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CANADA POST POSTES CANADA

From anywhere... to anyone

Canada Post Pension Plan
2008 Annual Report

TOTAL COMPENSATION

DK8092

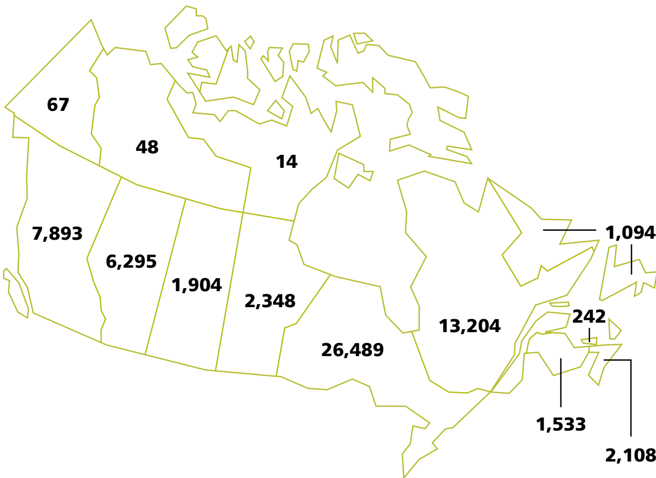
Membership Summary

Membership continues to grow in the Canada Post pension plan (the Plan) making it one of the largest single employer defined benefit pension plans in Canada, with a total of 79,241 active members, pensioners, deferred pensioners and beneficiaries.

	2004	2005	2006	2007	2008
Actives	63,168	62,292	63,134	63,531	63,239
Pensioners	6,076	7,976	10,165	12,398	14,753
Deferred Pensioners and Beneficiaries	708	901	948	1,050	1,249
	69,952	**71,169**	**74,247**	**76,979**	**79,241**

Total Active Members by Province and Territory

Our 63,239 active members are spread across Canada.



Membership Age Distribution as of December 31, 2008

The Plan has 29,535 active members over age 50. The number of active members retiring year over year is continuing to increase. Pensioners increased by 2,355 in 2008.

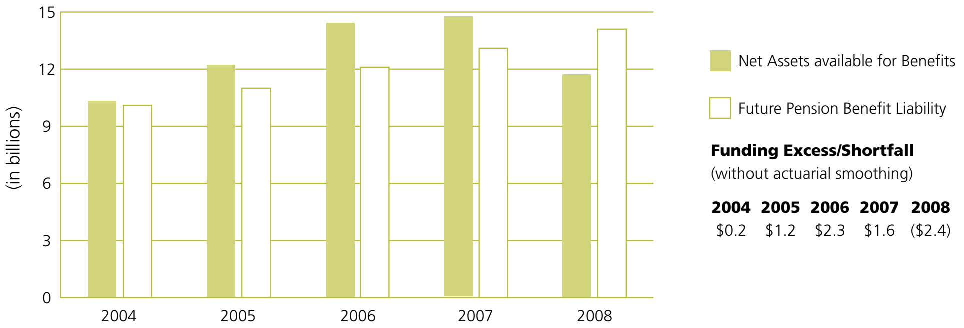
Age	< 30	30-39	40-49	50-59	60-69	70-79	80-89
Active Members	2,945	10,011	20,748	24,941	4,512	82	N/A
Pensioners	N/A	11	145	5,538	8,152	877	30

The average active member is 47.8 years of age (2007 – 47.6 years of age).
The average retiree age is 61.6 years of age (2007 – 61.2 years of age).

Operational Highlights

Net Assets vs Cost of Future Pension Benefits

In 2008, future pension benefit liability exceeds net assets for the first time since 2003.



Actual Fund Rates of Return vs Policy Benchmark

2008 is the first time since Plan inception eight years ago that the Plan has not beaten its benchmark.

