canadian equity asset class are two externally managed portfolios. One is a small cap portfolio that holds approximately 40 equity securities. The portfolio invests in companies with healthy balance sheets and valuation multiples consistent with their growth potential. In 2006, the portfolio held prudent diversified exposures to the major sectors. This contrasted to the Nesbitt Burns Small Cap Index's significant overweight to the commodity and material sectors. The portfolio's comparative underweight to these sectors resulted in underperformance. In 2006, the portfolio generated a return of 14.4% versus the benchmark return of 16.6%. As part of the asset mix policy to reduce the Fund's exposure to Canadian equity, approximately $50 million was removed from this portfolio in 2006.

The second externally managed Canadian equity portfolio is the Enhanced Index portfolio. The objective of this portfolio is to outperform the S&P/TSX composite index through superior stock selection while maintaining neutral sector weights. The portfolio is style neutral and broadly diversified. In 2006, the portfolio generated a return of 14.6%, lagging the index return of 17.3%. The underperformance was due to the portfolio's underweight to some of the more speculative stocks that were purchased through merger and acquisition activity in the market, holding some stocks set to convert into income trust structures just prior to the government's surprise change in tax treatment and other specific stock selection issues.

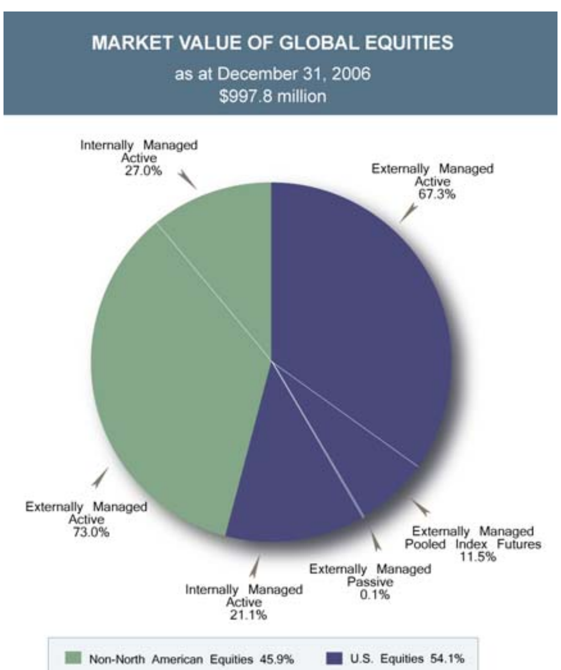
The Canadian Equity asset category rate of return for 2006 was 18.5%, some 120 basis points higher than the benchmark return of 17.3%. Over a four-year period, the rate of return was 19.3% which was 130 basis points below the benchmark return of 20.6%.

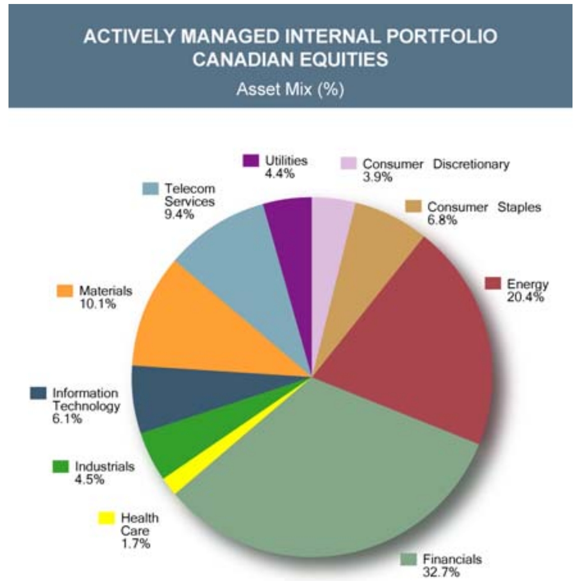
At the end of 2006, Canadian Equity holdings represented 13.3% of the Fund's holdings at fair value.

Global Equities

The Fund's overall Global Equities asset class is comprised of three components:

- Non-North American Equities which include an actively managed external portfolio and an actively managed external small capitalization portfolio.





- U.S. Equities, which include an externally managed S&P enhanced index portfolio, an actively managed external value portfolio and an externally managed pooled index fund.
- Global Equities, comprised of an internally managed portfolio.

Global equities produced strong returns in 2006, supported by healthy corporate profits, heightened merger and acquisition activity, and favorable economic conditions. After a commodity-driven rally drove markets higher in the first few months of the year, equity markets suffered a sharp fall in late May and early June, as concerns over rising inflation, slowing economic growth and a weakening U.S. housing market impacted investor sentiment. These concerns gave way to renewed optimism in the second half of the year on the back of stabilizing interest rates and falling commodity prices, propelling the MSCI World ex-Canada index to a full year return of 19.7% in Canadian dollar terms.

The strongest returns in the year were seen in Europe, Asia (ex-Japan) and the UK, while the U.S. and Japan lagged the broader index. For the sixth consecutive year, emerging markets outperformed developed markets, with the MSCI Emerging Markets Index posting returns in excess of 30% in Canadian dollar terms.

The superior performance of European equities in 2006 was supported by a record level of takeover activity, robust corporate earnings and improving domestic demand. The European Central Bank continued its gradual pace of tightening, raising interest rates five times over the course of the year as inflation hovered just above the target range. Most markets produced solid double digit returns, with Spain, Portugal, Ireland and the Nordic region turning in the strongest performances.

Outside of Japan, Asian markets also saw strong returns, led by Singapore which rose close to 50% in Canadian dollar terms for the year on the back of a strong property market, while Australia and Hong Kong grew over 30%. Emerging Asian markets such as China and India fared even better, driven by surging foreign fund flows, heightened capital markets activity and strong investor risk appetite.

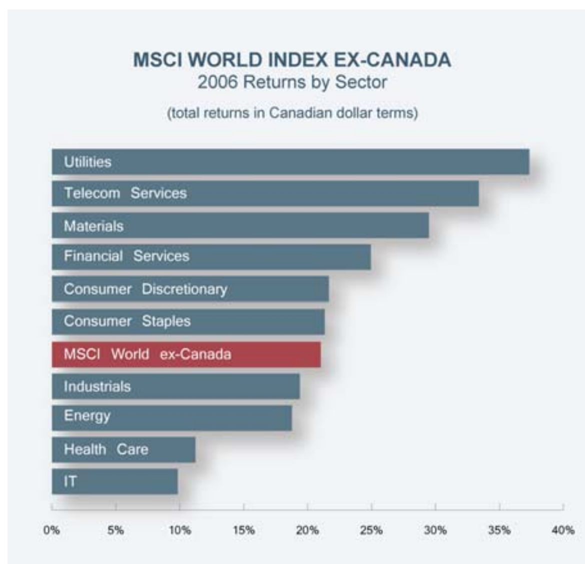
Equities in the UK shrugged off the headwinds of higher interest rates and volatile commodity markets in 2006, posting returns in excess of 30% in Canadian dollar terms. Market performance was driven by such factors as a surge in merger and acquisition activity, strong corporate profits and a buoyant housing market.

