CBC Pension Plan

2007 Annual Report

CBC Radio-Canada

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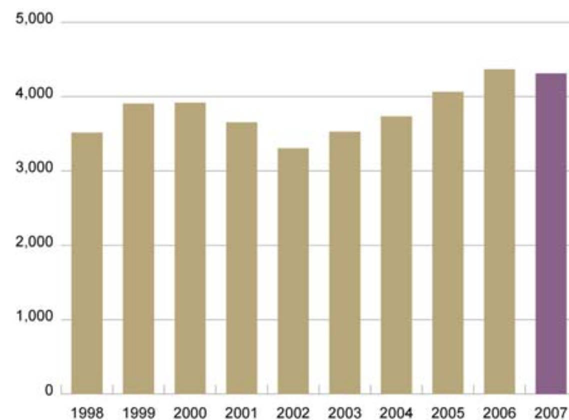
Profile

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 optional 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.

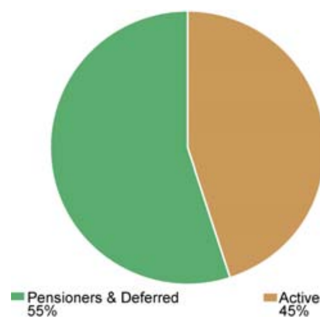
The assets of the Plan (which comprise the “Fund”) are administered by the CBC Pension Board of Trustees by virtue of the Trust Deed between the CBC and the Trustees. Over a ten-year period, the net assets of the Plan have grown from $3,514 million at the end of 1998 to $4,312 million at the end of 2007.

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. At the end of 2007, the Plan served 17,532 members, of which 45% were active members and, 55% pensioners, survivors or deferred members. This reflects the maturity of the Pension Plan, with a significant portion of the Plan’s liabilities attributable to pensioners, and compares to 14,696 members served ten years ago of which 49% were active and 51% retired, survivors or deferred.

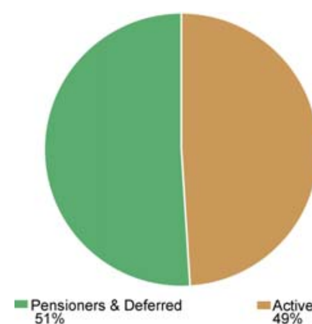
NET ASSETS - 10-YEARS
(for the year ended December 31)
(in million $)



2007 MEMBER PROFILE



1998 MEMBER PROFILE



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 (SIP&P).

The long-term investment objective of the Plan 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 nominal 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.

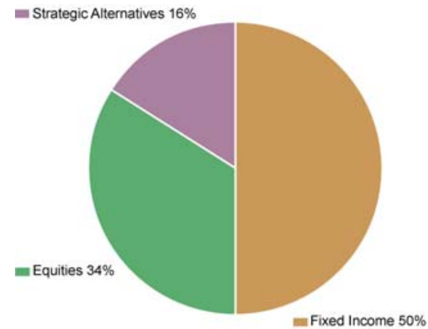
During 2007, the CBC Pension Board of Trustees continued to implement its liability-driven investment (LDI) strategy as it moves towards the Fund's target long-term asset mix policy which was revised in 2005. The strategy is designed to achieve appropriate long-term returns at the total Plan level while more closely matching the characteristics of the Fund's assets to those of its pension obligation liabilities and to reduce Plan surplus volatility.

The asset mix is comprised of two broad categories of assets. The first, the fixed income class (or 'matched assets') shares the pension plan obligations' sensitivity to changes in interest rates and inflation. The second category, which includes publicly traded equities as well as strategic alternative type investments (the 'unmatched assets'), includes assets whose value over time is generally not as sensitive to factors affecting the value of the pension plan obligations.

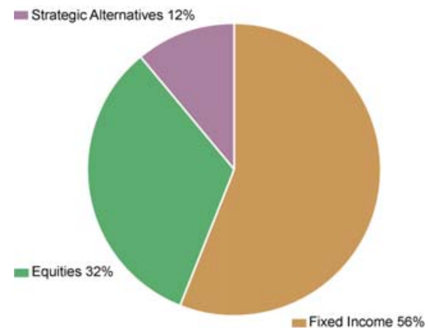
The long-term target asset mix policy of the Fund is: 50% fixed income, 34% equities and 16% strategic alternatives. The target long-term asset mix also calls for the hedging of the interest rate and inflation sensitivities created by the equity and strategic alternative portfolios in the unmatched asset classes. Under the LDI strategy, this is achieved through the use of derivative fixed income instruments.

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 phase 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.

LONG-TERM ASSET MIX POLICY



ASSET MIX - ACTUAL AT FAIR VALUE



2007 Highlights

Financial Overview

Year over year, the Fund's net assets available for benefits decreased $55.3 million (1.3%) from $4,367.2 million at December 31, 2006 to $4,311.9 million at December 31, 2007. Pension contributions of $55.0 million were lower than in 2006, and together with modest investment returns of $111.0 million were offset by pension payments of $204.2 million and administrative expenses of $17.2 million in 2007.

The Plan's funding excess on a going concern basis, which is the actuarial value of net assets available for benefits less the accrued pension benefits used for financial reporting purposes, increased by $28.9 million from $433.0 million in 2006 to an estimated $461.9 million at the end of 2007. The regulatory framework also requires measurement of the Plan's funding position on a solvency basis, which is a simulation of the wind-up of the Plan. On this basis, the Plan's funding position decreased from $131.1 million at the end of 2006 to an estimated $71.9 million at the end of 2007.

Financial Position as at December 31 ($ millions)	**2007**	**2006**
Net Assets Available for Benefits	**$ 4,311.9**	$ 4,367.2
Actuarial Asset Value Adjustment	**(172.0)**	(379.3)
Actuarially adjusted net assets	**4,139.9**	3,987.9
Accrued Pension Benefits	**3,678.0**	3,554.9
Going Concern Funding Excess	**461.9**	433.0

Investment Performance

For the year ending December 31, 2007, the one-year rate of return was 2.7% as compared to 2.9% for the Plan's Asset Benchmark, while the return over a four-year period was 8.5% exceeding the Asset Benchmark of 8.0%. This assessment of the Plan's performance measures the Plan's investment returns against a composite reference portfolio of relevant financial market return indices.

A Liability Benchmark was introduced in 2005 to allow for the tracking of the movement in the Plan's asset values to its estimated solvency funding liabilities, the net difference between the two providing a proxy of the impact of interest rate movements on the Plan's estimated solvency funding surplus. The Plan's annual return of 2.7% in 2007 was lower than its Liability Benchmark of 3.0%. Over the 27 month period since inception of this new benchmark in the last quarter of 2005, the Plan's investments returned an annualized rate of 7.5% exceeding its Liability Benchmark which returned 2.9%.

Investment Performance vs. Benchmarks	**2007**	**2006**	**2005**	**2004**	**4-years**
Fund Rate of Return	**2.7%**	10.2%	12.2%	9.1%	8.5%
Asset Benchmark	**2.9**	9.3	11.1	8.8	8.0
Value Added to Asset Benchmark	**(0.2)**	0.9	1.1	0.3	0.5
Liability Benchmark (introduced October 2005)	**3.0**	0.5	-	-	-
Value Added to Liability Benchmark	**(0.3)**	9.7	-	-	-

The long-term investment objective of the Plan is to achieve time weighted average annual rates of return which consistently exceed the Liability Benchmark by a minimum of 1.1%. Prior to October 2005, the long-term objective was expressed in terms of consistently exceeding increases in the consumer price index by a minimum of 3.75%. The time weighted annualized four-year rate of return for the Plan was 8.5% which exceeded the long-term investment objective of achieving time-weighted average rates of return of 5.2% over this period.

Member Services

The Plan's members continued to rate pension administration services highly with over 91% of those surveyed ranking services as excellent/good. The Pension Administration Centre (PAC) completed 19,142 transactions and members completed 17,822 online interactions. PAC operating volumes and costs were lower than in 2006, reflecting the completion in early 2007 of a special past service buy-back project that began in 2006. Costs were also reduced through the implementation of process efficiencies in 2007, while service level performance targets were exceeded.

	2007	**2006**
Member Service satisfaction level (rated as good or excellent)	**91.3%**	90.3%
Pension Administration Centre		
Transactions processed	**19,142**	24,297
Online interactions	**17,822**	20,566
Overall service level agreement performance (target = 90%)	**93%**	87%
Pension Benefit Administration cost (000's)	**$ 1,876**	$ 2,617

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Trustees Report

Financial Health of the Plan

In a year marked by tumultuous and volatile markets, the CBC Pension Fund delivered a positive but modest investment return of 2.7%, its fifth consecutive year of positive returns. The rate of return in 2007 compares to the annual asset benchmark portfolio objective of 2.9%, and the Plan's liability benchmark of 3.0%. The Fund's annualized 10-year return was 7.0%, which exceeded its long-term 10-year investment objective of 5.7%.

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. The actuarial valuation also determined that on a solvency basis, which simulates the wind-up of the Plan, there was a surplus of $131.1 million at the end of 2006.

The estimated surplus position as at December 31, 2007 is determined based on projections and estimates from the 2006 actuarial valuation. At the end of 2007, the Plan's surplus on a going concern basis was estimated to have increased to $461.9 million, increasing the funding ratio slightly to 112.6% and confirming the ongoing sound financial position of the Plan. The increase was primarily due to the net effect of the release of actuarial asset smoothing reserves which offset lower than expected 2007 investment returns, a reduction in Plan sponsor contributions and higher accrued pension benefits. The solvency surplus is estimated to have declined to $71.9 million at the end of 2007. While the solvency position is affected by many of the factors impacting the going concern surplus, the decrease is mainly reflective of the modest level of investment returns and lower contributions. The Plan's solvency ratio was estimated at 101.7% as at December 31, 2007, which according to a recent Canadian pension industry study, places the Plan in the estimated 29% of plans that have a solvency surplus, with a ratio greater than 100%, out of a database of 743 plans.

Under current federal income tax legislation, because the going concern funding ratio, at the time of the formal December 31, 2006 valuation, was greater than 110%, the Plan sponsor cannot contribute to the Plan until the going concern surplus as determined at that time has been reduced by $77 million. Employer contributions were suspended in April 2007 and are expected to resume in September 2008. By regulation, the next actuarial valuation of the Plan must be performed by December 31, 2009. The Trustees will continue their practice of monitoring the going concern and solvency positions of the Plan with special quarterly reports prepared by our actuaries.

Asset Mix and Investment Policy

In 2007, the Board of Trustees continued to oversee the implementation of changes to the asset mix and investment policies of the Fund, a process that began in 2005 following the development of a new liability-driven investment (LDI) strategy which is designed to achieve a closer matching of the Plan's assets to its liabilities (i.e. its pension payment obligations). Guided by the overarching objective of meeting the pension promise and reflecting the level of maturity of the Plan, the strategy seeks to mitigate the Plan's surplus volatility and deficit risk over the long term, while generating appropriate long-term returns and more stable results at the total Plan level.

In 2007, increased investments were made in strategic alternative asset types, including absolute return strategies, hedge funds and infrastructure projects. Strategic alternatives will continue to be pursued in order to add diversification to the Plan's publicly traded holdings. Derivative fixed income overlay strategies were also introduced to enhance asset/liability matching by hedging the interest rate and inflation sensitivities inherent in the Plan's pension obligations. Assisted by independent investment management counsel, the Board of Trustees monitored the progress and results of the revised investment strategy and will continue to do so as implementation continues in 2008.

Governance

The Board of Trustees maintains and continues to develop a sound Pension Plan Governance Framework which 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 Plan's Governance is the development of a comprehensive risk management framework. The Plan has a Risk Management Policy and comprehensive risk management program in place to manage key risks. Reflecting organizational objectives, risks are organized into five categories: strategic, operational, investment, reporting and compliance. In 2007 enhanced risk analytics and performance attribution tools were introduced and the Plan expended significant effort to establish processes for monitoring and assessing the effectiveness of the LDI strategy.

As investments become more complex and markets become more inter-related, it remains a priority of the governance framework that management and Trustees be up-to-date on industry activities and market practices through ongoing education sessions. Education sessions in 2007 included a review of fixed income instruments and markets, currency management strategies, as well as insight into investing in the Indian equity markets, an update on the status of income trusts and a review of general governance practices.

Succession Activities

The Pension Board of Trustees expresses its gratitude and recognition to Mr. Stephen Cotsman, the Plan's Managing Director/CEO who retired in 2007, after providing strong leadership to the Plan for twelve years. Guided by their succession planning framework, the Trustees carried out a thorough search process to choose the successor to this key position. The Trustees are pleased to report that Ms. Debra Alves became the new Managing Director/CEO in June 2007.

2007 also marked changes in the Trustees of the Plan. Mr. Pierre Racicot left the Board after contributing significantly to its stewardship for more than nine years. The Trustees were greatly saddened in August 2007 by the passing of Mr. John O'Mara, who had succeeded Mr. Racicot. Mr. O'Mara made a strong contribution to the Board's governance during his brief tenure, in particular through the development of a Trustee meeting effectiveness assessment tool adopted by the Board. The Trustees were pleased to welcome Mr. Paul Gaffney to the Board in November 2007.