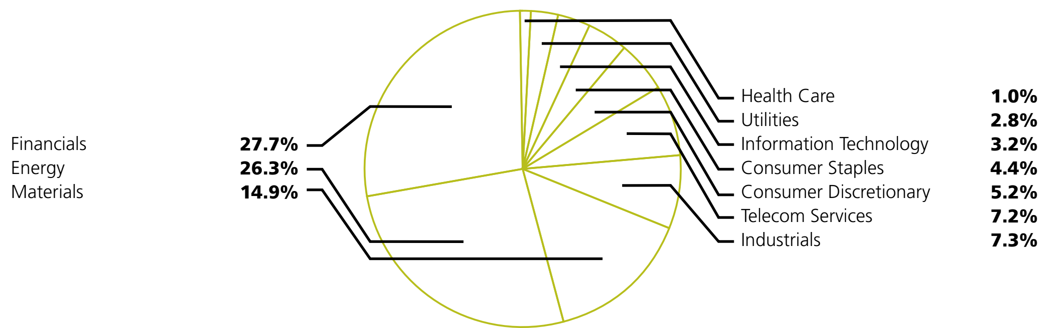
Contributions and Benefit Payments

In November 2008, the Corporation resumed current service contributions to the Plan.

Actual Equity Holdings by Industry Sector

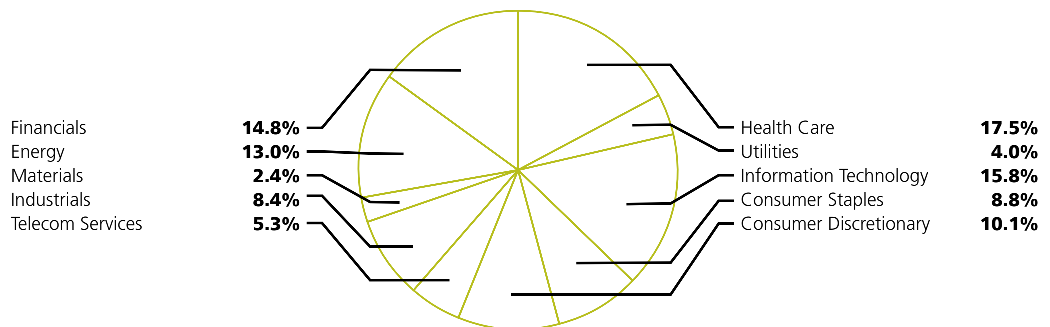
CPC Canadian Equity Portfolio

As at December 31, 2008



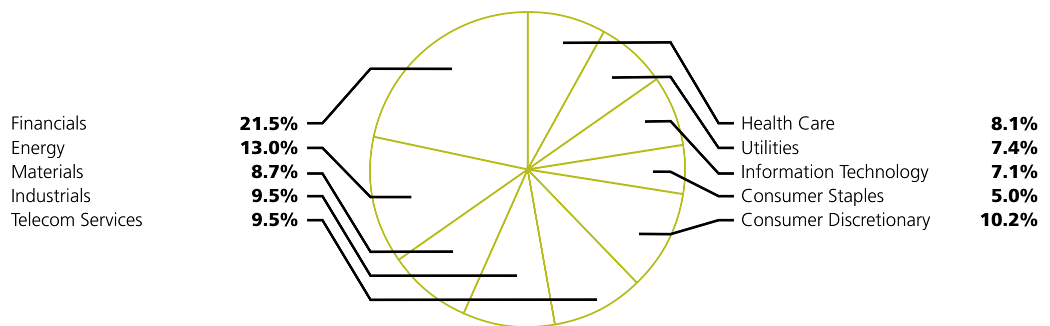
CPC U.S. Equity Portfolio

As at December 31, 2008



CPC International Equity Portfolio

As at December 31, 2008



Canada Post Pension Plan 2008 Annual Report

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Privacy of Pension Records

Canada Post adheres to federal legislation on the privacy of personal information and ensures that personal pension information is treated in a secure and confidential manner.

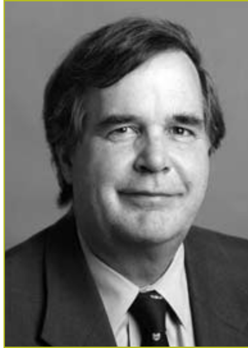
To obtain information on their pension benefits, members may:

Visit the Canada Post pension website at www.cpcpension.com

Call the Pension Centre at 1-877-480-9220 (TTY 613 734-8265) and use the Voice Response Unit (VRU) or speak with a Pension Centre Representative.

Message from Marc A. Courtois

Chairman of the Board



The Board of Directors takes its pension fiduciary responsibility very seriously. Members of the Canada Post pension plan should be assured that despite the current financial and economic downturn, their pension benefit is secure.

Members should recognize that the Canada Post pension plan is a defined benefit pension plan, regulated by the federal *Pension Benefits Standards Act, 1985*. This Act sets out the rules for the prudent management of the Plan's funds over the long term.