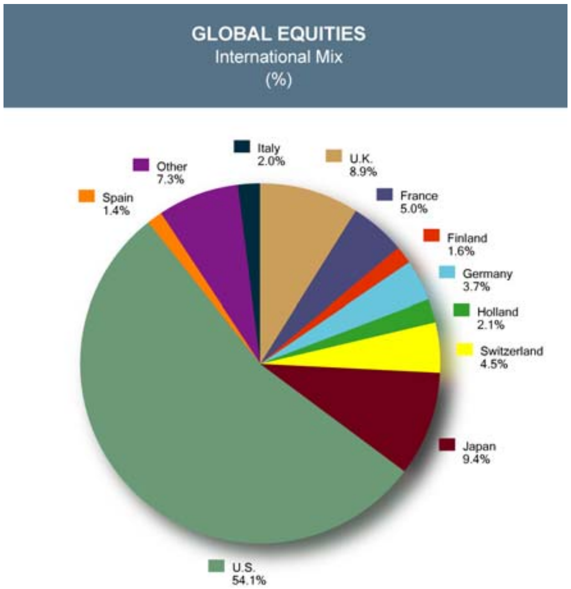
Concerns that the U.S. Federal Reserve would push the U.S. economy into a major slowdown in its attempt to tackle inflation began to dissipate in the second half of the year as the bank moved to a neutral position, setting off a rally that was sustained through the end of the year. Although the U.S. housing market experienced a significant downturn in 2006, the much feared "hard landing" had not materialized by the end of the year, with consumer spending remaining remarkably resilient, supported by a strong labour market and falling energy costs. Easing inflationary pressures and expectations for a deceleration in economic growth pushed the U.S. dollar weaker against most major currencies toward the end of the year, tempering the strong underlying equity returns.

After a blowout year in 2005, Japanese equities had a disappointing performance in 2006 as the long-awaited resurgence in consumer spending and wage growth failed to materialize, while corporate earnings growth remained modest. Although the Bank of Japan abandoned its zero interest rate policy in July by implementing a modest rate hike, the decade-long struggle with deflation continued to persist, causing the central bank to refrain from further tightening measures in the latter half of the year.

From a sector standpoint, commodity-sensitive sectors like energy and materials led markets higher in the first few months of the year, but this trend gave way to a rally in interest-sensitive sectors such as utilities, telecom services and financials in the latter half as the prospects of further rate hikes in the U.S. diminished. Information technology companies struggled to make headway throughout much of 2006, while energy stocks were impacted by the combination of a benign hurricane season, weaker than expected demand and mild weather trends, all of which contributed in pushing oil prices lower in the second half of the year. The healthcare sector was also a notable laggard, impacted in part by the change in congressional leadership in the U.S. in November, which brought concerns over the Democratic agenda for healthcare reform.

The internal active global equity portfolio advanced 20.5% in Canadian dollar terms in 2006, outpacing a return of 19.7% for the MSCI World ex-Canada Index. The performance of the portfolio reflects a combination of strong stock selection and positive country allocation, from a large overweight in the European region and an underweight position in the lagging U.S. market. Sector allocation was mixed, with positive impacts from an underweight position in energy and industrials and an overweight in telecom, offset by an overweight position in the weaker healthcare sector and an underweight in materials.





Within the global equity asset class are two externally managed U.S. portfolios. One is an enhanced S&P 500 index portfolio. This portfolio of approximately 150 U.S. stocks is designed to generate slightly higher than index returns while maintaining risk statistics that are similar to that of the S&P 500 index. Positive stock selection in the technology and financial sectors was offset by poor selection in consumer discretionary, health care and materials. Underperformance in the consumer discretionary sector was primarily due to exposure to homebuilders, while an underweight to large pharmaceutical companies weakened health care performance. In 2006, the portfolio fell short of its return goal, generating a positive Canadian dollar return of 13.9% versus the 15.4% return of the S&P 500.

The second externally managed U.S. portfolio is a value portfolio, which holds a minimum of 40 large cap U.S. stocks characterized by lower than average Price to Earnings multiples and higher dividend yields. The portfolio focuses on high quality, mega-capitalization companies with solid fundamentals, strong balance sheets and relatively high returns on equity, able to sustain growth through all stages of the economic cycles. In 2006, this portfolio generated Canadian dollar returns of 20.7% outperforming the benchmark by 530 bps. The superior performance was attributed to strong stock selection as well as an underweight in the energy and materials sectors, which unlike their Canadian counterparts, were weaker sector performers.

There are also two externally managed portfolios which invest in companies of the European, Australia and Far East (EAFE) regions. The core EAFE portfolio holds companies that display strong growth characteristics while trading at a reasonable price. The portfolio's strategy remains positioned to benefit from global growth by holding stocks of companies expected to benefit from the burgeoning Chinese and Indian economies. For the year, the portfolio's overweight exposure to the industrials, energy, material and telecommunication sectors as well as its opportunistic exposure to the emerging markets helped performance. Even as the outlook for global economic growth wavered in 2006, the portfolio generated Canadian dollar returns of 26.0%, just exceeding the MSCI EAFE index return.

The other externally managed EAFE portfolio actively invests in the small capitalization stocks of the region. The portfolio holds approximately 100 stocks in companies with capitalizations ranging in size from U.S. $100 million to U.S. $2 billion. The strategy focuses on active stock selection while remaining sector neutral. Strong stock selection in France, Hong Kong, Japan and the United Kingdom within the consumer, industrial and material sectors helped generate strong absolute and relative performance. In 2006 the portfolio generated Canadian dollar returns of 34.7% surpassing the small cap benchmark return of 29.9%.

For the year 2006, the total global equities performance was 22.1%, 240 basis points above the benchmark MSCI World X Canada Index of 19.7%. At December 31, 2006, Global Equities represented 23.0% of the Fund's investments at fair value.

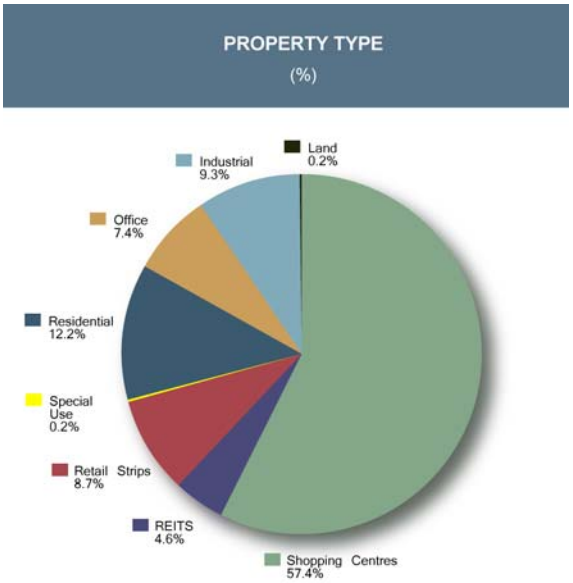
Strategic

There are three components to the Fund's strategic investments: property, which includes real estate and mortgages, private placements and hedge funds.