Looking Ahead

A number of significant initiatives form the key objectives of the Pension Board in 2008. As the Plan completes the implementation of the LDI driven changes to the Fund's asset mix, emphasis will be placed on analysis, review and assessment of the changes made. Risk measurement and monitoring tools will continue to be developed and existing investment mandates will be reviewed.

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

Managing Director's Report

2007 was quite a year. The year started with positive global economic growth, fears of rising inflation and upward pressure for Central Banks to raise interest rates. Midway through the year, increasing cracks in the U.S. housing sector threatened global economic growth and triggered a decline in equity and money markets. By the end of the year, Central banks were openly injecting liquidity into the financial system in an attempt to restore market confidence. Commodity prices particularly those of gold and oil traded at or near record levels thereby giving a further boost to the value of the Canadian dollar.

In this turbulent environment, volatility re-entered the financial markets in a big way in 2007 resulting in wide market swings. The Canadian equity market rose 9.8%; international equities in Canadian dollars were down -5.7% and the U.S. equity market declined -10.5%. Canadian long nominal bonds generated a return of 3.4% and 91-day T-bills earned 4.4%.

The CBC Pension Plan achieved a return of 2.7% or 20 basis points less than the Asset Benchmark return of 2.9%. For the four-year moving average, the Fund returned 8.5% which exceeded the Asset Benchmark of 8.0% by 50 basis points. The Asset Benchmark represents the market index returns weighted by the policy asset mix weights. Comparison of the Plan's return to the Asset Benchmark provides a sense of how our portfolios performed against market indices. In 2005, we also introduced a Liability Benchmark which serves as a market proxy for the change in solvency liabilities due to movements in inflation and interest rates. Comparison of the Plan's return to the Liability Benchmark provides a more timely snapshot of how our portfolios performed against the Plan's solvency liabilities. In 2007 the Plan's return underperformed the Liability Benchmark return of 3.0% by 30 basis points. Since inception of this new benchmark in October 2005, the Plan's return of 7.5% exceeded the Liability Benchmark of 2.9% by 460 basis points.

The net assets of the Fund decreased from $4,367 million in 2006 to $4,312 million in 2007, a decrease of $55 million. This decrease includes the impact of pension payments of $204 million which exceeded employer and employee contributions of $55 million by $149 million.

The Accrued Pension Benefits of the Plan represent future pension payments. On a going concern basis, the Accrued Pension Benefits increased by $123 million from $3,555 million to $3,678 million.

Market returns, net contributions, changing interest rates and plan experience all have an impact on the Plan's financial position. In 2007, the going concern surplus of the Plan increased to $462 million from $433 million in 2006. The solvency position remained in surplus but declined to $72 million from $131 million in 2006. Overall the Plan remains fundamentally healthy.

Activity Highlights

- Asset Mix - A major initiative for the Fund over the past few years has been the transition of its assets to investments which have interest rate and inflation rate attributes similar to that of our liabilities. The asset mix policy separates the assets into matched assets (fixed income investments) and non-matched assets (equities and strategic investments). In 2007 efforts focused on adding derivative exposures with liability-like interest rate and inflation rate sensitivities as an overlay on the non-matched assets;

- Actuarial Valuation – The Actuarial valuation as of December 31, 2006 was finalized and filed with the Office of the Superintendent of Financial Institutions ("OSFI") by the June 30, 2007 deadline;

- Risk Management – It is an ongoing priority to enhance the Plan's risk management capabilities through the expanded use of quantitative risk management and performance measurement tools to assess and manage Plan investments. On a rotating basis, key risks and our processes to mitigate such risks were reviewed in the year;

- Succession and Staffing – A new Strategic Investments Portfolio Manager was hired. In addition, a new position of Senior Investment Analyst, Bonds and Property was created to support and provide backup in the management of these internal portfolios. Established succession planning processes were utilized to develop key personnel, smooth staffing transitions and diminish staffing disruptions.

After a few years of achieving double digit returns, the lower returns earned in 2007 pale in comparison. We continue the implementation of our asset mix policy which will better match our unique pension liabilities but move us further away from that of other pension plans. Particularly in this market environment and given the mature nature of the Plan's liabilities, our focus to manage the assets to better match the attributes of the liabilities on an ongoing basis confirms our foremost commitment to meeting the pension promise. Despite our liability focus, we note with some satisfaction that the Plan's 2007 returns managed to outperform the median RBC Dexia fund universe return of 1.5%.

I would like to thank my predecessor Mr. Stephen Cotsman for his guidance and leadership of the Plan over the last twelve years. I would also like to thank the Trustees for the confidence they have placed in me with this new role. It continues to be an honour to be associated with this Plan. As well I would also like to thank all of the staff for their support during my transition and their ongoing efforts as we head into 2008.

Debra Alves
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 under CAPSA are summarized in the table below.

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.
Governance Objectives	The plan administrator should establish governance objectives for the oversight, management, and administration of the plan.
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.
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.
Knowledge and Skills	The plan administrator, directly or with delegates, has a duty to apply the knowledge and skills needed to meet governance responsibilities.
Access to Information	The plan administrator and, as necessary, any delegates should have access to relevant, timely and accurate information.
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
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.
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.
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.
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 2007, the Trustees reviewed their process for performing governance self-assessment. The review focused on the framework and methodology to be used for evaluation. It resulted in the retention of an external governance assessment facilitator who will conduct a governance self-assessment process in 2008, using an enhanced approach.

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 Canadian Broadcasting Corporation (CBC) 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 CBC 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, including through the use of in-camera sessions. 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 2007, the Board of Trustees met seven times. Under the By-Laws of the Board of Trustees, the Trustees must meet a minimum of four 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.

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 regularly reported to the Trustees regarding compliance with applicable policies, and has reported that all regulatory requirements were met in 2007.

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 this 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 meet 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 (SIP&P). 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 Plan 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.

Permitted investments and restrictions thereon which are appropriate to the needs and objectives of the Plan and the Fund are identified in the SIP&P.

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% nominal long-term bonds and 50% real return bonds.. The objective reflects a liability-driven investment (LDI) strategy and is intended to enhance management of the Fund's assets in relation to the pension obligations and to mitigate the Plan's deficit risk. Over the past four years the Fund's rate of return averaged 8.5%, and over the past 10 years 7.0%. On a basis that combines the current long-term objective, which was adopted in October 2005, with the former objective up to that time, the Fund's overall long-term objective was 5.2% over the past four years and 5.7% over the past 10 years.

The Fund Manager's objective is to generate net returns that exceed the annual average increase in a benchmark portfolio by 50 basis points (0.5%) on a four-year moving average basis. During the transition period to the new investment strategy approved by the Board of Trustees in 2005, this objective was reduced to 35 basis points or 0.35%. 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. On a four-year moving average the Fund's net return of 8.5% exceeded the benchmark portfolio return by 50 basis points.

ASSET MIX

The long-term policy asset mix target of the Fund as defined in the SIP&P is 50% fixed income, 34% equities and 16% strategic investments which include property, private placements and hedge funds. The long-term target asset mix also provides for hedging of the interest rate and inflation risk created by the unmatched portfolio, that is the 50% of the portfolio that is not invested in fixed income instruments. Under the LDI strategy, this is achieved through the use of derivative fixed income instruments.

The objective of the long-term asset mix is to ensure that the Fund's assets will meet the obligations for accrued pension benefits. There are lower and upper limits to the percentages which allow management the ability to take advantage of market directions and therefore enhance the performance of the Fund.

As at December 31, 2007, the actual asset mix at fair value was 56% fixed income, 32% equities and 12% strategic. Within its permitted limits, the Fund's proportion of fixed income investments at the end of 2007 was higher than the long-term policy mix, with the overallocation held primarily in short-term investments. This reflected a decision to underweight equities in the turbulent market conditions prevalent in the fourth quarter of 2007 and also reflected funds held in short-term investments pending the funding of commitments to strategic alternative investments.

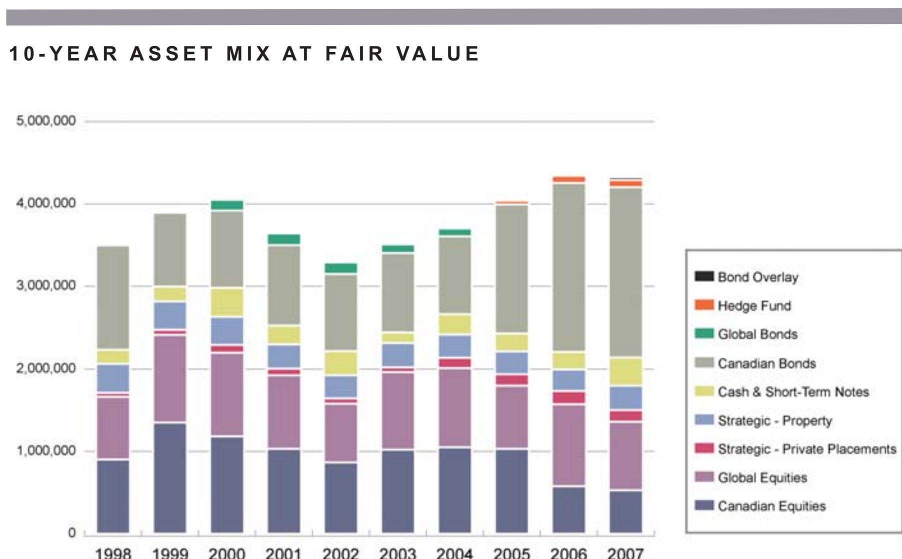
INVESTMENT MANAGEMENT APPROACH

The Fund is actively managed by a 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 analysts, do their research in-house by using a network of investment brokers, industry publications and company site visits. Oversight of external managers includes monthly portfolio performance measurement reports and more detailed quarterly reports on performance attribution, risk, mandate compliance and other relevant measures. These are supplemented by regular teleconferences and meetings as well as periodic site visits to monitor the external managers' mandates and activities.

It is anticipated that investment decisions will add extra value to the Fund. As a mature pension plan paying out significantly more in benefit payments than it receives in pension contributions, the Plan continues to rely on investment income to pay current and future pension benefits.

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.



From the end of 2005 up until the third quarter of 2007 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. In the last quarter of 2007, an overweight in cash and short-term notes was held, as a defensive position against the turbulent market conditions of the quarter.

RISK MANAGEMENT

The Plan has a Risk Management Policy and a comprehensive risk management program in place to manage key Plan risks. Risks are organized into five broad categories that reflect organizational objectives. The categories are strategic, investment, operational, reporting and compliance risks. Key risks within these categories are assessed via a Control Self-Assessment process on a rotational basis and reported to the Board of Trustees.

In 2007, the Plan further developed its risk management capabilities, focusing on the implementation of enhanced performance attribution, analytics and risk measurement systems. These systems allow the Fund to better understand the factors that drive investment performance. They also allow the Fund to fine tune the risk-reward relationship of its investments. The implementation of these systems is an ongoing project that will be continuing into 2008.

One of the key strategies that the Plan has adopted to better manage investment risk is a liability-driven investment (LDI) focus, which is discussed in more detail in the following and other sections of this Annual Report. One of the key features of the LDI strategy is to focus on the volatility of the solvency funding position, i.e. the combined volatility of both the Plan's assets and its liabilities. To support the LDI strategy, the Plan expended significant effort over the last couple of years to establish processes and reports for monitoring and assessing the effectiveness of the strategy. This includes measuring its liabilities on a much more frequent basis and revising its reporting to reflect the LDI focus.

The SIP&P 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 risk associated with 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 with the Plan and these are identified in Note 3 to the Financial Statements and discussed in the following sections.

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 the revised LDI focused 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 and 2007, with implementation expected to be completed in 2008. LDI based changes encompass three tactical areas: a) increasing the duration (term to maturity) of the existing fixed income portion of the portfolio, b) increasing the portion of the portfolio in fixed income investments, including real return bonds, and 3) buying duration on the unmatched asset portion of the portfolio through an interest rate overlay strategy using derivative instruments.

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 were 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 were aggressive, for instance, primarily invested in equities, the rates of return would be potentially higher but the results would be more volatile due to higher risk. While contributions may be lower if high returns are earned, contributions could be much higher if there was a major long-term contraction in the market.

INTEREST RATE VOLATILITY

The Plan's liabilities are sensitive to changes in the assumptions on the long-term rates on asset return, salary escalation and inflation. Note 3D (ii) to the Financial Statements indicates that if the assumed long-term rate of return, which is used in going concern basis actuarial valuations, were to decrease from the existing 6.25% to 5.25% the pension liabilities would increase by approximately $495 million. Declining rates of return over a prolonged period could cause an increase to contribution levels in order to meet the Plan's liabilities.

Changes in interest rates also affect the actuarial valuation of liabilities on a solvency basis. As this basis is designed to measure the impact of a simulated wind-up of the Plan, the effect of decreases in interest rates can have a much more immediate impact on required levels of funding to the Plan. By regulation, the Plan’s funding position is determined using the lower of the going concern and solvency basis positions. An assumed 1% decrease in interest rates would increase the estimated solvency-based liabilities of the Plan by approximately $595 million.

The LDI strategy seeks to mitigate the impact of these sensitivities to interest rates inherent in the Plan’s pension liabilities, as well as the inflation risk created by Plan indexation. Thus a decrease in interest rates that would increase Plan liabilities would also be expected to increase the matched (fixed income) portion of the Fund’s asset values. As at December 31, 2007, a decrease of 1% in the level of interest rates would be expected to result in an increase in the value of the Fund’s fixed income investments, including fixed income derivatives, by an estimated $429 million. This partially mitigates the impact of interest rate changes on the Plan’s funding position, a key risk management objective.