Canada Post has also established a robust pension governance structure to ensure that the right decisions are made for the Plan. On October 29, 2008, the Board of Directors authorized a resumption of employer contributions to the Plan effective November 1, 2008. The Board of Directors will continue to monitor and ensure the Plan is sufficiently funded in the future and to provide the best service to the now nearly 80,000 members.

On behalf of the Board of Directors, I would like to thank Denyse Chicoyne, the Chair of the Pension Committee, for her continuing diligence, as well as thank the Pension team for their efforts as events unfolded during the past challenging year.

Message from Moya Greene

President and CEO

2008 was an extremely difficult year of financial and economic turmoil. In Canada and around the world, the scope and speed of this decline has no historical comparison. The impact on the investment results of all pension plans in Canada has been very negative. The assets of our Canada Post pension plan (the Plan) declined year over year by $2,957 million. As at December 31, 2008, the Plan is fully funded on a going-concern basis.

Fortunately, the Plan was one of the few pension plans in Canada to begin the year with a solvency surplus, somewhat mitigating the impacts of the financial crisis. The Plan ended the year with a solvency ratio of 91%, above the median large pension plan ratio.

More than ever, members should appreciate the value of their defined benefit pension plan, which is one of the best in Canada. Your pension benefit calculation is based on your years of pensionable service and pensionable earnings, and is not impacted by negative investment returns.

Canada Post is the sponsor of our pension plan and bears the investment risk; however, our Corporation must remain competitive and generate needed profitability. Our pension is worth protecting, and therefore we must continue to modernize our infrastructure. It is important for all of us to recognize the need to change to ensure the Corporation remains financially viable.

This has been a challenging year for those managing our Plan, and therefore I wish to take this opportunity to thank Doug Greaves and his Pension team for their continuing hard work and for providing such good service to all members of our pension plan.

For more information or for plan members who wish to view personal pension information with complete confidentiality, I invite you to visit www.cpcpension.com

Report to Members

From the Office of Douglas D. Greaves, Vice-President Pension Fund and Chief Investment Officer

Member Services

The Canada Post Corporation Registered Pension Plan (the Plan) which began operations in 2000 with approximately 55,000 members has grown to nearly 80,000 members in 2008. There were over 2,300 new retirees in 2008 with Pensioners now representing 18.6% of the total Plan member population.

Pension Services Commitment to High Quality Service Standards and Cost-effectiveness

Pension Services participated in a benchmarking study with CEM Benchmarking Inc. in 2007. CEM provides independent and objective information by comparing how Pension Services administers the Plan against similar public and private sector defined benefit pension plans. The results provide insights into administration costs, service levels, and industry best practices.

CEM determined that Pension Services has continued to improve member services, attaining a 2007 total service score of 75 up from 73 in 2006. This score ranked fourth out of eleven similar plans that participated in the survey. The study shows that Pension Services is providing higher service at a lower average cost per member.

The following provides statistics on the most popular services used by Plan members:

Active Members	2008	2007
Telephone calls	**36,630**	36,873*
Transactions		
Elective Service	**1,016**	1,191
Pension Estimates	**1,942**	2,062
Retirement/Termination/Deaths	**4,800**	4,997

Pensioners	2008	2007
Telephone calls	**4,447**	4,283
Transactions		
Address Change	**53**	44
Bank Change	**339**	290

Website visits	2008	2007
	74,268	57,727

* Number was corrected from the *Canada Post Pension Plan 2007 Annual Report*.

Pre-retirement seminars

In 2008, pre-retirement seminars were provided to 2,259 Plan members at 107 locations. Since the decision to retire requires planning, these seminars provide members with the tools to understand the value of their pension benefit from the Plan and learn about other factors that affect their retirement decision such as financial, legal, health and lifestyle choices. Feedback from Plan members attending the pre-retirement seminars has been very positive.

For Plan members that cannot participate in the pre-retirement seminars, please visit www.cpcpension.com to take the online pre-retirement course "Planning your Retirement".

Average Administration Cost, by Member Type

The following provides the 2008 costs required to provide services to Plan Members:

	Membership Type		
	Active	**Inactive**	**Pensioners**
	2008	2008	2008
Canada Post	**$122**	**$92**	**$62**
Peer Group	$182	$66	$70

Pension Services is committed to the continuous improvement of service for Plan members to provide high quality service in a cost-effective way.