Property

2006 proved to be the sweet spot for real estate almost world-wide. Interest rates have moved higher, but not enough to slow economic growth below the non-inflationary potential. Here in Canada, vacancy rates continue to trend lower and now in some markets lease rates have strengthened. Although the high cost of materials is something of a deterrent for new development, new supply is coming on stream to meet the strong demand in some centres and should be easily absorbed. Capitalization rates for most markets are still falling, albeit at a slower pace. Globally, Canadian capitalization rates remain attractive.

Activity in the secondary market was again busy, but was held back by a lack of supply. Domestic investors were active, particularly pension funds and REITs. Foreign investors continue to maintain an interest in our market. Notable is the increasing interest of domestic investors in foreign markets. Most properties continue to find a multitude of potential buyers, although investors are beginning to back off from lesser quality offerings at these elevated levels. Some secondary markets such as Halifax are now finding greater interest for well-leased buildings. Many investors are now focusing on development properties, but even here the price of land has greatly escalated.



The retail and industrial sectors have been steady performers for several years now, but the office sector is now showing some strength. Demand for office space in most major cities has been robust. This has led to a general increase in lease rates and has spurred on new development, particularly in Toronto, Calgary and Edmonton. Retail continues at a strong pace, as can be expected in light of the healthy spending of Canadian consumers. Some markets are experiencing higher rents but for most centres the market is steady. The industrial sector is hanging in relatively well in light of the slowdown of the manufacturing industry in Canada. Central Canada is experiencing some increased vacancy, but in the West warehouses can't be built quickly enough to meet demand. The multi-residential sector remains the laggard of the Canadian real estate industry. The demand for houses has held relatively firm, reducing the demand for rental properties. Some poorly managed projects are clearly suffering and although the market appears to be stabilizing, lease rates are still under some downward pressure. An exception is in Alberta, where rental rates have been leaping higher in the wake of limited supply and strong demand.

In 2006, the return on the total property portfolio was 14.0% compared to the benchmark of 7.5%. The portfolio again benefited greatly from the uplift in values due to falling capitalization rates and fewer capital costs from renovations and tenant inducements. Once again, we took advantage of the robust market by selling several holdings and utilized the low mortgage rates to provide higher return through greater leverage on the portfolio. By year-end, the portfolio represented 6.1% of the Fund's assets.

Private Placements

The private placement portfolio consists of non-publicly traded equities and debt instruments and of a publicly-listed income trust holding converted from a private company investment in 2006 and subject to trading constraints during the year. The portfolio is mostly invested in funds and fund-of-funds managed by specialized fund managers. These instruments are less liquid and are managed on a long-term hold basis. Short term performance will fluctuate but over the long-term, the portfolio is expected to generate higher returns than the more liquid asset classes. In order to reduce risk, the portfolio is diversified into various holdings with exposures diversified by industry, market capitalization and geography. As part of the new asset mix policy, the amount allocated to private placements is now determined within the context of the combined strategic asset class exposures, which also include property and hedge funds. The new policy increases the Fund's exposure to the overall strategic asset class.

In 2006, new investments in the private placement portfolio focused on two investment themes. Firstly to increase investments in more stable long-term securities that generate regular cash flow while providing some inflation protection. Pursuant to this strategy, the Fund made commitments to various infrastructure funds. The second theme was to take advantage of increasing European convergence activities. As the Euro-region expands, we continue to believe that local companies will look to increase efficiencies and gain market share through regional and pan-European merger and acquisitions. In order to benefit from this trend, the Fund invested in a European mid-market buyout fund-of-funds. Within the existing portfolio, one large, long held investment of the portfolio went public in 2006 as an income trust. While still in escrow, the trust price was negatively impacted by the government's unfavourable change in taxation policy on these instruments. In 2006, the private placement portfolio generated an annual return of 2.2%. Overall, at December 31, 2006, the Private Placement portfolio represented 3.7% of the Fund's investments at fair value.

Hedge Funds

The Fund currently invests in one externally managed multi-strategy hedge fund. The three main investment strategies used by this hedge fund are based on the relative value among the G-10 stock and bond markets, among global currencies and along the global yield curves. An initial 1% investment in hedge funds was made in 2005. After a year of monitoring risk and performance, the Fund doubled its investment in 2006 to 2%. The hedge fund is denominated in U.S. dollars. In late 2006, in order to remove the impact of U.S. dollar currency fluctuations from investment performance, a currency hedge was placed on this investment. In Canadian dollar terms, the hedge fund portfolio generated annual 2006 returns of 14.4% and represented 2.0% of the Fund's investments at market at the end of 2006.

Change in Net Assets Available for Benefits

The Fund's net assets available for benefits increased $302.3 million from $4,064.9 million at December 31, 2005 to $4,367.2 million at December 31, 2006.

Total investment income of $158.2 million, which includes interest and dividends earned during the year as well as income from real estate properties net of operating and interest expenses, increased by $9.0 million when compared to the previous year. This increase was due primarily to higher income in the bond portfolio.

Total contributions of $104.9 million reflect an overall increase of $21.6 million when compared to the previous year's total of $83.3 million. A significant part of this increase is attributable to special solvency funding payments of $11.3 million made by the Plan sponsor in 2006. In total, employee current service contributions increased $2.3 million and the number of active contributors increased from 8,106 at the end of 2005 to 8,142 at the end of 2006. At the same time, past service contributions increased $4.4 million, reflecting a higher level of buy-back activity following amendments to the Plan's elective service provisions in January 2006. Net reciprocal transfers with other plans and employee contributions to the flexible pension provision of the Plan remained fairly static at $1.4 million and $1.0 million respectively.

Expenditures out of the Fund totalling $209.6 million reflect an increase of $15.7 million when compared to the previous year's total of $193.9 million. Of this total increase, $12.3 million relates to benefit payments while administrative expenses increased $3.4 million.

Benefits

The plan paid $191.6 million in benefits during 2006, an increase of $12.3 million when compared to the $179.3 million in 2005. Within the total benefits category, pension payments increased by $6.9 million due primarily to a 2.24% cost of living adjustment effective January 1, 2006 and an increase of 192 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 increased $4.4 million due to an increase in the number of transfers upon member separation.

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 2006 totaled $17.9 million, an increase of $3.4 million over the previous year. Total administrative expenses represented a cost of 41.9 cents per $100 of average assets under management in 2006, compared to 37.6 cents per $100 of average assets in 2005.

The increase related primarily to external investment management fees for $2.6 million, internal investment management fees for $0.7 million and external pension benefit administration costs for $0.3 million. External investment manager fees increased following strong investment portfolio performance in 2006 and also as a result of adjustments made to external asset management mandates in 2006, as the Fund moved to implement its revised asset mix policy.