FINANCIAL MARKET VOLATILITY

The Fund's total assets at December 31, 2007, were $4.3 billion at fair value. Of this total, $1.4 billion was in publicly traded 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 2007 provided the fifth consecutive year of positive returns after two straight years of negative returns on domestic equity markets. Major international equity markets experienced a fifth year of positive returns in U.S. dollar terms, which had been preceded by three years of negative returns. Most international equity markets lost value in Canadian dollar terms in 2007. The long-term performance expectation for publicly-listed equities 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, which have longer-term investment horizons. Financial market volatility risk is also mitigated by investing in hedge fund assets and similar absolute return strategies, which are expected to generate more stable returns because they can take both long and short positions on securities and therefore should be able to benefit in times of rising as well as falling markets.

Diversification across various asset classes and managers continues to be an important management tool used in reducing volatility and risk.

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 2007, benefit payments from the plan and administration costs totalled $221.3 million. These expenses were partially offset by employee contributions to the plan of $41.5 million, and employer contributions of $13.1 million. The cash flow requirement for the balance of benefit payments was generated through investment income of $141.0 million and proceeds on disposal of assets. The Fund maintains a portfolio of highly liquid short-term notes that allows it to meet the Plan’s ongoing liquidity requirements.

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 SIP&P provides guidelines and restrictions for eligible investments taking into account credit ratings, maximum investment exposure and other controls in order to limit the impact of this risk. Note 3 D)(iii) provides more detail on this subject.

FOREIGN CURRENCY AND EXPOSURE RISK

The Fund invests in non-Canadian 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 portfolios, total market value of the forwards 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 a specialized external firm which provides portfolio performance measurement and benchmark data.

The year 2007 was marked by tumultuous and volatile markets. While the year started out with positive global economic growth and pressure on Central Banks to raise interest rates in response to fears of rising inflation, developments in the U.S. housing and structured finance markets in the second half of the year created downward pressure on global economic growth. These developments also triggered a decline in equity and money markets. The relative value of the Canadian dollar rose substantially as commodity prices traded near all time highs.

Against this backdrop, the Fund's total rate of return in 2007 was 2.7% which was 0.2% lower than the Fund asset reference portfolio benchmark of 2.9%. Comparatively, in 2006, the Fund's total rate of return was 10.2% which was 0.9% higher than the reference asset portfolio benchmark of 9.3%.

The overall 0.2% underachievement of the asset benchmark in 2007 reflected mixed performance against benchmarks amongst the asset classes, with strong property and private placement outperformance offset by variable fixed income and equity performance at the individual portfolio level. On a four-year basis, the total Fund return was 8.5% which exceeded the overall asset reference portfolio benchmark return of 8.0% by 0.5%.

As described earlier in this Annual Report, a Liability Benchmark was introduced in the last quarter of 2005 to track changes in the Plan's asset values in relation to the impact of movements in interest rates and inflation on its estimated solvency funding liabilities, the net difference between the two providing a proxy of the change in the Plan's estimated solvency funding surplus. The Plan's annual return of 2.7% in 2007 was lower than its Liability Benchmark return of 3.0%, which has the effect of decreasing the estimated solvency position. Since inception of this new benchmark in the last quarter of 2005, the Plan's investments returned 7.5% while its Liability Benchmark returned 2.9%. This indicates that in the period since the introduction of the new benchmark, asset returns more than offset the impact of changes in interest rates and inflation on the estimated solvency liabilities.

The following tables provide a comparison of the Fund's performance against its asset and liability benchmarks, along with a year-over-year comparison of the rates of return for the individual asset categories. This includes the asset weights and the actual returns by asset category compared to benchmark returns.

Investment Performance vs. Benchmarks	2007	2006	2005	2004	4-years
Fund Rate of Return	2.7%	10.2%	12.2%	9.1%	8.5%
Asset Benchmark	2.9	9.3	11.1	8.8	8.0
Value Added to Asset Benchmark	(0.2)	0.9	1.1	0.3	0.5
Liability Benchmark (introduced October 2005)	3.0	0.5	-	-	-
Value Added to Liability Benchmark	(0.3)	9.7	-	-	-

ASSET CATEGORIES	2007 Categories as a % of Total Assets	2007 Asset Benchmark Return	2007 Actual Return	2006 Categories as a % of Total Assets	2006 Asset Benchmark Return	2006 Actual Return
Cash & Short-Term Investments	**8.0%**	**4.4%**	**5.1%**	4.9%	4.0%	4.5%
Canadian Bonds:						
- Nominal	**36.4**	**3.4**	**3.0**	35.6	4.6	4.9
- Real Return	**11.6**	**1.1**	**1.1**	11.4	(3.3)	(3.3)
Canadian Equities	**12.3**	**9.8**	**8.8**	13.3	17.3	18.5
Global Equities	**19.4**	**(8.2)**	**(10.0)**	23.0	19.7	22.1
Strategic[1]	**12.2**	**8.0**	**14.8**	11.8	7.5	9.6
Bond Overlay	**0.1**	**0.8**	**0.5**	-	-	-
Total	**100.0**	**2.9**	**2.7**	100.0	9.3	10.2

[1] The Strategic category includes publicly-listed income trust units that were acquired from the conversion of a privately-held investment of the Fund.

FUND ASSET REVIEW

THE ECONOMIC ENVIRONMENT

As 1987 is remembered for the stock market crash and 1998 for the Russian debt crisis, 2007 will go down as the year of the credit crunch, when liquidity went from excess to short supply. In spite of a significant decrease in U.S. home building, the housing market continued to show considerable excess supply. This resulted in a rare historical event, where U.S. home prices nationwide actually declined year over year. During this time, central banks around the world remained concerned about inflation and were either raising rates or maintaining a tightening bias. Central banks set aside the inflation risks starting in the summer and began injecting liquidity into the markets, as the decline in home prices reverberated through the financial system. With delinquencies and foreclosures on the rise, securities backed by mortgages and other assets were scrutinized more closely causing money markets to lose their ‘safe haven’ status. Financial institutions were forced to take loans back onto their balance sheets, helping fuel a more general tightening of credit. These events started to carry over into the real economy as labour markets began to show signs of weakness, later in 2007. Equity markets also began pricing an anticipated decline in consumption.

The U.S. economy showed signs of slowing down during 2007, with the latter months of the year pointing to more rapid deterioration of economic conditions. The U.S. trade deficit continued to widen, reaching over $63 billion, as Americans spent a record amount on imported oil, overwhelming gains in exports. A weaker dollar and sales overseas helped to ward off a deeper manufacturing slump and a contraction in the broader economy. Although core inflation dropped from 2.7% to 2.4%, this figure rose from 2.5% to 4.1% when adding in food and energy price changes. The unemployment rate rose slightly from its historically low levels, moving from 4.6% to 5.0%, and all housing indicators painted a powerfully deteriorating picture for the U.S. housing market. The sub-prime mortgage crisis, initially thought to be contained to a small segment of the U.S. housing market, proved to have far-reaching implications. This led the capital markets to witness unprecedented liquidity tightening and U.S. consumer confidence indicators to fall to historically low levels by year end. As a result, the Federal Reserve's Federal Open Market Committee reversed its tightening cycle and reduced its target monetary policy rate, three times, starting the year at 5.25% and ending the year at 4.25%.

Canada's economy displayed decent growth in 2007, albeit at more moderate levels than preceding years. The trade surplus maintained its declining trend as the Canadian dollar continued to strengthen, appreciating over 14% during the year. Although the stronger currency helped to reduce import prices, its negative impact on exports was much more pronounced. However, domestic demand remained robust, thanks to a 33-year low unemployment rate and solid gains from personal disposable income. With oil prices reaching new highs, the overall consumer price index (CPI) crept up steadily to 2.4% while core CPI moved lower to 1.5%. As a result, the Bank of Canada did not feel the need to be overly aggressive in adjusting its overnight lending rate, moving the rate up from 4.25% to 4.5% mid-year and bringing it back to 4.25% by year end.

The 2007 year will mark another year of economic expansion for the Euro zone, despite the appearance of deterioration later in the year. As the unemployment rate hit a new low level at 7.2% in November, the currency reached new highs against the U.S. dollar, closing the year above 1.45. The strengthening Euro did not affect the trade surplus, with exports growing in line with imports. Retail sales figures posted sharp declines in the latter part of the year, with business climate and investor confidence indicators showing signs of concern over the economy's future pace of growth. Core inflation crept up from 1.5% to 1.9% over 2007, while the overall CPI figure faced a more significant increase from 1.9% to 3.1%, due in main part to oil prices. In the first half of the year, the European Central Bank raised rates twice reaching a 4% level and plateauing for the remainder of 2007. The Bank of England took a similar stance, raising its lending rate three times over the first half of the year and decreasing it in December, as the business climate and housing prices began displaying declining trends.

Japan showed signs of continued, albeit moderate, economic expansion in 2007, with real GDP growing at a pace just under 2%. The trade balance remained fairly stable, with imports and exports both growing at a healthy pace. Japan's main export destinations are Asia, North America and Europe, respectively. Interestingly, 2007 marked a sharp decline in exports to North America, while exports to other destinations grew around 10% year over year. The unemployment rate continued its downward trend through the year to end at 3.8% for December, representing a nine-year low. This reduction in unemployment saw the jobs-to-applicants ratio come down slightly, to finish the year around par (one job per applicant). However, this tighter labour market has yet to translate into wage gains and ultimately domestic consumption growth. Inflation growth remains low at 0.6% year over year, while the core CPI figure, excluding the effects of food and energy, continued to display negative growth at -0.1%. Over 2007, the Bank of Japan raised its unsecured overnight call rate once, from 0.25% to 0.5%.

China continued to experience powerful economic growth, with GDP increasing by over 10% in 2007. Imports for the year grew at 25.7%, while exports gained 21.7% over 2006. China's main export region is Asia which consumes as many Chinese goods as Europe and North America combined. With the domestic consumer spending 20.2% more in 2007, inflation began to rise dramatically. Core inflation rose from 2.2% to 6.5%, while the total CPI rose from 5.0% to 18.2%, in large part due to increases in food prices, which reflect the changing dietary needs of a more affluent population. Fixed asset investment growth of 24.8% continued in line with the prior year's pace and China's foreign exchange reserves reached new highs at US$1.528 trillion. In light of the continued rapid growth of the Chinese economy, the People's Bank of China raised the reserve requirement ratio ten times in 2007, from 9.0% to 14.5%.

It seems certain that the pace of world growth will slow in 2008, with many anticipating a U.S. recession, or at the very least, a major slowdown to the economy. The key question remains whether the rest of the world will continue to grow, and at what pace, if the U.S. economy enters a recession. Momentum has slowed in Japan, the U.K. and Europe, while China's economy is still growing exponentially. Asian economies in particular remain highly leveraged to U.S. consumer spending via their trade linkages through China. The result, eventually, should be lower prices for oil (barring a shock to supply) and commodities. These factors would constrain growth in Canada's resource sector in 2008, and exporters which have been contending with a strong currency for some time, may have to add a weakening U.S. consumer to their list of challenges.

CASH AND SHORT-TERM INVESTMENTS

2007 was an unprecedented year in the short-term investment markets. Money markets were roiled as events triggered by the U.S. sub-prime crisis caused closer scrutiny of securities backed by mortgages and other assets and leveraged structures, resulting in the August 2007 credit and liquidity crunch. In Canada, the non-bank sponsored portion of the asset-backed commercial paper market was no longer able to trade starting in mid-August and remained frozen beyond the end of the year as a group of investors and other affected parties created the Montreal Accord to work out a solution. All segments of the Canadian money market were impacted by these events, with corporate and bank credit spreads widening significantly and money flowing to the security of government T-Bills in the uncertainty that followed the crisis.

The Fund invests its cash in quality and highly liquid short term 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 2007, the Fund had on average approximately $277.4 million or 6.4% of assets in cash and short-term investments. The one-year rate of return for the internally managed portfolio of the Fund was 5.1%, which was some 70 basis points above the benchmark portfolio return of 4.4%. The portfolio, which is primarily positioned in the one to three month maturity area, saw its performance benefit from higher spreads in quality money-market instruments against the Canada T-Bill benchmark following the events of August 2007. Over a four-year period the rate of return was 3.8%, which was 50 basis points over the benchmark return of 3.3%.

At December 31, 2007, cash and short-term investments represented 8.0% of the Fund's investments at fair value. The portfolio had no exposure to asset-backed commercial paper.