Contact Pension Services

For pension or post-retirement information, questions or requests:

Contact a Pension Centre Representative:

08:00 to 18:00 (Eastern Time)

Monday to Friday

1-877-480-9220

613-734-8265 (TTY)

613-683-5908 (Outside North America)

Or visit the Plan website where you can find valuable pension information, take an on-line pre-retirement course or calculate a pension estimate based on your individual data.

www.cpcpension.com

Contact RBC Dexia

Inquiries for RBC Dexia Investor Services related to pension payments:

Benefit Payment Services

East Wing 5th Floor

1 Place Ville Marie

Montreal QC H3B 1Z3

1-800-876-4498

Financial Summary

Net Assets Available for Benefits

At December 31, 2008, the Canada Post Corporation Registered Pension Plan held net assets available for benefits of $11,709 million, compared to $14,666 million at the end of 2007. The actuarial value of net assets available for benefits of $14,782 million was $3,073 million more than the fair value of net assets of $11,709 million due to timing differences in the recognition of excess gains and losses.

Changes in Net Assets Available for Benefits

Net assets available for benefits decreased by $2,957 million during the year due to investment declines ($2,778 million) and benefits payments ($374 million) and administration expenses ($53 million), offset by contributions ($248 million).

Changes in Accrued Pension Benefits

Accrued pension benefits as at December 31, 2008 were $14,107 million, an increase of $1,036 million since December 31, 2007.

Changes in Surplus

The current extrapolated estimate of going-concern surplus is $675 million ($1,329 million in 2007) with an approximate solvency deficit of $1,190 million (surplus of $449 million in 2007).

Asset Performance

Overview

The Canada Post pension plan (the Plan) returned a negative 19.3% in 2008 against a benchmark return of negative 17.6%. Invested fund assets, held by the custodian ended the year at $11,618 million, $2,994 million lower than at the end of 2007.

Canada Post Corporation (the Corporation) provides pension benefits to its employees through a defined benefit pension plan. The prudent and effective management of the Plan's assets has a direct impact on the cost of the Plan. To this end the Board of Directors of the Corporation (the Board), based on recommendations from the Pension Committee, adopt and review at least annually a Statement of Investment Policies and Procedures (SIPP) addressing the manner in which the Fund will be invested.

The SIPP reflects the current investment principles of the Board, the Pension Committee and the Investment Advisory Committee at the time of its adoption by the Board. However, these principles are revisited periodically to ensure that changes to the investment policies may be made if warranted.

Investment Objectives and Constraints

The SIPP articulates the objectives and constraints of the Plan.

In its governance of the financial strategies underlying the Plan's operations, the Board must deal with the following two objectives:

1. Ensuring that the pension promise is met,
2. Delivering the pension promise at the lowest reasonable cost.

The Corporation believes that an investment portfolio with an appropriate asset mix (the "benchmark portfolio") can, over the long-term, achieve the Plan's investment objective of ensuring that sufficient assets will be available to meet the obligations of the Plan as they come due. Under the current SIPP, it is recognised that it is not always desirable to have the investment portfolio exactly match the long-term asset benchmark allocation and therefore minimum and maximum asset class limits have been established.

The Corporation maintains at least the minimum diversification standards as established in the federal *Pension Benefits Standards Act, 1985* (PBSA) as well as maintaining appropriate diversification between industry sectors, geographic/economic areas and management styles.

Risk Management Strategy

In order to mitigate risks, the Corporation ensures that investment decisions are made in accordance with the SIPP. The SIPP sets the allowable asset mix ranges, which prescribes how much can be invested in each asset class and is designed to provide the Plan a long-term rate of return of 4.5% above inflation. Each asset class has specific risks and limits associated with it. Investment staff monitor and report on the Plan's risk exposures on an ongoing basis.

Liquidity risk for a pension plan is the risk that illiquid assets will need to be sold at inopportune times to meet benefit payments. In 2008, for the first time, employee and employer contributions were insufficient by themselves to fund ongoing benefit payments, necessitating the use of some Plan investments. The Plan, however, maintains cash and marketable securities well in excess of what is needed to pay out benefits at all times, thus mitigating any liquidity risk.

In 2008 an asset-liability modelling exercise was completed to ensure the Plan's SIPP remains appropriate in today's challenging environment and updates were made to the SIPP by the Board of Directors in December 2008.