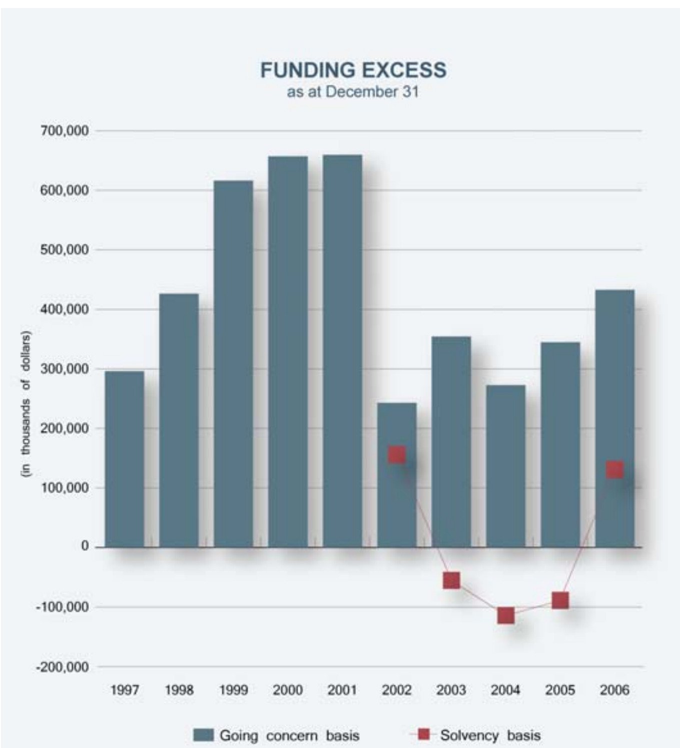
The Fund participates in an annual external benchmarking study that covers the fund management portion of its administrative expenses, with the latest study being undertaken for the 2005 financial year. The study established a benchmark operating cost for a fund of our size, asset mix and nationality of 34.0 cents per $100 of average assets under management. For only those operating costs that formed part of this study, the equivalent actual costs for the Fund in 2006 were 28.9 cents per $100 of average assets under management, indicating that these expenditures for the management of the CBC Pension Fund continue to compare favourably to the industry.

The 2007 approved budget for administrative expenses includes an increased allocation for investment management fees, an increase for salary costs in line with the Fund's compensation policy and a decrease in external pension administration costs primarily reflecting expected process efficiencies and certain non-recurring activities. Minor fluctuations are anticipated in the various other expense categories reported in Note 13 in the Financial Report section.

ACCRUED PENSION BENEFITS

The Fund's assets are managed to provide a rate of return over the long-term sufficient to cover the liabilities and attempt to minimize 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 31st, 2006. This valuation determines the accrued pension benefits and the 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 pension 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 cover 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.

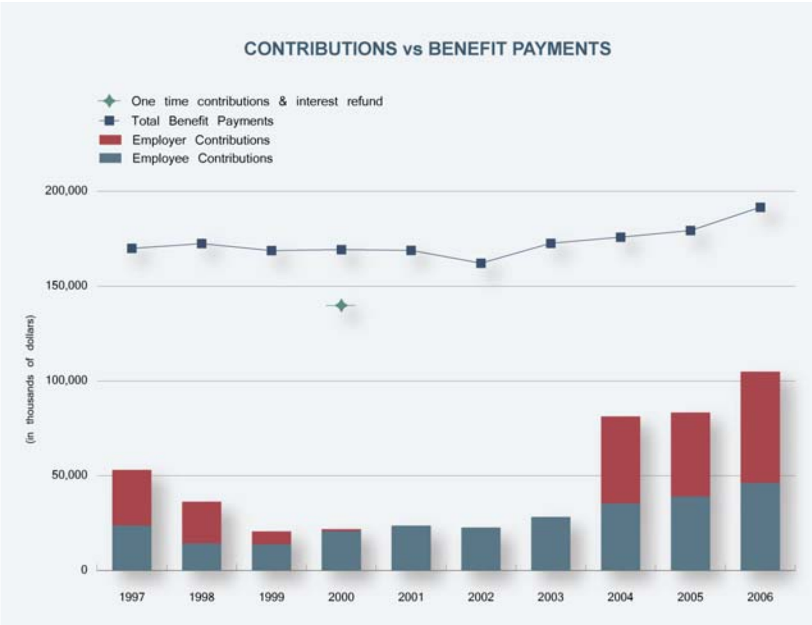


As at December 31, 2006, on a going concern basis, the accrued pension benefits were $3,554.9 million, an increase of $215.9 million from the previous year's total of $3,339.0 million. Over the same period, the actuarial value of net assets available for benefits increased $304.0 million from $3,683.9 million to $3,987.9 million. The net result was an increase of $88.0 million in the funding excess at the end of 2006.

As required under the Pension Benefits Standards Act (PBSA) and for reporting purposes to the Office of the Superintendent of Financial Institutions (OSFI), the Plan's actuary also values the Plan on a solvency basis. Using this method, which simulates a plan wind-up, and following the valuation at the end of 2006, a funding surplus of $131.1 million existed as at December 31, 2006. This compares to a funding deficit as at December 31, 2005 of $89.1 million. The primary reason for the reversal of the solvency deficit was the strong investment performance in 2006 and changes in the level of long-term interest rates used to value the Plan liabilities.

Under federal regulations, the Plan sponsor normally uses the lower of the going concern and solvency funding surplus or deficit amounts as determined in the valuation in order to determine the required contribution levels. In situations where the Plan is in a surplus position and the going concern funding ratio is greater than 110%, which is the case for the Plan at the end of 2006, the Income Tax Act applies such that the Plan sponsor cannot contribute to the Plan until the ratio is reduced to 110%.

Under the current regulatory framework, the next formal actuarial valuation will be required at December 31, 2009.



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 its employer contributions for the years 2000 to 2003 would be covered by the funding excess and that normal employee contributions would be reduced by 17.2% from January 1, 2000 onwards. Effective January 1, 2004 both the employer and employee rates returned to pre-2000 levels. 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.

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.

Since January 2004, the firm of Mercer Human Resources Consulting Limited has administered the services for CBC employees and pensioners through the Pension Administration Centre (PAC).

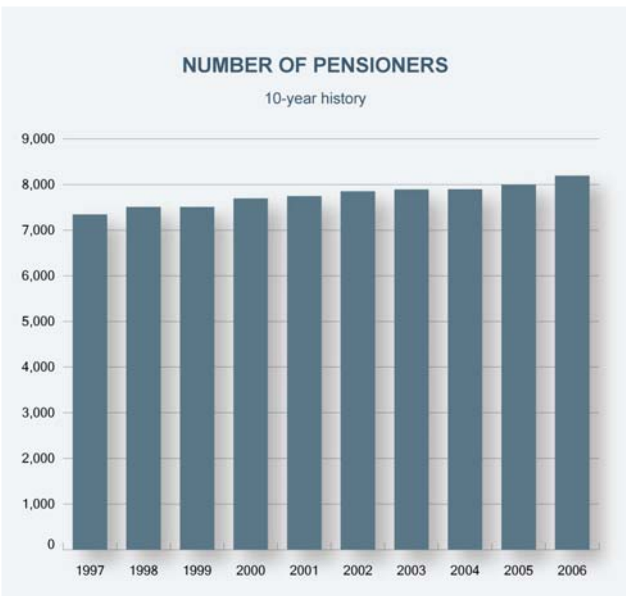
Performance standards for the pension benefit administration services address the practices and processes required to execute, in a timely and efficient manner, the major responsibility noted above as well as other varied functions in pension related activities such as:

- 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.;
- on-line secure access to pension information, pension and buy-back calculations and pension forms. Further, this on-line feature provides an information request capability and the ability to update personal information;
- a toll-free call centre;
- customer service representatives capable of answering pension related questions, put clients in touch with outside providers and mailing forms related to various life changes.