BONDS

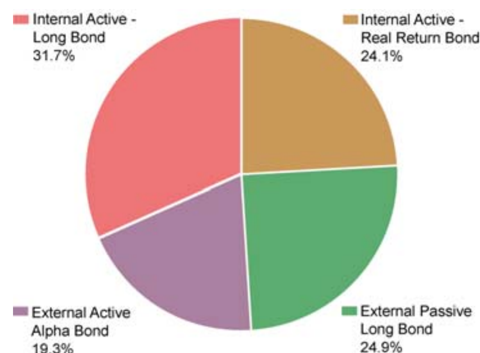
The bond market in 2007 began quietly, with government bonds trading in a narrow range for the first four months. By year end, bonds had experienced one of the most volatile years in recent memory, with ten-year U.S. treasuries setting both highs and lows dating back over four years. The global credit and liquidity crunch widened credit spreads from a historically narrow level to the widest in at least five years in North American trading. The U.S. Federal Reserve changed from a tightening bias early in the year to aggressive easing, and the Bank of Canada both raised and lowered their benchmark rate while dealing with economic fallout of the massive appreciation of the Canadian dollar. For the year overall, Government of Canada bonds fell 3 to 30 basis points across the yield curve, with larger decreases in the shorter end of the yield curve. However, most provincial and corporate yields increased. Yield decreases in the U.S. were significantly greater, ranging from 176 basis points in the two-year term to 36 basis points for the thirty-year bond, creating a much steeper yield curve.

As the year began, there was no true consensus for the direction of economic growth and inflation. Both the U.S. and Canadian economies were at or near capacity, conditions ripe for inflation, but the state of the sub-prime housing market and the inverted yield curve in the U.S. suggested that growth could weaken, thereby reducing inflationary pressures later in the year.

Overall Bond Portfolio

Overall, the Canadian bond nominal asset rate of return for 2007 was 3.0% , which was 40 basis points below the DEX Long Bond benchmark return of 3.4%. Over a four-year period, the rate of return was 5.3%, which slightly underperformed the benchmark of 5.4%.

MARKET VALUE OF BONDS
(as at December 31, 2007)
$2,061.4 million



The Fund also holds real return bonds, which yielded a return of 1.1% in 2007 and had a fair value of $496.3 million at December 31, 2007.

At year-end, Canadian nominal and real return bonds represented 48.0% of the Fund's investments at fair value.

Internal Long Bond Portfolio

The Internal Bond portfolio has been positioned for lower rates through much of the year. This negatively impacted performance in the first half, but was a positive factor later in the year. Corporate credits have significantly underperformed government debt. The portfolio benefited from an underweighting of corporate credit in the first half of the year, but underperformed in the second half as corporate exposure was increased in selected high quality issues. For the year, the portfolio underperformed the benchmark with a return of 3.2%, compared to 3.4%, a difference of 0.2%.

Passive Long Bond Fund

The externally managed Passive Long Bond portfolio holds a subset of the Canadian long bond universe and is expected to generate risks and returns similar to the Scotia McLeod Long Bond Index. In 2007, the portfolio generated an index like return of 3.4% return compared to a benchmark return of 3.4%.

Alpha Bond Portfolio

The externally managed active Alpha Bond portfolio yielded a return of 2.0% compared with its benchmark return of 3.4%. The portfolio is a combination of three investment vehicles, comprised of an enhanced Canadian nominal long bond exposure overlayed by a shorter duration largely U.S. fixed income strategy and a hedge fund component, which looks to generate excess returns through the use of nine fixed income sub-strategies in the global markets. In 2007, the Canadian long bond portfolio and short duration strategy component held an overweight exposure versus the benchmark to U.S. and Canadian corporate and provincial bonds which detracted from performance with the widening of credit spreads. In particular the U.S. strategy exposures to residential and commercial mortgage securities and senior bank debt hurt performance. The hedge fund component which is able to take both long and short positions in these markets was positive to overall performance.

CANADIAN EQUITIES

For a fifth year in a row, the S&P/TSX Composite Index rewarded investors with positive returns in 2007, including dividends, of 9.8%. Strong commodity prices, continuing strong global growth, and record takeover activity propelled the Canadian market to record highs in the first half of the year. Increasing signs of a weakening U.S. economy, Canada's largest trading partner, and surfacing problems in the global credit markets, including Canada, triggered a sharp sell-off in global equity markets in the late summer, with the S&P/TSX Composite falling into negative territory for the year. Accommodative actions by central banks around the world renewed investor optimism in the fall, helping the market post a positive return by year end.

Gains on the Canadian market were however characterized by poor market breadth. Just two stocks - Research in Motion and Potash Corp.- accounted for half the markets gains for the year. Only 40% of stocks outperformed the index and over half the stocks in the S&P/TSX Composite Index actually posted negative returns for the year.

The chart on the right shows the 2007 returns (including dividends) for the 10 sectors comprising the S&P/TSX Capped Composite Index.

Leading the market higher was the Information Technology sector up an impressive 48%, mainly attributable to Research in Motion's 127% rise during the year. The Materials sector also performed well with a return of 30.3%, led by strong gains in the Fertilizers, Golds and the takeover of Alcan Inc. Also outperforming the market were: Telecom Services up 20.1%, Utilities up 11.8% and Industrials up 10.5% led by Aerospace and the Airlines.

The Health Care sector continued to face challenges, losing 24.2% on the year. Consumer Staples sector was down 5.3% as heavyweight Loblaws Co. lost 30% in the face of disappointing results. The Financials sector also underperformed the market with a negative return of 1.6% with heavy selling of the bank stocks late in the year in response to billion dollar write-offs associated with U.S. sub-prime investments and the Consumer Discretionary sector returned 4.2% led by retailers and media. Despite record high oil prices, the Energy Sector still underperformed the market with a modest return of 8.2% as low natural gas prices, the high Canadian dollar, and fears over the impact of the new Alberta royalty structure tempered returns.

Overall Canadian Equity Portfolio

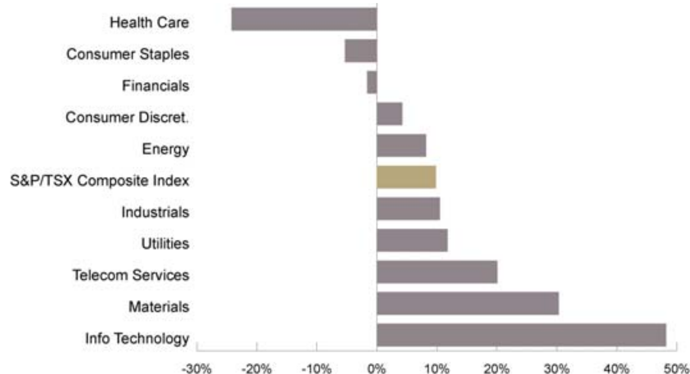
The overall Canadian Equity asset rate of return for 2007 was 8.8%, compared to the S&P TSX Composite Index benchmark return of 9.8%. Over a four-year period, the rate of return was 14.5% while the benchmark returned 16.3%. At year-end, Canadian equities represented 12.3% of the Fund's investments at fair value.

Canadian Internal Portfolio

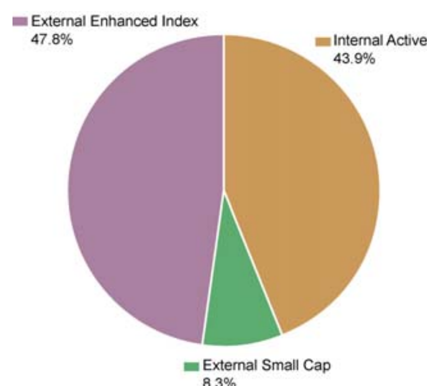
Despite a challenging environment, the actively managed internal Canadian Equity portfolio had a strong year in 2007, returning 10.9%, outperforming the S&P/TSX Composite Index by 102 basis points. Outperformance can be attributed to overweight positions in the Telecom, Utilities and Gold sectors and an underweight position in the Energy sector, particularly uranium, as well as to strong stock selection.

S&P/TSX CAPPED COMPOSITE INDEX
2007

S&P/TSX CAPPED COMPOSITE INDEX
Total Return by Sector
2007



MARKET VALUE OF CANADIAN EQUITIES
(as at December 31, 2007)
$586.3 million



Canadian Small Cap Portfolio

Within the Canadian equity asset class are two externally managed portfolios. One is a Small Capitalization 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 2007, the portfolio maintained a more diversified approach versus its benchmark, the Nesbitt Burns Small Cap Index, which is significantly overweight to the commodity and material sectors. The portfolio generated an annual return of -2.7% versus the benchmark return of 2.0%, for a relative underperformance of 4.7%. Despite good sector allocation by the manager, security selection penalized overall performance. As part of the ongoing asset mix policy to reduce the Fund's exposure to Canadian equity, approximately $70 million was removed from this portfolio in 2007 and invested in the Short-Term notes portfolio.

Canadian Enhanced Portfolio

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 2007, the portfolio generated a return of 11.1% surpassing the benchmark return of 9.8%, representing 130 basis points of relative value added.

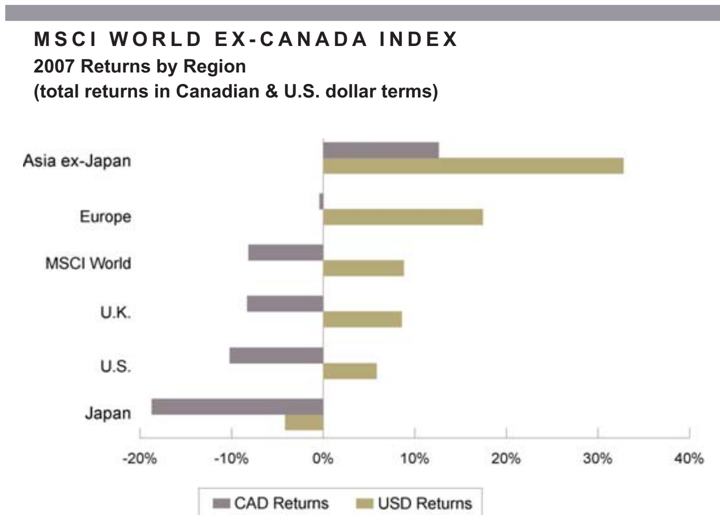
GLOBAL EQUITIES

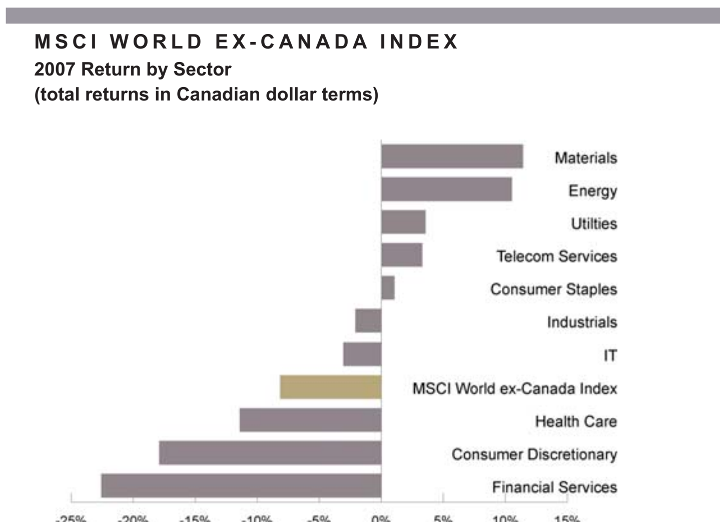
Total Global Equity Performance

For the year 2007, the total global equities performance was -10.0%, compared to the benchmark MSCI World X Canada Index of -8.2%. Over a four-year period, the rate of return was 6.2% while the benchmark returned 5.5%. At December 31, 2007, Global Equities represented 19.4% of the Fund's investments at fair value.

After turning in outsized gains for the last couple of years, global equity markets saw volatility return in a dramatic way in 2007. Although equity markets began the year on a positive note, emerging concerns over problems in the U.S. sub-prime mortgage sector steadily gave way to a broader global credit and liquidity crisis in the latter half of the year, prompting a steep global sell-off of equities. A series of central bank interventions and a surprise rate cut by the U.S. Federal Reserve in September managed to temporarily lift the markets, but momentum faded towards the end of the year as renewed worries about a U.S. recession and further dislocation in the banking sector set in.

The MSCI World ex-Canada Index fell 8.2% in Canadian dollar terms in 2007, with overall returns dampened by a surging Canadian dollar, which rose over 14% against the U.S. dollar. Geographically, the strongest equity market returns were found in Asia (ex-Japan) and Europe, with the U.S. and Japan lagging the broader markets. For the seventh consecutive year, emerging markets outperformed developed markets, led by strong returns in markets like China, India, Brazil and Russia. For the first time in a number of years, large capitalization stocks outpaced their smaller capitalized peers, with growth stocks also out-performing value-oriented stocks.





Among developed markets, Asian equities (ex-Japan) led regional returns in 2007. Particular strength was seen in Hong Kong, which benefited from optimism that a loosening of cross-border investment restrictions would lead to a surge of investor flows from China.

In Europe, a combination of improving economic fundamentals, a surge in takeover activity in the first half of the year and a strong euro helped in driving another year of strong relative performance. European markets were not immune to the credit crunch, however, with the shares of many major European banks hit hard in the latter part of the year by uncertainties over the magnitude of exposures to U.S. mortgage-backed securities and leveraged loans. The European Central Bank took a very active stance in addressing this crisis by injecting significant amounts of liquidity into the system, but opted to keep interest rates on hold over concerns about persistent inflationary pressures. From a country perspective, the strongest equity returns were seen in such markets as Germany, Finland, Spain and Portugal, while Ireland, Belgium, Sweden and Switzerland were some of the weakest markets.