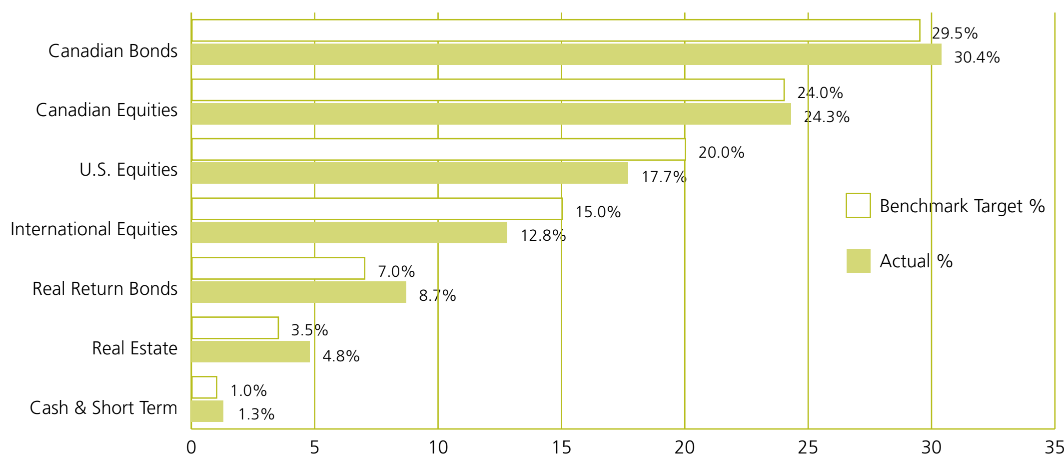
The various asset related risks faced by the Plan, are outlined in Note 6 to the Financial Statements.

Investment Mix Strategy

The asset mix of the Plan compared to our benchmark portfolio is depicted below. We ended the year with total equity exposure of 59.6% of total assets, below the benchmark of 62.5% as a result of an under-weight position in U.S. and international equities, and an over-weight position in real estate. The Canadian equity exposure is roughly in line with the target allocation. The total fixed income weight of 40.4% of total assets is above the benchmark weight of 37.5%, due to an over-weight position in Canadian nominal and real return bonds, as well as cash and short-term investments.

Asset Mix

Actual % Allocation at December 31, 2008 versus Benchmark Target %

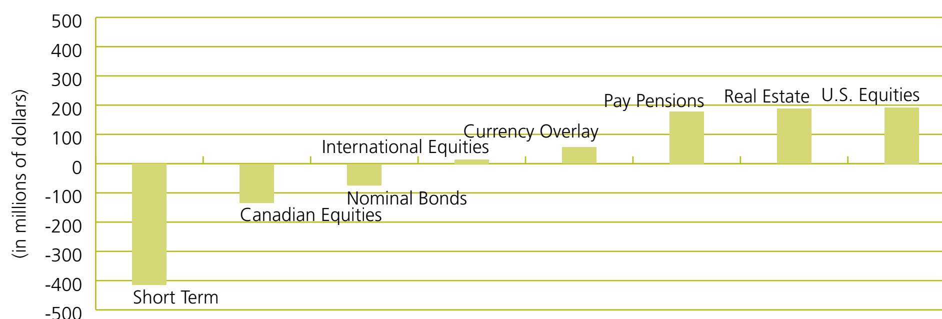


Fund Investments and Cash Flows

During 2008 the pension fund continued its strategy of increasing the allocation to Canadian real estate assets with long-lived and predictable cash flows. In addition, during the first part of 2008, as part of our rebalancing, as commodity prices rose we continued to trim our exposure to the Canadian equity market in favour of the U.S. equity market. The fund continues to maintain a slight over-weight in the domestic equity market. In the fourth quarter, as interest rates had declined markedly, we began to reduce our exposure to Canadian nominal bonds. As can be seen in the chart below, over the course of the year we sold over $411 million of our short-term investments as well as $130 million of Canadian equities and $70 million of nominal bonds. These monies were allocated to U.S. and international equities, real estate and to our currency overlay account. Also for the first time, previously invested Plan assets were required to fund some of the ongoing pension benefit payments.