The third year of operation of the Pension Administration Centre (PAC) was considered successful based upon the service levels achieved, satisfaction survey results and utilization volumes. While the overall target for completing 90% of transactions within defined service level timeframes was achieved for only a portion of the year, this is primarily attributable to a high level of effort and manual transaction processing required for the implementation of the special buy-back project that took place in 2006, following amendments to the Plan's elective service provisions. The successful transition to the new elective service provisions was a significant accomplishment as these will make buy-back cost calculations more equitable overall and will simplify pension plan administration.

Ongoing satisfaction survey during the year among callers to the PAC Centre showed an aggregate overall rating of excellent/good in over 90 % of those surveyed.

Statistics on the general web usage reveal that the total number of log-ins, which includes multiple log-ins, was 18,600 for employees and 1,966 for pensioners. In total 8,679 employees and 984 pensioners used the web services. There were 3,268 employees who accessed the short-term quoter for a total of 9,574 pension quotes. The use of the web site features are efficient and cost effective. The PAC centre received a total of 14,941 calls, of which 7,310 were from active members and 7,631 from pensioners and inactive members. The total call volume was higher than the expected volume, reflecting a higher level of activity due to the special buy-back project. The chart on page 24 identifies the monthly volumes at the PAC.



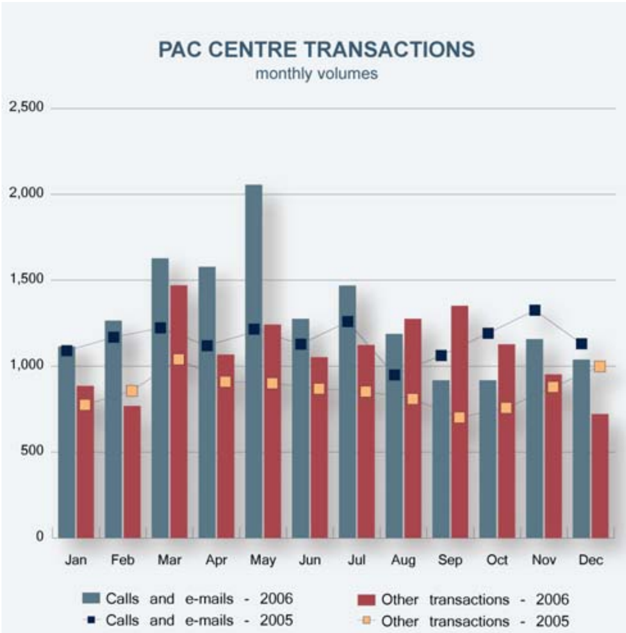
On July 1, 1998, the CBC Pension Plan was amended to incorporate an additional contributory component providing employees with the flexibility to improve the provisions determining the calculation of their benefit through tax-deductible contributions. This modification, which does not entail additional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

The table below 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.

In 2006, there was an increase of 192 in the number and minor changes in the mix of pensions being paid as reported in the table below. Over a five-year period, the total number of pensions being paid increased 4.3% from 7,852 in 2002 to 8,193 in 2006.

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

Year Ending December 31	**2006**	**2005**	**2004**	**2003**	**2002**
Total number of persons (or estates) to whom contribution refunds and pension benefit transfers were paid during the year	205	275	154	173	188
The number of pensions transferred to other plans (reciprocal transfers)	11	3	11	8	5
Pension benefit credits transferred to former spouses (active employees)	3	2	7	9	9
PENSIONS BEING PAID					
Pension being paid to ex-employees	6,554	6,394	6,357	6,367	6,391
To spouses of deceased employees and pensioners	1,521	1,511	1,442	1,414	1,360
To former spouses due to division of pension credits	63	60	56	51	45
To children of deceased employees and pensioners	55	36	43	58	56
Total pensions being paid	**8,193**	**8,001**	**7,898**	**7,890**	**7,852**



Future issues and trends

Asset Mix Transition

In early 2005, the Board of Trustees initiated a major asset liability study, as is its practice on a periodic basis. The objective of the study was to determine the most suitable long-term asset mix which will meet the Plan's obligations for accrued pension benefits. The process included a review of the risk/reward associated with the existing long-term asset mix policy, analysis of the risk/reward profile that would result from alternative asset mix policies, and consideration of the impact of various economic environments on both the assets and liabilities of the Plan. As a result, changes to the Fund's long-term asset mix were made in 2006, as detailed elsewhere in this report. Changes are expected to continue into 2007. In particular, the implementation of new risk management techniques to hedge interest rate risk is expected to commence in 2007.

Control Self-Assessment

Building on a framework established and implemented over a number of years, the Plan established a formal risk management policy in 2006 and conducted a comprehensive control self-assessment exercise in order to update its assessment of the processes in place to manage the Plan's risks. The integrated risk management framework will continue to be developed in 2007 and future years as part of the Plan's continuing risk management process. Planned activities in 2007 include the review of certain processes under the control self assessment program, monitoring of the implementation of the revised asset mix strategy and the development of enhanced risk measurement tools.

Institutional Trade-date Matching

The Canadian Securities Administrators (CSA) recently introduced National Instrument 24-101 - Institutional Trade Matching and Settlement (NI 24-101). NI 24-101 defines a framework for ensuring that institutional trades in Canada will be "matched" on the same day that the trade takes place. This will greatly enhance the settlement and processing of institutional trades. Requirements for refining business processes, enhancing policies and procedures and meeting the matching deadlines will be phased in over the next three years. 2007 requirements include the creation of internal policies and procedures and the development of trade-matching agreements between institutional investors, investment dealers and custodian banks. The 2007 objective is for 80% of trades to be matched by noon on the day following the trade (T+1). The Plan is currently implementing processes to comply with NI 24-101.

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 Mercer Human Resource Consulting Limited, 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 auditors 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

Suzanne Morris
Secretary/Treasurer
CBC Pension Board of Trustees

March 12, 2007

Actuary's Opinion

Mercer Human Resource Consulting Limited was retained by the CBC Pension Board of Trustees (the "Board") to calculate the going concern liabilities and the actuarial value of the assets of the CBC Pension Plan (the "Plan") as at December 31, 2006, for inclusion in the Plan's financial statements.