Equities in the U.K. had a mixed performance in 2007 as strength in commodity-related areas of the market were offset by weakness in the financial sector following a run on deposits at the country's fourth largest home-lender, Northern Rock, in September. This situation, coupled with concerns over exposures to the U.S. sub-prime mortgage sector and a rapidly decelerating domestic housing market, constrained overall equity performance in the latter part of the year.

Japanese equities had an even more difficult time in 2007 as early optimism over the pace of the economic recovery faded and prospects for further interest rate hikes were shelved amid stubborn signs of persistent deflationary pressures and contracting household spending. The strengthening of the Japanese yen in the latter half of the year also created challenges for the faster growing export-oriented segment, leading foreign investors to shift money toward better performing Asian and emerging markets.

Returns by sector ranged widely in 2007. On the upside, the strongest returns were seen in the materials and energy sectors as oil and commodity prices moved higher, with oil prices reaching a new high of USD 96 per barrel toward the end of 2007. This strength was driven by a combination of surging speculative investor flows and investor optimism that strong demand from rapidly growing markets like China would be able to offset any weakness from slowing developed economies like the U.S. Higher yielding defensive sectors like utilities, telecom services and consumer staples also performed well amid prospects for falling interest rates. Conversely, financials were battered by concerns associated with the credit crunch and deteriorating mortgage loan quality, while the lagging consumer discretionary sector reflected the weakening consumer spending environment.

Overall Global Equity Portfolio

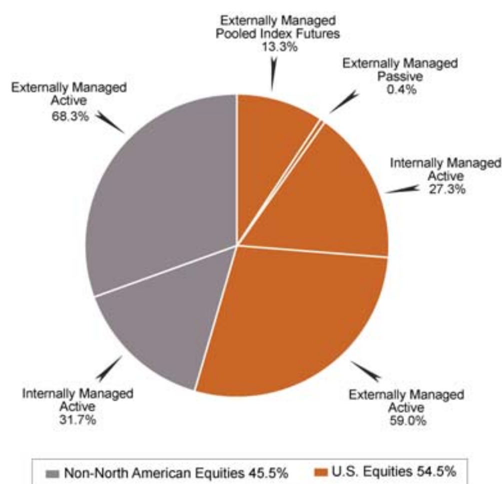
The Fund's overall Global Equities asset class is comprised of three components:

- 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 500 enhanced index portfolio, an actively managed external value portfolio and an externally managed pooled index fund.
- Global Equities, comprised of an internally managed portfolio.

Internal Global Portfolio

The internal actively managed Global Equity portfolio fell 9.9% in Canadian dollar terms in 2007, lagging the drop of 8.2% for the MSCI World ex-Canada Index, with the strength of the Canadian dollar having a significant negative impact on overall reported returns. Regional allocation was generally a positive contributor to performance, given the portfolio's underweight position in the U.S. and U.K. and overweight position in Europe. Sector positioning had a mixed effect on performance, with overweight positions in telecommunications and consumer staples and an underweight in financials being offset by an underweight position in the leading materials sector and large over-weight in the lagging health care sector. Stock selection had the largest impact on performance, with strong selection in telecom, utilities and consumer discretionary sectors more than offset by weak selection in information technology, financials, health care and energy sectors. The long-awaited return to the outperformance of large capitalization stocks over their smaller peers also had a modest benefit on returns given the portfolio's bias toward the large-capitalized area of the market.

MARKET VALUE OF GLOBAL EQUITIES
(as at December 31, 2007)
$833.1 million



U.S. Enhanced Portfolio

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. In 2007, the portfolio slightly outperformed its benchmark with a return of -10.2% compared to -10.5% for the S&P 500 index, for relative value added of 30 basis points The latter was achieved through a combination of stock selection and sector allocation.

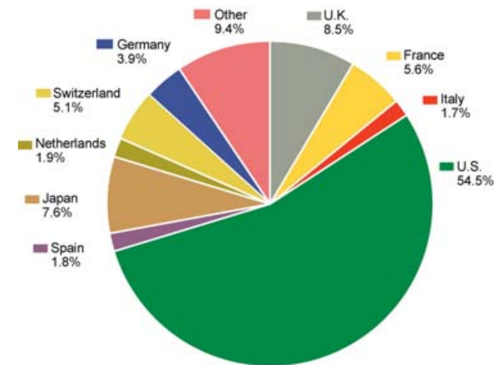
U.S. Value Portfolio

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 2007, the early positioning with an overweight in financial services relative to the index and the stock selection and bias towards housing stocks within that sector detracted from performance. As well, the exclusion of energy stocks in the portfolio added to the underperformance relative to the benchmark. For 2007, the portfolio generated a negative return of -21.3% while the benchmark returned -10.5%. In December, $40 million was removed from this portfolio and invested in the short-term notes portfolio.

International Core Portfolio

There are also two externally managed portfolios, which invest in companies of the European, Australian 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 exposure to emerging markets proved highly beneficial to performance. Additionally, positive selection within the material, industrial, energy and telecommunication service contributed to the positive return. In 2007, the portfolio generated Canadian dollar returns of 5.2% beating the MSCI EAFE index return of -5.7% by 1090 basis points.

GLOBAL EQUITIES
International Mix
(%)



International Small Cap

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. In 2007, the portfolio's return of -16.9% underperformed the small cap benchmark return of -10.0%. Poor stock selection in the United Kingdom, Japan and Germany within the industrial, consumer discretionary and staples, and material sectors contributed to the poor performance. In the latter part of the year, the portfolio was reduced by $50 million which was invested in the short-term notes portfolio.

STRATEGIC

There are three components to the Fund's strategic investments: property, which includes real estate and mortgages, private placements and hedge funds. The benchmark for the strategic components is the DEX 90 T-Bill index plus 3.4%.

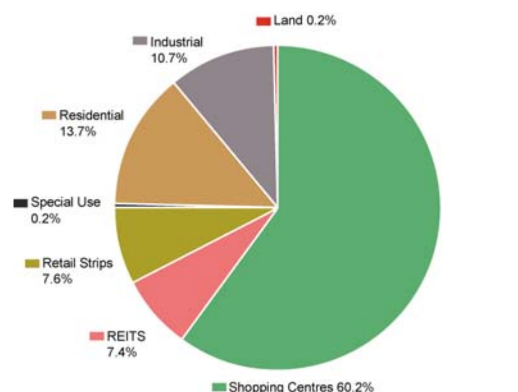
Property

As with other investment markets, the key event for the property market was the liquidity and credit crisis that arose in August. Prior to that event, the property market in Canada was enjoying another banner year. The decline in capitalization rates was slowing, but demand still far exceeded supply. The credit crisis resulted in a rise in the cost of borrowing, often combined with a reduction in the amount of funds offered. This has eliminated leverage players from the market, leaving the long term, well capitalized investors such as pension funds and REITs. The market closed the year with considerable uncertainty as to the impact of a slowing economy and tighter lending conditions on property valuations.

The office sector continued to be a star performer. The vacancy levels in most major centres in Canada are at or near 30-year lows, with rental rates firming up. There is some new office construction, but only in Calgary is there some concern of oversupply. The retail sector has also thrived with the Canadian economy healthy and consumer spending firm. Industrial properties have performed well in the face of the negative effect of the stronger currency. Vacancy levels have inched up, particularly in Ontario and Quebec, but remain low by historical standards. The multi-residential sector has shown improvement over the last couple of years, particularly in western cities.

Interestingly, the REIT market has noticeably underperformed the direct investment market. It appears that public market investors are reacting faster to the deteriorating credit market, and anticipating that capitalization rates will have to rise. Thus currently the public market appears to offer more value than the direct proper investment market.

PROPERTY TYPE
(%)



In 2007, the return on the total property portfolio was a robust 19.3% compared to the benchmark of 8.0%. The portfolio again benefited greatly from the uplift in values due to falling capitalization rates, rising lease rates and fewer capital costs from renovations and tenant inducements. Key transactions for the year included the sale of a shopping centre in Edmonton and an office building in Mississauga, and the purchase of a block of buildings in Montreal for redevelopment, as well as an additional investment in the Morguard Industrial Fund. A small REIT portfolio was started during the year, with purchases of the Riocan and Canadian Apartments REITS. These purchases provide liquidity and diversification for the property portfolio.

By year end, the property portfolio represented 7.0% of the Fund’s assets at fair value.

Private Placements

The private placement portfolio consists of non-publicly traded equities and debt instruments and of a significant holding in a publicly-listed income trust which went public in 2006. The portfolio is mostly invested in funds and fund-of-funds managed by specialized money managers. These instruments are less liquid than their publicly-listed counterparts 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 Plan's target 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 target asset mix calls for the Plan's exposure to the overall strategic asset class to continue to increase.

The investment themes for the private placement portfolio in 2007 were to increase geographical diversification and to add investments that could either potentially provide the portfolio with more stable and/or higher rates of return. Pursuant to the first theme, out of the total six new funds added to the portfolio in 2007, two are emerging markets funds specifically relating to China, two have a global focus and two are North American focused funds. As for the second theme, a mix of buyout, infrastructure and debt funds were added, which together have the potential to add stable, solid returns to the portfolio. As for the two China funds, they are expected to capitalize on the rapid growth and development of China's domestic market, thereby potentially generating high rates of return.

In 2007, the private placement portfolio generated an annual return of 19.9% vs. its benchmark of 8.0%. This considerable overperformance largely related to the publicly-listed income trust holdings, which recovered significantly during the year from the effect of the Federal government's announcement in late 2006 on taxation of income trusts. The overperformance also reflects high returns from the investments made in China funds during the year.

Overall, on December 31, 2007, the private placement portfolio represented 3.2% of the pension fund's investments at fair value.

Hedge Funds

The Fund invests in an 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. Given that the hedge fund is denominated in U.S. dollars, a currency hedge was placed on this investment in late 2006, in order to remove the impact of U.S. dollar currency fluctuations from investment performance. In Canadian dollar terms, the hedge fund portfolio generated annual returns of -7.1% and against its benchmark of 8.0%. During 2007, the relative value strategies and currency allocation posted negative returns, whereas the yield curve arbitrage component provided a small positive return.

The portfolio represented 2.0% of the Fund's investments at market as at December 31, 2007.

BOND OVERLAY PORTFOLIO

In order to minimize Plan surplus volatility as part of the LDI strategy, while at the same time allowing for an enhancement of return over bonds, a Bond Overlay strategy was incepted in 2007, using fixed income derivative instruments. Although fixed income instruments provide a better match to Plan liabilities, their long-term expected return is lower than for many other asset classes, which makes a 100% bond portfolio less than optimal. The bond overlay strategy allows for unmatched assets with higher return potential, such as equities, private placements and real estate, to form part of the portfolio, while at the same time applying a layer of interest-rate and inflation sensitivity to much of these non-bond assets. This structure is designed to produce overall Fund return fluctuations which mirror more closely the movement in the pension liabilities it is intended to cover, all the while producing an enhanced return over that of an all-bond portfolio.

Although a variety of instruments exist for implementing a bond overlay strategy, the total return swap is considered the closest match to the Pension Plan's liabilities. The total return swap is a derivative instrument that effectively allows an investor to receive the total investment return of a combination of nominal and real return government bonds in return for paying a money market based funding cost. With the credit and liquidity events of 2007, the cost

of funding total return swaps increased, as the funding cost or Canadian Deposit Overnight Rate (“CDOR”) rate rose considerably. In recognition of the increased cost base, the use of total return swaps to obtain the bond market exposure was limited during the year and instead, the strategy made use of bond forwards, which provide similar market exposure but are priced on government repo rates as opposed to CDOR rates. Repo rates were positively impacted, on a relative basis, by the general market flight to quality.

The implementation of the bond overlay strategy was initiated in September 2007 and, subject to market conditions, is planned to reach its target exposure in 2008.

Since its inception in September 2007, the bond overlay portfolio returned 0.5% in terms of total Plan assets, compared to its benchmark return of 0.8%. The underperformance is attributable to the portfolio’s holding of exposure to nominal provincial bonds, which saw yields widen out against Government of Canada bonds. The latter are heavily weighted in the all government long bond portion of the portfolio’s benchmark index. The increase in provincial yields reflected the flight to quality following the credit crunch events in the latter part of the year.

When combined with the Plan’s other fixed income exposures, the provincial bond exposure, which has a shorter duration than Canada long bonds, provides the Plan with a better match at the total Plan level in terms of the duration inherent in its pension liabilities. The provincial bond exposure also has the potential for yield pick up over Government of Canada bonds.

As of December 31, 2007, the market value of the Bond Overlay program was $5.0 million. Its notional value, which reflects the value of the swaps’ and forwards’ underlying asset exposure, was $1,003.3 million.

CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS

The Fund's net assets available for benefits decreased $55.3 million from $4,367.2 million at December 31, 2006 to $4,311.9 million at December 31, 2007.

Increase in Assets

Total investment income of $141.0 million, which includes interest and dividends earned during the year as well as income from real estate properties net of operating and interest expenses, decreased by $17.2 million when compared to the previous year. This decrease was due primarily to a reduction in the amount of bonds held directly by the Fund, which were replaced by bonds held in pooled fund structures during the year, interest on which accrued in the net asset value of the bonds rather being distributed as income.