Fund Investments

Asset Mix Allocation January 1, 2008 to December 31, 2008



2008 Economic Backdrop and Key Events in Review

2008 was an unprecedented year in world financial markets. Globally, stock markets experienced their worst performance since the Great Depression of the 1930's. What had began as a sub-prime housing crisis in the U.S. in 2007, had become, by the end of 2008, a full fledged financial crisis that had spread to the rest of the world.

As 2008 began, the credit issues facing the financial markets had yet to meaningfully influence the real world economy. In March 2008, however, U.S. regulatory authorities were forced to engineer a takeover of Bear Stearns by JP Morgan at pennies on the dollar to ensure the viability of the financial system. The initial market reaction was severe but relatively short-lived. For a while the situation appeared to stabilize, with most investors hoping and many predicting the March 17 lows would turn out to be the market bottom and the damage could be contained to the financial markets.

This proved optimistic, however, when in September 2008 the U.S. authorities allowed Lehman Brothers to collapse. It was intended to show that the government could not be assumed to be the backstop for every troubled financial institution. Ironically the fallout from the Lehman collapse, ultimately forced the government to become exactly that.

As a result there was great uncertainty as banks and other market participants were unable to determine the impact the Lehman Brothers failure would have on its trading counterparties. The continued lack of transparency with respect to the ultimate value and ultimate ownership of toxic assets, combined with the new fear that other institutions might be allowed to fail, led the banks to stop lending to each other. The result was credit markets worldwide virtually seized up overnight. In Canada the non-bank asset backed commercial paper market continued to be frozen.

Central Bankers were quick to recognize the severity of the problem and responded aggressively with interest rate cuts and the provision of special lending facilities in order to re-liquify the banking system.

In October, the U.S. Congress's first attempt to pass a bi-partisan rescue package failed. Financial markets fell sharply, resulting in a severe market downturn which now spread the fear from bankers and other investment professionals to the public at large. Fannie Mae and Freddie Mac, the underwriters of 50% of the mortgages in the U.S. and up to 70% of the newer mortgages, were essentially nationalized by the U.S. government. The situation to this stage had been more muted in Canada as our banks were better capitalized and the structure of our mortgage market did not lend itself as readily to the same risks.

Over the subsequent months as financial markets re-priced risk, financial institutions continued to deleverage on a massive scale. Despite the virtually zero interest rates, banks were disinclined to lend, instead hoarding the cash provided as part of the TARP (Troubled Asset Relief Program) rescue to strengthen their balance sheets in anticipation of possible further writedowns. This inability, for even sound companies to get financing or to roll over their existing debt, led to bankruptcies and layoffs. There was a flight to quality, even to the point of seeing a momentary negative interest rate on some U.S. Government treasury bills. In addition to the banks, hedge funds and individuals who had employed leverage were also forced to deleverage, while mutual funds and hedge funds were both required to sell assets to meet redemptions.

The result of the loss of confidence was an asset value spiral to the downside, as lower asset prices forced additional deleveraging in order to retain appropriate capital ratios. This could only be accomplished by further asset disposals at ever lower prices or by a capital injection at a very high cost of capital and with severe dilution to the existing shareholders. Banks became serial issuers of preferred shares at ever more unattractive terms.

Initial Public Offerings dried up and many previously announced takeovers were either completed under less attractive terms or cancelled outright, as many acquirers used any available option to exit deals. In Canada we saw the BCE takeover fail.

In the U.S. by year end initial jobless claims, continuing jobless claims and home foreclosure rates were at multi year highs. Retail sales in the U.S. in Q4 fell 28% on an annualized basis, --- depression levels. It was announced in December that the U.S. was officially in recession since December 2007. Q4 GDP contracted 6.2%, the biggest drop since Q1 1982.

In summary, based on the data, the year ended with economic downturns in major world economies.