The Plan's actuarial liabilities as at December 31, 2006 are based on the actuarial valuation of the Plan at that date and take into account:

- membership data provided by CBC/Radio-Canada as at December 31, 2006;
- 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 calculate 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

Marc Bouchard
Fellow of the Canadian Institute of Actuaries

Mercer Human Resource Consulting Limited
Ottawa, Ontario

March 12, 2007

AUDITORS' 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, 2006 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 CBC Pension 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, 2006 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

Chartered Accountants

February 9, 2007

March 12 2007 (Notes 10 and 12)

CBC Pension Plan

Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Funding Excess as at December 31

	2006	2005
	(in thousands of dollars)	
NET ASSETS AVAILABLE FOR BENEFITS		
ASSETS		
Investments (Note 3)	$ 4,343,880	$ 4,033,987
Accrued Investment Income	10,930	14,787
Accounts Receivable (Note 6)	8,647	6,868
Contributions Receivable (Note 7)	6,400	12,541
FlexPen Investments (Note 8)	8,206	7,148
	4,378,063	4,075,331
LIABILITIES		
Accounts Payable (Note 9)	10,825	10,398
NET ASSETS AVAILABLE FOR BENEFITS	4,367,238	4,064,933
Actuarial Asset Value Adjustment (Note 10)	(379,351)	(380,995)
ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS (Note 10)	3,987,887	3,683,938
ACCRUED PENSION BENEFITS (Note 10)	3,554,917	3,339,000
FUNDING EXCESS (Note 12)	$ 432,970	$ 344,938

Approved by the Board of Trustees

Trustee

Trustee

Approved by Management

Managing Director/CEO

Secretary/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

	2006	2005
	(in thousands of dollars)	
NET ASSETS AVAILABLE FOR BENEFITS BEGINNING OF YEAR	$ 4,064,933	$ 3,733,905
INCREASE IN ASSETS		
Current Year Change in Fair Value of		
- Investments and currency (Note 3)	247,850	292,091
- FlexPen (Note 8)	954	384
Investment Income (Note 3)	158,188	149,148
Contributions (Note 7)	104,873	83,269
TOTAL INCREASE IN ASSETS	511,865	524,892
DECREASE IN ASSETS		
Benefits (Note 11)	191,581	179,307
Administrative Expenses (Note 13)	17,979	14,557
TOTAL DECREASE IN ASSETS	209,560	193,864
INCREASE IN NET ASSETS	302,305	331,028
NET ASSETS AVAILABLE FOR BENEFITS END OF YEAR	$ 4,367,238	$ 4,064,933

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

	2006	2005
	(in thousands of dollars)	
ACCRUED PENSION BENEFITS BEGINNING OF YEAR	$ 3,339,000	$ 3,268,052
INCREASE IN ACCRUED PENSION BENEFITS		
Interest on Accrued Pension Benefits	213,432	216,968
Benefits Earned	93,457	82,720
FlexPen (Note 8)	1,955	1,320
Net Experience Losses (Note 10)	31,510	22,599
	340,354	323,607
DECREASE IN ACCRUED PENSION BENEFITS		
Benefits (Note 11)	191,581	179,307
Changes in Actuarial Assumptions (Note 10)	(67,144)	73,352
	124,437	252,659
NET INCREASE IN ACCRUED PENSION BENEFITS	215,917	70,948
ACCRUED PENSION BENEFITS END OF YEAR	$ 3,554,917	$ 3,339,000

Financial Report

Statement of Changes in Funding Excess
Year Ended December 31

	2006	2005
	(in thousands of dollars)	
FUNDING EXCESS BEGINNING OF YEAR	$ 344,938	$ 272,772
Increase in Net Assets Available for Benefits	302,305	331,028
Change in Actuarial Assets Value Adjustment	1,644	(187,914)
Increase in Actuarial Value of Net Assets Available for Benefits	303,949	143,114
Net Increase in Accrued Pension Benefits	215,917	70,948
FUNDING EXCESS END OF YEAR (Note12)	$ 432,970	$ 344,938

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

CBC Pension Plan

Notes to the Financial Statements
December 31, 2006

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. Employees are required to contribute to the Plan a percentage of their pensionable salary, which for full-time employees, is $5^{1}/_{15}$% of earnings up to the maximum public pension plan earnings ($42,100 in 2006) and $6^{2}/_{3}$% of earnings in excess of such maximum. The Corporation provides the balance of the funding, as required, based on actuarial valuations.

The PBSA also requires that an actuarial valuation be performed on an annual basis when the latest actuarial valuation reveals a solvency deficit. The most recent actuarial valuation of the Plan was made on December 31, 2006 with the actuarial report to be filed with Regulatory Authorities by June 30, 2007. This valuation reported a solvency surplus while the previous valuation at December 31, 2005 had reported a solvency deficit, which the Plan sponsor had begun to fund in 2006. Based on the solvency surplus position at the end of 2006, such special solvency contributions will no longer be required.

Under the Federal Income Tax Act, due to the Plan's going concern funding position at December 31, 2006, the Plan sponsor cannot contribute to the Plan until the going concern funding excess has been reduced by $77 million.

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 have 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 a going-concern basis actuarial valuation prepared by a firm of independent actuaries. 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. Special solvency deficit funding contributions from the Plan sponsor are recorded as they accrue over the ten-year amortization period allowed by regulation. 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. The major estimates used by management in preparing the financial statements relate to valuation of private placements and property and assumptions used in the calculation of the pension obligation. 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 $37.5 million at the end of 2006 ($42.9 million in 2005). 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.

2006 INVESTMENTS

	Fair Value	Cost	Current year Change in Fair Value of Investments [1]	Investment Income	Total Return
			(in thousands of dollars)		
Fixed Income					
Cash and Short-Term Investments	$ 212,743	$ 212,847	$ 204	$ 9,744	$ 9,948
Bonds - Canadian	2,043,655	2,021,000	(33,772)	88,082	54,310
- Global	-	-	-	42	42
	2,256,398	2,233,847	(33,568)	97,868	64,300
Equities					
Canadian	577,183	422,591	105,405	7,305	112,710
Global	997,785	824,463	155,991	28,375	184,366
	1,574,968	1,247,054	261,396	35,680	297,076
Strategic					
Property (Note 4)	262,891	224,878	18,213	16,213	34,426
Private Placements (Note 5)	161,328	198,384	(5,810)	5,208	(602)
Hedge Fund	88,295	77,867	7,619	3,219	10,838
	512,514	501,129	20,022	24,640	44,662
TOTAL	$ 4,343,880	$ 3,982,030	$ 247,850	$ 158,188	$ 406,038

[1] *The 2006 change in Fair Value of Investments includes $387.6 million of unrealized gains and $25.8 million of unrealized losses on foreign exchange.*