Total contributions of $54.6 million reflect an overall decrease of $50.3 million when compared to the previous year's total of $104.9 million. This decrease is largely attributable to two factors. The first is the non-recurrence in 2007 of special solvency funding payments of $11.3 million made by the Plan sponsor in 2006. The second is that regular Plan sponsor contributions were suspended in April 2007, following the filing of the December 31, 2006 actuarial valuation of the Plan. At that date, the Plan’s surplus on a going concern basis was greater than 110% and under *Income Tax Act* regulations, the Plan sponsor cannot contribute to the Plan until this surplus, as measured by the 2006 actuarial valuation, is reduced by $77 million.

In total, employee current service contributions increased marginally by $0.2 million in 2007, while the number of active contributors decreased from 8,142 at the end of 2006 to 7,937 at the end of 2007. Past service contributions decreased $3.9 million, reflecting a lower level of buy-back activity after the completion of a special buy back project that occurred in 2006 following amendments to the Plan's elective service provisions in January 2006. Net transfers with other plans and employee contributions to the flexible pension provision of the Plan remained fairly static at $0.7 million and $0.8 million respectively.

The table below shows a ten-year history of contributions compared to benefit payments. It illustrates the level of maturity of the Plan, with benefit payments that are significantly higher than contribution levels.

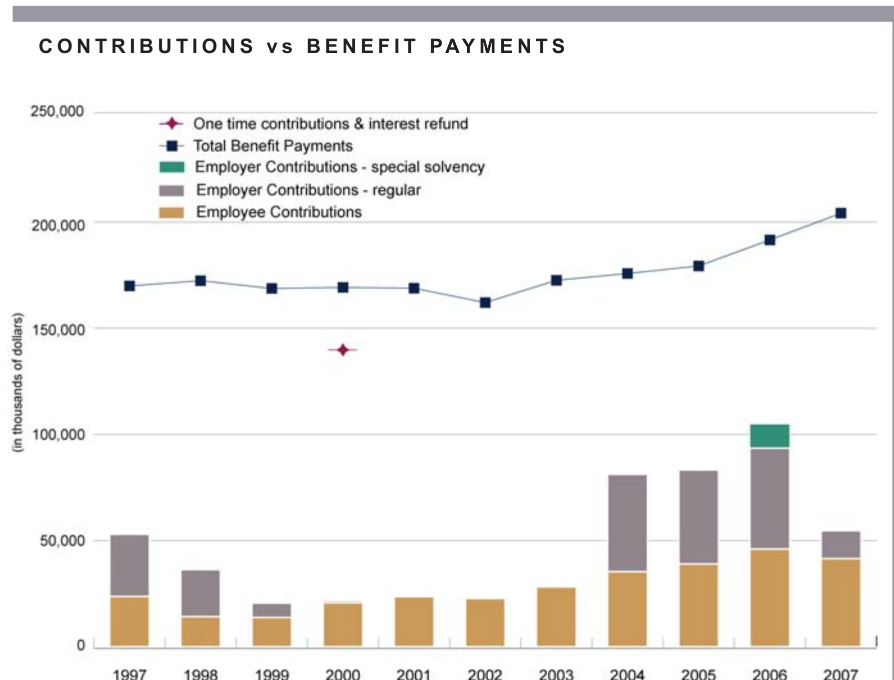
This chart provides a 10-year historical comparison of contributions and benefits. Based upon the results of the actuarial valuation as at December 31, 1999, which reported that the Plan had excess funding of $616.2 million, the CBC decided that its employer contributions for the years 2000 to 2003 would 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. Based on the solvency deficit revealed by the 2005 actuarial valuation, the Plan sponsor was required to make special solvency contributions of $11.3 million in 2006. Following the surpluses revealed by the 2006 actuarial valuation, the Plan sponsor contributions were suspended starting in April 2007 and are expected to resume in September 2008.

Decrease in Assets

Expenditures out of the Fund totalling $221.3 million reflect an increase of $11.7 million when compared to the previous year's total of $209.6 million. Of this net increase, $12.6 million relates to benefit payments while administrative expenses decreased $0.9 million.

BENEFITS

The plan paid $204.2 million in benefits during 2007, an increase of $12.6 million when compared to the $191.6 million in 2006. Within the total benefits category, pension payments increased by $10.4 million due primarily to a 2.23% cost of living adjustment effective January 1, 2007 and an increase of 212 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 $1.7 million due to an increase in the number of transfers upon member separation, while pension benefits purchased using FlexPen benefits increased $0.3 million.



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 2007 totaled $17.2 million, a decrease of $0.8 million over the previous year. Total administrative expenses represented a cost of 39.7 cents per $100 of average assets under management in 2007, compared to 41.9 cents per $100 of average assets in 2006.

The administrative expenses reported for 2007 reflect a change in accounting policy following the Plan's adoption of Canadian Institute of Chartered Accountants' Emerging Issues Committee Abstract No.168 (EIC-168). The Abstract was released in 2007 and requires that pension plans not include transaction costs in the fair value of investments but rather that these costs be charged as expenses in the year incurred. These costs include trading commissions and fees related to the acquisition and management of private placements and certain real estate investments, which were previously capitalized by the Plan. Fees related to the management of external manager mandates were already being expensed under the accounting policies of the Plan. For 2007, the impact of the adoption of EIC-168 is to increase administrative expenses by $3.3 million, while increasing unrealized gains on investments by the same amount.

Excluding the impact of adopting EIC-168 in 2007, the administrative expenses of the Plan were $4.1 million lower than those reported in 2006. This decrease related primarily to external investment management fees of $3.4 million, internal investment management fees of $0.2 million and pension benefit administration costs of $0.5 million. External investment manager fees decreased following lower investment portfolio performance in 2007 than in 2006 and also as a result of adjustments made to external asset management mandates in 2007, 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 2006 financial year. The study established a benchmark operating cost for a fund of our size, asset mix and nationality of 34.4 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 2007 were 27.8 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 2008 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 an increase in data processing costs for new software implementation. It also includes a decrease in Board of Trustee expenses that reflects the fact that an actuarial valuation will not be performed in 2008. Minor fluctuations are anticipated in the other expense categories reported in Note 12 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. A formal actuarial valuation is prepared by the Plan's actuaries, a minimum of every three years, the latest of which was at December 31, 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 the Board's best estimate of expected economic trends.

The results from these valuations are reported in the financial statements. The methodology and key assumptions underlying the actuarial valuation and projections are described in Note 9 to the Financial Statements. The primary long-term economic assumptions used in the 2007 projection were unchanged from those used in the 2006 actuarial valuation.

As at December 31, 2007, on a going concern basis which is the basis used for financial reporting purposes, the accrued pension benefits were projected at $3,678.0 million, an increase of $123.1 million from the previous year's total of $3,554.9 million. Over the same period, the actuarial value of net assets available for benefits increased $152.0 million from $3,987.9 million to $4139.9 million, reflecting the Plan's policy of smoothing of realized and unrealized investment gains over a four year period for actuarial purposes. The net result was an increase of $28.9 million in the going concern funding excess at the end of 2007.

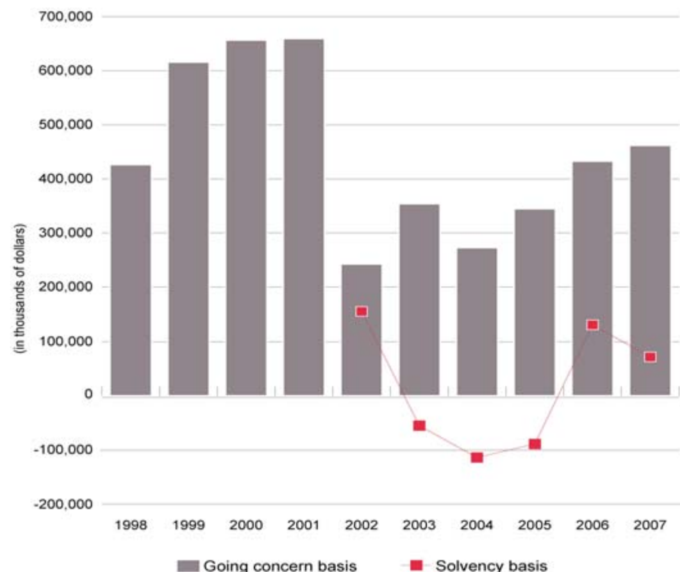
As required under the Pension Benefits Standards Act (PBSA) and for reporting purposes to the Office of the Superintendent of Financial Institutions (OSFI), the Plan's actuary also values the Plan on a solvency basis. Using this method, which simulates a plan wind-up, the projected funding surplus was $71.9 million as at December 31, 2007. This compares to a funding surplus as at December 31, 2006 of $131.1 million revealed by the actuarial valuation at that date. The primary reasons for the estimated decrease in the solvency deficit were the modest investment performance and decrease in contributions in 2007.

As previously described, under federal regulations, the Plan's funding position is detrmined based on the lower of the going concern and solvency funding surplus or deficit amounts as determined in the valuation. In situations where, at the time of the actuarial valuation, the Plan is in a surplus position and the going concern funding ratio is greater than 110%, which was 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 as measured at the time of the actuarial valuation is reduced to 110%. Under the current regulatory framework, the next formal actuarial valuation will be required at December 31, 2009.

USE OF ESTIMATES

Under Canadian generally accepted accounting principles, the Plan is required to make estimates when accounting for and reporting assets, liabilities, investment income and expenses, and to disclose contingent assets and liabilities in the Plan's financial statements. Continual re-evaluation of estimates is also required. The areas of financial reporting that are the most dependent on estimates are the Plan's measurement of accrued pension benefits and the fair value of its investments.

Actuarial assumptions are used in determining accrued pension benefits and reflect the Board's best estimate of future economic and non-economic factors. The primary economic assumptions include the asset rate of return, salary escalation rate and rate of inflation. The non-economic assumptions include mortality, withdrawal and retirement rates of the members of the Plan. The Plan's actual experience could differ from these estimates and the differences are recognized as experience gains and losses in future years.



The fair value of investments is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Management and appraisers' best estimates are used in selecting the valuation assumptions to determine fair value of non-publicly traded investments.

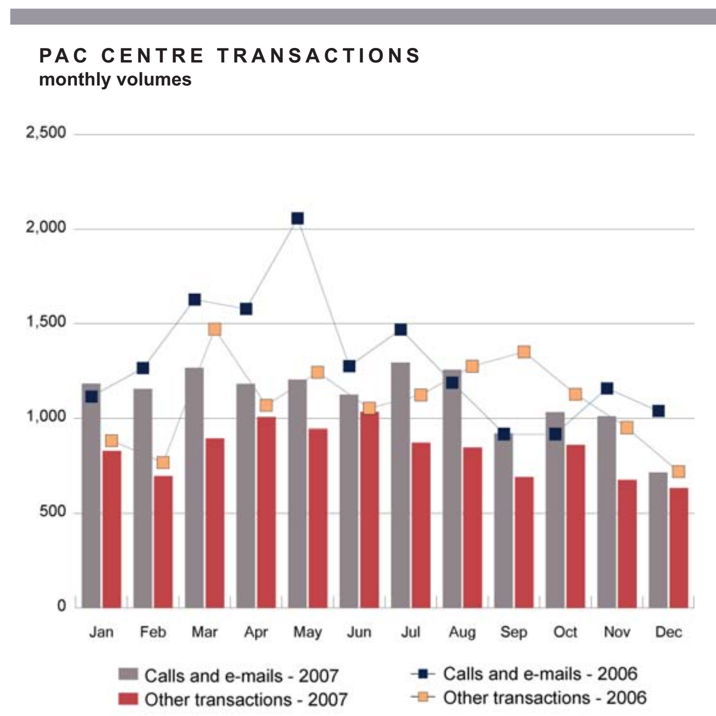
BENEFIT ADMINISTRATION

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. 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.

Since January 2004, the firm of Mercer (Canada) 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 Pension Administration Centre (PAC) had another successful year in 2007 based upon the service levels achieved, satisfaction survey results and utilization volumes.

The overall target for completing 90% of transactions within defined service level timeframes was exceeded, coming in at 93% for the year.

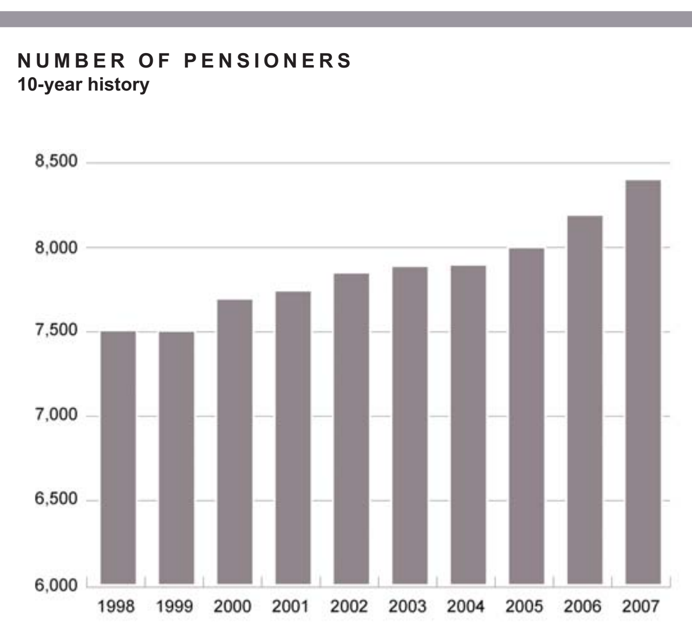
The special buy-back project that started in 2006 was completed, following amendments to the Plan's elective service provisions, a significant accomplishment as the new elective service provisions make buy-back cost calculations more equitable overall and simplify pension plan administration.

Ongoing satisfaction surveys during the year among callers to the PAC Centre showed an aggregate overall rating of excellent/good in over 91% of those surveyed.

Statistics on the general web usage reveal that the total number of log-ins, which includes multiple log-ins, was 15,949 for employees and 1,873 for pensioners. In total 7,864 employees and 959 pensioners used the web services. There were 3,144 employees who accessed the short-term quoter for a total of 8,764 pension quotes. The use of the web site features is efficient and cost effective. The PAC received a total of 12,803 calls, of which 5,409 were from active members and 7,394 from pensioners and inactive members. The chart on the previous page identifies the monthly volumes of transactions at the PAC. Volumes in 2007 were lower than in 2006, reflecting the completion in early 2007 of the special buy-back project.

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 2007, there was an increase of 212 in the number of pensions being paid, compared to 2006. Over a five year period, the total number of pensions being paid increased 6.5% from 7,890 in 2003 to 8,405 in 2007.

The accompanying chart illustrates the increase in the number of pensioners over the past ten years.



Year Ending December 31	2007	2006	2005	2004	2003
Total number of persons (or estates) to whom contribution refunds and pension benefit transfers were paid during the year	**217**	205	275	154	173
The number of pensions transferred to other plans	**12**	11	3	11	8
Pension benefit credits transferred to former spouses (active employees)	**5**	3	2	7	9
PENSIONS BEING PAID					
Pension being paid to ex-employees	**6,745**	6,554	6,394	6,357	6,367
To spouses of deceased employees and pensioners	**1,543**	1,521	1,511	1,442	1,414
To former spouses due to division of pension credits	**65**	63	60	56	51
To children of deceased employees and pensioners	**52**	55	36	43	58
Total pensions being paid	**8,405**	**8,193**	**8,001**	**7,898**	**7,890**

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 (Canada) 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.

Debra Alves
Managing Director/CEO
CBC Pension Plan

Suzanne Morris
Secretary/Treasurer
CBC Pension Board of Trustees

February 15, 2008

ACTUARY'S OPINION

Mercer (Canada) Limited was retained by the CBC Pension Board of Trustees (the "Board") to estimate the going concern and solvency liabilities and to calculate the actuarial value of the assets of the CBC Pension Plan (the "Plan") as at December 31, 2007, for inclusion in the Plan's financial statements.

The Plan's actuarial liabilities as at December 31, 2007 are based on extrapolations of the results of the actuarial valuation as at December 31, 2006 and take into account:

- membership data provided by CBC/Radio-Canada as at December 31, 2006;
- methods prescribed under Section 4100 of the Canadian Institute of Chartered Accountants' Handbook for pension plan financial statements; and
- assumptions about future events, such as 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.

We have estimated the impact of plan experience in 2007 related to aging, salary increases, mortality of pensioners and pension indexation. The extrapolations are otherwise based on the assumption that, in aggregate, experience between December 31, 2006 and December 31, 2007 is in line with the actuarial assumptions.

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 as at December 31, 2006 and the extrapolations to December 31, 2007. We also believe that the methods employed in the valuation and the assumptions are, in aggregate, appropriate for the purposes of the valuation and the extrapolations. 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 (Canada) Limited
Ottawa, Ontario

February 15, 2008

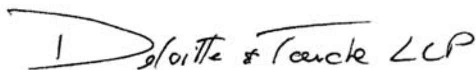
AUDITORS' REPORT

To the CBC Pension Board of Trustees

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and funding excess of the CBC Pension Plan as at December 31, 2007 and the consolidated 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 consolidated financial statements are the responsibility of the CBC Pension Board of Trustees' management. Our responsibility is to express an opinion on these consolidated 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 consolidated 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, 2007 and the changes in net assets available for benefits, accrued pension benefits and funding excess for the year ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants

Deloitte & Touche LLP
Ottawa, Ontario

February 15, 2008

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS AND FUNDING EXCESS

(in thousands of dollars)

As at December 31	2007	2006
ASSETS		
Investments (Note 3)	$ 4,294,887	$ 4,343,880
Accrued Investment Income	9,331	10,930
Accounts Receivable (Note 5)	4,484	8,647
Contributions Receivable (Note 6)	4,677	6,400
FlexPen Investments (Note 7)	8,212	8,206
	4,321,591	4,378,063
LIABILITIES		
Accounts Payable (Note 8)	9,673	10,825
NET ASSETS AVAILABLE FOR BENEFITS	4,311,918	4,367,238
Actuarial Asset Value Adjustment (Note 9)	(171,978)	(379,351)
ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS (Note 9)	4,139,940	3,987,887
ACCRUED PENSION BENEFITS (Note 9)	3,678,000	3,554,917
FUNDING EXCESS (Note 11)	$ 461,940	$ 432,970

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

Approved by the Board of Trustees

Trustee

Trustee

Approved by Management

Managing Director/CEO

Secretary/Treasurer

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(in thousands of dollars)

Year Ended December 31	2007	2006
NET ASSETS AVAILABLE FOR BENEFITS BEGINNING OF YEAR	$ 4,367,238	$ 4,064,933
INCREASE IN ASSETS		
Investment Income (Note 3)	141,023	158,188
Current Year Change in Fair Value of:		
- Investments (Note 3)	(29,991)	247,850
- FlexPen Investments (Note 7)	338	954
Contributions (Note 6)	54,629	104,873
TOTAL INCREASE IN ASSETS	165,999	511,865
DECREASE IN ASSETS		
Benefits (Note 10)	204,156	191,581
Administration Expenses (Note 12)	17,163	17,979
TOTAL DECREASE IN ASSETS	221,319	209,560
INCREASE (DECREASE) IN NET ASSETS AVAILABLE FOR BENEFITS	(55,320)	302,305
NET ASSETS AVAILABLE FOR BENEFITS END OF YEAR	$ 4,311,918	$ 4,367,238

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

(in thousands of dollars)

Year Ended December 31	2007	2006
ACCRUED PENSION BENEFITS BEGINNING OF YEAR	**$ 3,554,917**	$ 3,339,000
INCREASE IN ACCRUED PENSION BENEFITS		
Interest on Accrued Pension Benefits	**218,308**	213,432
Benefits Earned	**94,953**	93,457
Flex Pen (Note 7)	**1,168**	1,955
Net Experience Losses (Note 9)	**12,810**	31,510
	327,239	340,354
DECREASE IN ACCRUED PENSION BENEFITS		
Benefits (Note10)	**204,156**	191,581
Changes in Actuarial Assumptions (Note 9)	-	(67,144)
	204,156	124,437
NET INCREASE IN ACCRUED PENSION BENEFITS	**123,083**	215,917
ACCRUED PENSION BENEFITS END OF YEAR	**$ 3,678,000**	$ 3,554,917

CONSOLIDATED STATEMENT OF CHANGES IN FUNDING EXCESS

(in thousands of dollars)

Year Ended December 31	2007	2006
FUNDING EXCESS BEGINNING OF YEAR	**$ 432,970**	$ 344,938
Increase (Decrease) in Net Assets Available for Benefits	**(55,320)**	302,305
Change in Actuarial Assets Value Adjustment	**207,373**	1,644
Increase in Actuarial Value of Net Assets Available for Benefits	**152,053**	303,949
Net Increase in Accrued Pension Benefits	**123,083**	215,917
FUNDING EXCESS END OF YEAR (Note 11)	**$ 461,940**	$ 432,970

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 0055144.

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 ($43,700 in 2007) 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 most recent actuarial valuation of the Plan was performed as of December 31, 2006. Under the Federal *Income Tax Act (ITA)*, due to the Plan's going concern funding position at that date, the Plan sponsor cannot contribute to the Plan until the going concern funding excess, as determined at the time of 2006 valuation has been reduced by $77 million. Contributions from the Plan sponsor were suspended in April 2007 and are expected to resume in September 2008.

d) Income Tax Status

The Plan is a Registered Pension Trust as defined in the *ITA*, 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 in accordance with generally accepted accounting principles on a 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. Inter-company transactions and balances are eliminated in preparing these consolidated financial statements.

c) Investments

Investments are recorded as of the trade date and are stated at fair value (see note 3). Fair value is an estimate of 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.

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. For 2007, the value of the pension benefit obligations constitutes an extrapolation from the results of the previous formal valuation using the projected benefit method prorated on service and the Board's best estimate of future economic events (see note 9). Accrued benefits related to the flexible pension provisions are reported at the fair value of the investments associated with the contributions.

g) Contributions

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Contributions for past service are recorded in the year received. Special solvency deficit funding contributions from the Plan sponsor have been 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.

j) Change in Accounting Policy

In 2007, the Plan adopted Canadian Institute of Chartered Accountants (CICA) Emerging Issues Committee Abstract No. 168, Accounting by Pension Plans for Transaction Costs (EIC-168), which requires that pension plans not include transaction costs in the fair value of investments. Under EIC-168, transaction costs are included in the statement of changes in net assets available for benefits in the period incurred. EIC-168 is required to be applied retrospectively, without restatement of prior periods, for fiscal years ending on or after December 31, 2007.

Prior to the adoption of EIC-168, certain transaction costs incurred were capitalized and added to the cost of securities purchased and deducted from the proceeds of securities sold. Upon the adoption of EIC-168, all transaction costs are expensed and presented as a component of administrative expenses as disclosed in Note 12. The impact of adopting this EIC did not have a material impact upon the consolidated financial position or results of operations of the Plan.

k) Future accounting changes

The following summarizes future accounting changes that will be effective for the Plan on January 1, 2008.

Financial Instruments and Capital - Disclosures

The CICA has issued new accounting standards on financial instruments that revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. These new standards will be effective for the Plan's 2008 year-end. The new disclosures will provide additional information on the nature and extent of risks arising from financial instruments to which the Plan is exposed and how it manages those risks. In addition, a new standard on capital requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what is considered capital and whether an entity has complied with any capital requirements and consequences of non-compliance with such capital requirements.

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 $36.6 million at the end of 2007 ($37.5 million in 2006). 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.

2007 INVESTMENTS

(in thousands of dollars)

	Fair Value	Cost	Current year Change in Fair Value of Investments (1)	Investment Income	Total Return
Fixed Income					
Cash and Short-Term Investments	$ 342,141	$ 342,090	$ (3,761)	$ 10,487	$ 6,726
Canadian Bonds	2,061,421	2,066,411	(22,294)	72,920	50,626
	2,403,562	2,408,501	(26,055)	83,407	57,352
Equities					
Canadian (2)	586,298	432,622	45,486	14,373	59,859
Global	833,149	813,172	(112,063)	23,047	(89,016)
	1,419,447	1,245,794	(66,577)	37,420	(29,157)
Strategic					
Property (Note 4)	299,197	233,147	35,050	15,453	50,503
Private Placements (2)	83,416	106,300	13,987	3,829	17,816
Hedge Fund	84,277	91,473	(7,555)	914	(6,641)
	466,890	430,920	41,482	20,196	61,678
Bond Overlay					
Bond Forwards and Swaps (Note 3c)	4,988	-	21,159	-	21,159
TOTAL	$ 4,294,887	$ 4,085,215	$ (29,991)	$ 141,023	$ 111,032

(1) *The 2007 Change in Fair Value of Investments includes $299.6 million of unrealized gains and $89.9 million of unrealized losses on foreign exchange.*

(2) *Private Placements at December 31, 2006 include a holding in income trust units that were acquired from the conversion of a privately-held investment. Up to December 2006, trading constraints existed on this investment that inhibited the sale of the securities. In 2007, as the constraints no longer exist, the investment is classified in the Canadian Equity category to reflect its publicly-traded nature.*

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 5)	262,891	224,878	18,213	16,213	34,426
Private Placements	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.*

B) Determination of fair values:

Fair values of investments are determined as follows:

i) 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, including accrued interest, approximates fair value.

ii) Bonds consisting primarily of listed securities are recorded at closing mid-market quotes or if not available are valued based on discounted cash flow techniques.

iii) Equities consisting primarily of listed securities are recorded at prices based on quoted market closing prices or if not available through management valuation techniques.

iv) 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.

v) Hedge Funds and similar alternative investment funds are recorded at fair value based on net asset values obtained from each of the fund's administrators.

vi) Derivative financial instruments entered into by the Pension Plan are recorded at fair value based on quoted market closing prices and market valuation techniques.

vii) Property, consisting of mortgages and real estate, is valued as follows:

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, as a proxy for fair value. Other real estate investments are recorded at estimated fair values determined by using appropriate valuation techniques and best estimates by management and/or appraisers.

C) Derivative Financial Instruments

Derivative financial instruments are financial contracts whose values are derived from changes in underlying assets, interest or currency exchange rates. In 2007, the Plan began to use fixed income derivative instruments to implement its liability driven investment strategy which hedges the interest rate and inflation risk mismatch in the Plan's assets and liabilities. The Plan may also, from time to time, manage some of its foreign currency exposure based on economic fundamentals.

Notional values represent the face amount of the contract to which a rate or price is applied in order to calculate the exchange of cash flows. Notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions. Rather, these values serve as the basis upon which the returns from, and the fair value of the contracts, are determined. Accordingly, notional values are not recorded as assets and liabilities in the financial statements.