2005 INVESTMENTS

	Fair Value	Cost	Current year Change in Fair Value of Investments [1]	Investment Income	Total Return
			(in thousands of dollars)		
Fixed Income					
Cash and Short-Term Investments	$ 210,976	$ 210,711	$ (2,086)	$ 7,327	$ 5,241
Bonds - Canadian	1,564,783	1,510,421	27,853	54,783	82,636
- Global	-	-	(5,844)	1,872	(3,972)
	1,775,759	1,721,132	19,923	63,982	83,905
Equities					
Canadian	991,321	753,535	194,211	10,869	205,080
Global	808,455	749,145	43,348	33,125	76,473
	1,799,776	1,502,680	237,559	43,994	281,553
Strategic					
Property (Note 4)	278,753	252,652	15,826	36,385	52,211
Private Placements	138,873	59,687	15,896	3,819	19,715
Hedge Fund	40,826	37,939	2,887	968	3,855
	458,452	350,278	34,609	41,172	75,781
TOTAL	$ 4,033,987	$ 3,574,090	$ 292,091	$ 149,148	$ 441,239

[1] *The 2005 change in Fair Value of Investments included $533.4 million of unrealized gains and $73.5 million of net unrealized losses on foreign exchange.*

b) 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 and short-term bonds, are valued at cost which approximates fair value.

ii) Equities, Bonds, Private Placements and Hedge Funds

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

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

Private placements consisting of listed securities subject to trading constraints are valued at prices based on published market quotations.

Hedge Funds are valued at prices based on published market quotations for the underlying investment holdings.

iii) Property

Property consists of mortgages and real estate.

a) Mortgages are secured by real estate and generally represent loans made at commercial mortgage rates to corporations. These loans are generally payable and amortized over periods ranging from fifteen to twenty 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.

c) 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 mainly affected by the long-term assumption on the Plan's rate of return on investments.

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, 2006, a 1% reduction in the assumed real long-term rate of return would result in an increase in the pension liabilities of approximately 13.5% whereas a 1% increase in the rate would result in a decrease in the pension liabilities of approximately 12.5%.

Pension liabilities are also 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.

At the end of 2006, the Plan's Statement of Investment Policy and Procedures provided for a long-term target asset mix of 50% fixed income, 34% equities, and 16% strategic investments which includes property, private placements and hedge funds. The asset mix is determined through periodic reviews of the Plan's pension liabilities.

ii) Credit Risk

a) Credit 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 Procedures, 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.

	2006	2005
	(% of category)	
BONDS		
Government of Canada	37.4	49.4
Provinces	25.3	16.3
Corporate	12.7	32.3
Passive Pooled Fund	24.6	2.0
	100.0	100.0

	2006	2005
	(% of category)	
CANADIAN EQUITIES		
Financials	22.1	24.1
Information Technology	19.2	5.8
Energy	18.6	28.3
Materials	12.4	20.0
Industrials	7.2	6.1
Consumer Discretionary	5.7	6.0
Telecommunication Services	4.9	2.5
Consumer Staples	4.2	2.2
Health Care	3.9	4.5
Utilities	1.8	0.5
	100.0	100.0

iii) Foreign Currency and Exposure Risk

The Plan invests in non-Canadian equities, bonds, private placements, hedge funds 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.

The Plan may, from time to time manage some of the exposure based on economic fundamentals. During the year, the Plan used foreign exchange forward contracts to manage its exposure to foreign currency risk. At December 31, 2006, three forward currency contracts were in effect to manage the U.S. dollar currency risk associated with the Plan's Hedge Fund investment. The notional principal amount of these contracts outstanding at December 31, 2006 totalled $77.9 million, with a maturity date of January 11, 2007. At December 31, 2006, there was a $3.0 million unrealized loss on these contracts at fair value, which is included in the $88.3 million fair value of the Hedge Fund investment in the financial statements.

The Plan's net foreign currency exposure in Canadian dollars after giving effect to the hedged and trading positions as at December 31 was as follows:

	2006			2005
	Investment by Country	Net Foreign Currency Hedge/Trading	Net Foreign Currency Exposure	Net Foreign Currency Exposure
		(in thousands of dollars)		(in thousands of dollars)
United States	$ 674,294	$ (74,585)	$ 599,709	$ 498,606
Euro Countries	184,759	36	184,795	123,405
Japan	93,597		93,597	80,620
United Kingdom	88,958	(275)	88,683	77,055
Switzerland	44,524	(52)	44,472	27,670
Australia	10,199		10,199	8,278
Sweden	9,403		9,403	6,086
HongKong	8,794		8,794	9,323
Other	34,162	(18)	34,144	33,155
Total	$1,148,690	$ (74,894)	$ 1,073,796	$ 864,198

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 at book value before consolidation:

	2006	2005
	(in thousands of dollars)	
Assets		
Cash and Short-term Investments	$ 2,405	$ 4,564
Accounts Receivable	6,671	3,302
Property	19,357	23,611
Mortgage	600	600
Liabilities		
Accounts Payable	$ 3,727	$ 3,331
Promissory Notes	23,833	27,024
Earnings		
Investment Income	$ 2,129	$ 2,207
Administrative Expenses	(263)	(330)
Net Income	1,866	1,877

5. Private Placements

Private Placements at December 31, 2006 include a holding in income trust units that were acquired from the conversion of a privately-held investment during the year. Up to December 2006, trading constraints existed on this investment that inhibited the sale of the securities.

6. Accounts Receivable

		2006		2005
		(in thousands of dollars)		
Property	$	8,500	$	6,796
Other		147		72
	$	8,647	$	6,868

7. Contributions

The following are the contributions for the year:

				2006		2005
				(in thousands of dollars)		
Employee	-	Current Service	$	26,838	$	24,494
	-	Past Service		16,848		12,382
	-	Net Reciprocal		1,362		1,224
	-	FlexPen (Note 8)		1,001		936
Employer	-	Current Service		47,512		44,233
	-	Special Solvency Deficit Funding		11,312		-
			$	104,873	$	83,269

Included in the contributions are the following amounts receivable at year-end:

		2006		2005
		(in thousands of dollars)		
Employee	$	4,552	$	6,147
Employer		1,848		6,394
	$	6,400	$	12,541

8. 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:

		2006		2005
		(in thousands of dollars)		
Investments beginning of year	$	7,148	$	6,215
Increases:				
Contributions and Interest		1,001		936
Capital Appreciation		954		384
		1,955		1,320
Decreases:				
Purchase of Additional Pension Benefits		897		387
		897		387
Investments end of year	$	8,206	$	7,148

9. Accounts Payable

	2006	2005
	(in thousands of dollars)	
Investment related	$ 4,713	$ 5,018
Benefits	1,135	996
Other	4,977	4,384
	$ 10,825	$ 10,398

10. Accrued Pension Benefits

a) As required under the Pension Benefits Standards Act, the latest actuarial valuation was performed at December 31, 2006, by Mercer Human Resource Consulting Limited. Amounts reported in these financial statements are based on going concern results of 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	
	2006	2005
Asset rate of return	6.25%	6.50%
Salary escalation rate[3]	3.25%	3.45%
Inflation rate	2.50%	2.70%

[3] excluding merit and promotional salary increases

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

In 2006, there were net experience losses of $31.5 million ($22.6 million in 2005) as revealed by the actuarial valuation conducted as at December 31, 2006.

The changes in the actuarial assumptions in 2006 resulted in an increase of the Accrued Pension Benefits of $67.1 million (decrease of $73.4 million in 2005).

The Pension Benefits Standards Act requires that the Plan be also valued on a solvency basis, which simulates a plan wind-up. As of December 31, 2006, the Plan's solvency liabilities were $4,232.1 million ($4,150.0 million as at December 31, 2005).

b) The actuarial value of net assets reflects the amortization of realized and unrealized capital gains and losses linearly over four years, with the resulting value not exceeding the market value. Under this method, the market value is the underlying basis, but fluctuations are generally 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.

11. Benefits

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

	2006	2005
	(in thousands of dollars)	
Pensions	$ 183,675	$ 176,761
Refunds and Related Interest	1,414	916
Net Transfer of Contributions and Related Interest	5,595	1,243
FlexPen:		
- Purchase of Additional Pension Benefits	897	387
	$ 191,581	$ 179,307

12. Funding Excess

Through an actuarial valuation as at December 31, 2006, it was determined that the Plan has a funding excess of $433.0 million on a going concern basis and a funding excess of $131.1 million on a solvency basis. The actuarial report will be submitted to the Plan sponsor, as required under the Trust Deed, and to the Office of the Superintendent of Financial Institutions (OSFI).

The previous actuarial valuation performed as at December 31, 2005 had determined that the Plan had a funding deficit of $89.1 million on a solvency basis as at that date. Under federal regulations enacted in 2006, the Plan sponsor elected to fund the 2005 solvency deficit over ten years. Accordingly, special solvency contributions of $11.3 million were made to the Plan in 2006. Effective with the submission to OSFI in 2007 of the December 31, 2006 Actuarial Report, the special solvency contributions will no longer be required as the Plan is in a solvency funding excess position at the end of 2006.

Under the Federal Income Tax Act, because the going concern funding ratio is greater than 110% at December 31, 2006, the Plan sponsor cannot contribute to the Plan until the going concern funding excess has been reduced by $77 million.

13. 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:

	2006	2005
	(in thousands of dollars)	
Fund Administration		
Internal Investment Management		
Salaries and employment costs	$ 3,196	$ 2,639
Professional fees	148	201
Data processing	852	802
Custodial and banking fees	1,149	1,017
Office rent	238	229
Other	112	137
Total Internal Management	5,695	5,025
External Investment Management		
Management fees	8,122	5,417
Property management	315	386
Total External Management	8,437	5,803
	14,132	10,828
Pension Benefit Administration		
External Administration	1,867	1,512
Salaries and employment costs	294	344
Professional fees	292	315
Other	164	159
	2,617	2,330
Board of Trustees Expenses		
Professional fees	336	481
Other	57	54
	393	535
GST	837	864
Total Administrative Expenses	$ 17,979	$ 14,557

14. Commitments and Contingencies

The Fund has committed to enter into investment transactions, which may be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2006, these potential commitments totaled $132.4 million (2005 - $28.0 million). 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.

15. Guarantees and Indemnifications

The Plan provides that Board members, employees and certain others are to be indemnified against the expenses related to proceedings against them. In addition, in the normal course of operations, the Plan may be required to compensate counterparties for costs incurred as a result of various contingencies such as legal claims or changes in laws and regulations. The number of such agreements, the variety of indemnifications and their contingent character prevents the Plan from making a reasonable estimate of the maximum amount that it would be required to pay all such counterparties. To date, no payments have been made under such indemnifications.

16. Comparative Figures

Certain of the 2005 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, 2006

Nominal Bonds

ISSUER	COUPON	MATURITY DATE	FAIR VALUE (in million $)
TD Quant Emerald Canadian Broad Bond Fund			436.40
Government of Canada	8.000%	Jun 01, 2023	93.21
Government of Canada	5.750%	Jun 01, 2033	91.80
Government of Canada	5.750%	Jun 01, 2029	70.31
Government of Canada	5.000%	Jun 01, 2037	68.15
TD Quant Emerald Canadian Long Bond Fund			62.20
Province of Ontario	6.200%	Jun 02, 2031	43.09
Province of Québec	6.250%	Jun 01, 2032	34.35
Province of Québec	5.750%	Dec 01, 2036	32.11
Province of Ontario	6.500%	Mar 08, 2029	25.55
Québec Hydro	6.000%	Feb 15, 2040	22.58
Province of British Columbia	5.700%	Jun 18, 2029	20.21
Province of Ontario	5.500%	Jun 02, 2018	19.83
Government of Canada	8.000%	Jun 01, 2027	18.25
Access Roads Edmonton Series B	5.812%	Sep 30, 2037	16.99
Trans Canada Pipeline	5.100%	Jan 11, 2017	15.46
Farm Credit Corporation	4.550%	Apr 12, 2021	15.31

Real Return Bonds

ISSUER	COUPON	MATURITY DATE	FAIR VALUE (in million $)
Government of Canada	4.000%	Dec 01, 2031	179.40
Government of Canada	4.250%	Dec 01, 2026	97.54
Province of Québec	4.250%	Dec 01, 2031	75.14
Government of Canada	3.000%	Dec 01, 2036	61.45
Province of Ontario	2.000%	Dec 01, 2036	46.63
Government of Canada	4.250%	Dec 01, 2021	34.67

Property

ISSUER	FAIR VALUE (in million $)
Pyxis Real Estate Equities - Ogilvy Building	28.65
Morguard Investments Ltd. - Residential Property (1) Inc. Pooled	26.71
Morguard Investments Ltd. - Industrial Prop. (1) Pooled	25.01
Tonko Developments - Westhill Equity	22.51
Morguard Investments Ltd./PFRL - CN Hotel/Conv. Centre	21.31

Canadian Equities

ISSUER	FAIR VALUE (in million $)
Barclays Global Investors Enhanced Canadian Index Fund	252.42

United States Equities

ISSUER	FAIR VALUE (in million $)
TD Quant Emerald Hedged US Fund	62.26
Citigroup Inc.	19.59
General Electric	18.34
Microsoft Corporation	17.82
Bank of America Corp.	17.03
American International Group	15.15

Global Equities

ISSUER	FAIR VALUE (in million $)
Mellon Capital Global Opportunities Fund	91.32

Special & Private Placements

ISSUER	FAIR VALUE (in million $)
Teranet Income Fund	97.11

Staff Members

as at December 31

Stephen Cotsman
Managing Director/CEO

Suzanne Morris
Secretary/Treasurer

Pension Fund Administration

Debra Alves
Strategic Investments
Portfolio Manager

Timothy D. Cairns
Domestic Bond/Property
Portfolio Manager

Paul Gasperetti
Portfolio Manager
Canadian Equities

Laura Hurst
Portfolio Manager
Global Equities

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

Please address your comments to:

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