The following table summarizes the notional amounts and fair value of the Plan's derivatives contracts as at December 31:

(in thousands of dollars)	2007		2006	
INVESTMENTS	NOTIONAL VALUE	NET FAIR VALUE	NOTIONAL VALUE	NET FAIR VALUE
Bond Forwards	**$ 903,250**	**$ 4,182**	$ -	$ -
Total Return Swaps	**100,000**	**806**	-	-
Currency Forwards	**-**	**-**	77,900	(3,022)
	$ 1,003,250	**$ 4,988**	$ 77,900	$ (3,022)

The net fair value of currency forwards of $ (3.0) million is included in the $88.3 million fair value of the Hedge Fund investment at December 31, 2006 in these financial statements.

The net fair value of derivative contracts as at December 31 is represented by:

(in thousands of dollars)	2007	2006
Derivative-related receivables	**$ 5,817**	$ -
Derivative-related payables	**(829)**	(3,022)
	$ 4,988	$ (3,022)

All derivatives contracts have a term to maturity under one year.

D) Investment risk

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

i) Market Risk

Market risk is the risk that the fair value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to an individual investment or its issuer or factors affecting all similar securities traded in the market. The Plan mitigates this risk by investing across a broad spectrum of asset classes and investment strategies based on criteria established in its Statement of Investment Policies & Procedures (SIP&P).

ii) 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. 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, including the use of liability driven investment techniques that hedge a portion of the mismatch.

At the end of 2007, the Plan's SIP&P provided for a long-term target asset mix of 50% fixed income, 34% equities, and 16% strategic investments which include property, private placements and hedge funds. The SIP&P also allows for the use of fixed income derivatives to hedge interest rate risk. The asset mix is determined through periodic reviews of the Plan's pension liabilities.

Changes in interest rates directly affect the value of the Plan’s fixed income investments, including fixed income derivative instruments and also have a significant influence on the value of equity investments and foreign exchange. As at December 31, 2007, and after giving effect to the derivative contracts, an increase of 1% in nominal interest rates would result in a decline in the value of the fixed income investments and derivatives of approximately 11.6%.

With respect to pension liabilities, as at December 31, 2007, a 1% reduction in the assumed real long-term rate of return would result in an increase in the pension liabilities, which are measured on a going concern basis, of approximately 13.5%.

iii) 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 SIP&P, which is reviewed annually, defines permitted investments, in accordance with the PBSA and provides guidelines and restrictions on acceptable investments which minimize credit risk. In order to minimize derivative contract credit risk, the Plan deals only with major financial institutions with a minimum credit rating of “A”, as supported by at least two major credit rating agencies.

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. Portfolio concentrations are as follows:

(% of category)	2007	2006
BONDS		
Government of Canada	**39.7**	45.6
Provinces	**35.4**	35.9
Corporate	**24.9**	18.5
	100.0	100.0

The Canadian bond portfolio at December 31, 2007 includes an investment of $398.2 million in an externally managed alpha bond fund, which is invested in a Canadian nominal long bond portfolio. Through an overlay strategy 36.4% of the portfolio is invested in a short duration bond fund with primarily U.S. exposure and 10.5% in a hedge fund with global exposure.

(% of category)	2007		2006	
EQUITIES	**CANADIAN**	**GLOBAL**	**CANADIAN**	**GLOBAL**
Financials	**25.3**	**24.4**	22.1	27.6
Energy	**20.8**	**7.4**	18.6	6.2
Information Technology	**14.8**	**10.8**	19.2	10.1
Materials	**12.8**	**5.4**	12.4	5.0
Industrials	**7.0**	**14.4**	7.2	13.3
Consumer Discretionary	**6.5**	**11.1**	5.7	12.9
Telecommunication Services	**5.1**	**6.3**	4.9	5.0
Consumer Staples	**3.4**	**8.9**	4.2	8.5
Utilities	**2.4**	**3.2**	1.8	2.8
Health Care	**1.9**	**8.1**	3.9	8.6
	100.0	**100.0**	100.0	100.0

iv) Foreign Currency Risk

Foreign currency exposure arises from the Plan holding foreign currency denominated investments. Fluctuations in the relative value of foreign currencies against the Canadian dollar can have a positive or negative effect on the fair value of investments.

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

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

	2007			2006
	Foreign Currency Exposure	**Net Foreign Currency Trading**	**Net Foreign Currency Exposure**	**Net Foreign Currency Exposure**
		(in thousands of dollars)		(in thousands of dollars)
United States	$ 506,459	$ (110)	$ 506,349	$ 612,391
Euro Countries	159,568	46	159,614	184,795
Japan	63,028	-	63,028	93,597
United Kingdom	68,980	-	68,980	87,858
Switzerland	42,496	(67)	42,429	44,472
Australia	8,939	132	9,071	10,199
Sweden	8,228	-	8,228	9,403
Hong Kong	7,842	-	7,842	8,794
Other	27,942	-	27,942	22,287
Total	$ 893,482	$ 1	$ 893,483	$1,073,796

4. Real Estate Joint Venture

The Plan is invested in a 30% - 70% joint venture, Pyxis Real Estate Equities. The following amounts represent the Plan's 30% proportionate interest in Pyxis at fair value before consolidation. Promissory notes are payable to the CBC Pension Board.

(in thousands of dollars)	2007	2006
Assets		
Cash and Short-term Investments	$ 4,652	$ 2,405
Accounts Receivable	2,336	6,671
Property	59,936	54,331
Mortgages	-	600
Liabilities		
Accounts Payable	$ 3,516	$ 3,727
Promissory Notes	25,138	23,833
Mortgages Payable	25,994	28,323
Earnings		
Revenue	$ 9,164	$ 9,021
Expenses	(8,283)	(8,235)
Net Earnings from Continuing Operations	881	786
Net Loss from Discontinued Operations	(1,486)	(1,069)
Net Loss	$ (605)	$ (283)

5. Accounts Receivable

(in thousands of dollars)	2007	2006
Property	$ 4,186	$ 8,500
Other	298	147
	$ 4,484	$ 8,647

6. Contributions

The following are the contributions for the year:

(in thousands of dollars)	2007	2006
Employee		
Current Service	$ 27,038	$ 26,838
Past Service	12,951	16,848
Net Transfers	741	1,362
FlexPen (Note 7)	830	1,001
Employer (Note 11)		
Current Service	13,069	47,512
Special Solvency Deficit Funding	-	11,312
	$ 54,629	$ 104,873

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

(in thousands of dollars)	2007	2006
Employee	$ 4,677	$ 4,552
Employer	-	1,848
	$ 4,677	$ 6,400

7. Flexible Pension (FlexPen)

An amendment was made to the Plan effective January 1, 1998, to include a flexible component. Under FlexPen, members can make additional contributions to the Plan, up to limits within the ITA. 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 purchases of additional pension benefits and transfers. This portion of the Plan benefits is funded entirely by members.

(in thousands of dollars)	2007	2006
Investment Beginning of Year	$ 8,206	$ 7,148
Increases		
Contributions and Interest	830	1,001
Capital Appreciation	338	954
	1,168	1,955
Decreases		
Purchase of Additional Pension Benefits and Transfers	1,162	897
	1,162	897
Investment End of Year	$ 8,212	$ 8,206

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

8. Accounts Payable

(in thousands of dollars)	2007	2006
Investment Related	$ 4,349	$ 4,713
Benefits	1,902	1,135
Other	3,422	4,977
	$ 9,673	$ 10,825

9. Accrued Pension Benefits

a) Actuarial valuations are required at least every three years under the *PBSA*. The latest actuarial valuation was performed at December 31, 2006, by Mercer (Canada) Ltd. 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 reflect the Board's best estimates of expected economic trends and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality, withdrawal and retirement rates. The primary economic assumptions include the asset rate of return, salary escalation rate and inflation rate, which were as follows:

	Long term assumptions	
	2007	**2006**
Asset rate of return	**6.25%**	6.25%
Salary escalation rate[1]	**3.25%**	3.25%
Inflation rate	**2.50%**	2.50%

[1] excluding merit and promotional salary increases

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

In 2007, there were net experience losses of $12.8 million ($31.5 million in 2006) with respect to salary, indexation and post-retirement experience compared to the actuarial valuation conducted as at December 31, 2006.

There were no changes in the actuarial assumptions in 2007. In 2006, such changes resulted in an increase of the Accrued Pension Benefits of $67.1 million.

The PBSA requires that the Plan also be 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. Such liabilities were projected at $4,236.0 million as at December 31, 2007.

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 fair value. Under this method, the fair 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.

10. Benefits

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

(in thousands of dollars)	**2007**	2006
Pensions	**$ 194,040**	$ 183,675
Refunds and Related Interest	**1,630**	1,414
Net Transfer of Contributions and Related Interest	**7,324**	5,595
FlexPen - Purchase of Additional Pension Benefits	**1,162**	897
	$ 204,156	$ 191,581

11. Funding Excess

The last actuarial valuation of the Plan was performed as at December 31, 2006 and determined that the Plan had 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 was submitted to the Plan sponsor, as required under the Trust Deed, and to the Office of the Superintendent of Financial Institutions (OSFI). It is estimated that Plan had a going concern surplus of $461.9 million and a solvency surplus of $71.9 million at the end of 2007.

Effective with the submission to OSFI of the December 31, 2006 actuarial valuation and starting in 2007, special solvency contributions by the Plan sponsor that had been required based on the previous actuarial valuation as at December 31, 2005, were no longer applicable. Further, under the Federal ITA, because the going concern funding ratio was greater than 110% as at December 31, 2006, The Plan sponsor cannot contribute to the Plan until the going concern funding excess, as determined at the time of the 2006 actuarial valuation, has been reduced by $77.0 million. Contributions from the Plan sponsor were suspended in April 2007 and are expected to resume in September 2008.

12. Administrative Expenses

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

(in thousands of dollars)	2007	2006
Fund Administration		
Internal Management		
Salaries and employment cost	$ 2,974	$ 3,196
Professional fees	221	148
Data processing	908	852
Custodial fees and transaction costs	654	247
Office rent	325	238
Other	120	112
Total Internal Management	5,202	4,793
External Investment Management		
Management fees	7,384	8,122
Custodial fees and transaction costs	1,025	902
Property management	467	315
Total External Management	8,876	9,339
	14,078	14,132
Pension Benefit Administration		
External Administration	1,345	1,867
Salaries and employment cost	315	294
Professional fees	35	292
Other	181	164
	1,876	2,617
Board of Trustees Expenses		
Professional Fees	456	336
Other	60	57
	516	393
GST	693	837
Total Administrative Expenses	$ 17,163	$ 17,979

13. 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, 2007, these potential commitments totalled $168.1 million (2006 - $132.4 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.

14. 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.

15. Comparative Figures

Certain of the 2006 comparative figures have been reclassified to conform to the current year's presentation.

SUPPLEMENTARY FINANCIAL INFORMATION

INVESTMENTS GREATER THAN $20,000,000
AS AT DECEMBER 31, 2007

ISSUER	COUPON	MATURITY DATE	FAIR VALUE (in million $)
NOMINAL BONDS			
TD Quant Emerald Canadian Broad Bond Fund			452.15
Barclays Core Plus Canadian Long Bond Fund			398.15
TD Quant Emerald Canadian Long Bond Fund			60.87
Province of British Columbia	5.700%	Jun 18, 2029	45.02
Province of Ontario	6.200%	Jun 02, 2031	42.65
Province of Quebec	6.250%	Jun 01, 2032	34.08
Government of Canada	4.000%	Jun 01, 2017	32.04
Province of Quebec	5.750%	Dec 01, 2036	31.81
Government of Canada	5.750%	Jun 01, 2029	29.52
Government of Canada	5.750%	Jun 01, 2033	28.95
Royal Office Finance LP, Series A	5.209%	Nov 12, 2032	24.86
Government of Canada	5.000%	Jun 01, 2037	23.12
Quebec Hydro	6.000%	Feb 15, 2040	22.34
REAL RETURN BONDS			
Government of Canada	4.000%	Dec 01, 2031	171.63
Government of Canada	4.250%	Dec 01, 2026	86.59
Province of Quebec	4.250%	Dec 01, 2031	72.18
Government of Canada	3.000%	Dec 01, 2036	60.53
Province of Ontario	2.000%	Dec 01, 2036	45.53
Government of Canada	4.250%	Dec 01, 2021	34.35
Government of Canada	2.000%	Dec 01, 2041	25.51

ISSUER	FAIR VALUE (in million $)
CANADIAN EQUITIES	
Barclays Global Investors Enhanced Canadian Index Fund	280.33
Teranet Income Fund	57.40
GLOBAL EQUITIES	
Mellon Capital Multicurrency Class Global Opportunities Fund	84.28
U.S. EQUITIES	
TD Quant Emerald Hedged U.S. Fund	60.60
PROPERTY	
Morguard Investment Ltd. Res. Prop. (1) Inc. Pooled	33.32
Pyxis Real Estate Equities - Ogilvy Building, Montreal	32.52
Morguard Investment Ltd. Industrial Prop. (1) Pooled	31.89
Tonko Development - Westhill Equity	26.99
SPECIAL & PRIVATE PLACEMENTS	
Macquarie Infrastructure LP, European Fund	21.69

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as at December 31

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as at December 31

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Portfolio Manager

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

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