Financial Market Performance

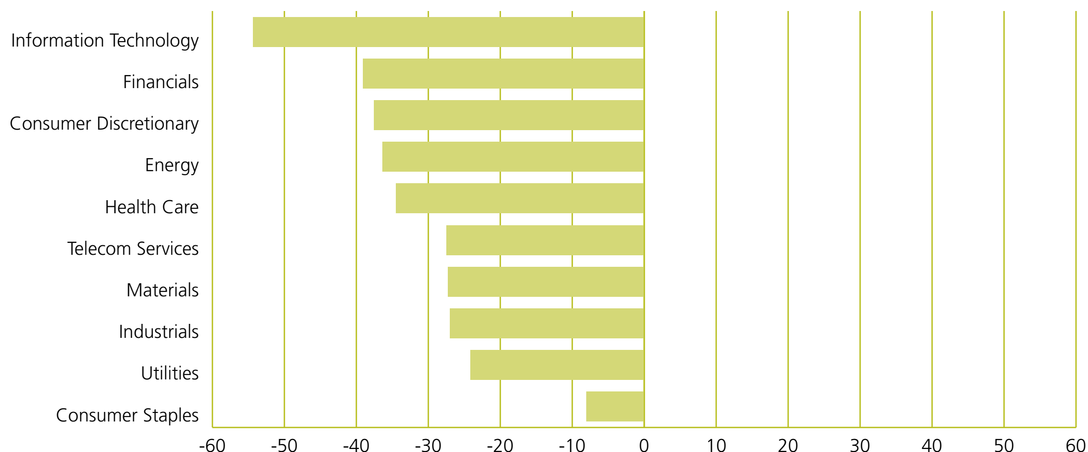
In Canada the equity market was in positive territory for the first half of the year on record oil prices which peaked in mid-July at just under $147 US. As recently as the lead up to the October 9 election, it was still unclear if Canada would enter recession or manage to sidestep one due to the stronger underlying economic fundamentals, with the Government forecasting slower growth but no recession for Canadians.

By late December however, oil had fallen to below $40 US and the impact of the weaker U.S. economy was beginning to be felt in Canada, particularly in the car manufacturing and exporting sectors.

The S&P/TSX Composite Index ended the year down 33%. As can be seen below all industry sectors fell during the year with the best relative performance coming from the less economically sensitive and more defensive areas like consumer staples and utilities. Information technology was down sharply as Research in Motion fell 56%. Financials continued to fall as the credit crisis worsened as did consumer discretionary stocks, as investors anticipated a reluctant consumer. Energy and materials were weak as industrial commodity prices fell and forecasts of near term worldwide demand were lowered. Gold, as a hedge against market uncertainty was higher for the eighth consecutive year.

TSX Composite Index Industry Sector % Return

January 1, 2008 to December 31, 2008



In the U.S. the S&P 500 was down 38.5% in US dollar terms while the international market, as represented by the MSCI EAFE index, was down 45.1% in US dollar terms. A resurgent US dollar however meant the decline in Canadian dollar terms was 21.2% and 29.2% respectively. Internationally it was emerging markets that corrected most with China down 65% and India off 52%.

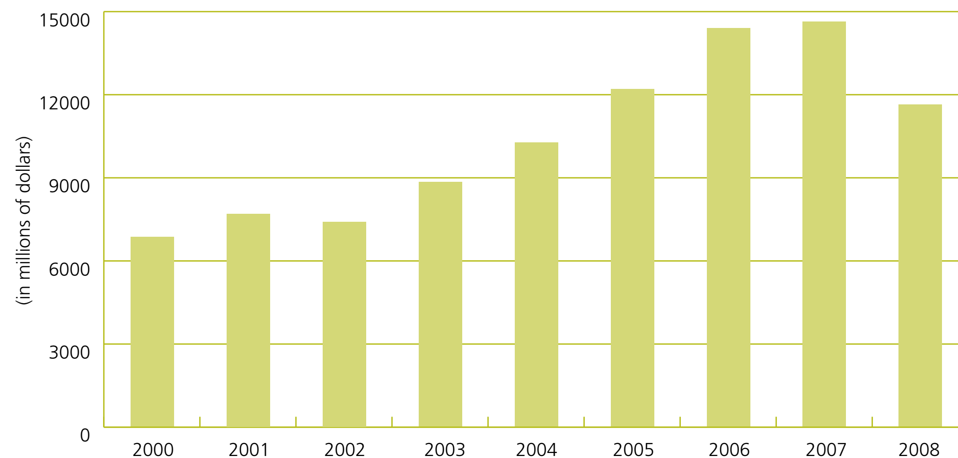
Bond markets performed well in 2008 with the DEX bond index up 6.4%, and the DEX real return bond index up 0.4%. The strength was particularly notable in government bonds, which were offering extremely low interest rates by year end on a flight to quality. Corporate bonds performed less well as spreads widened considerably. Central banks around the world lowered interest rates aggressively in an effort to stimulate the economy and avoid a deflationary spiral.

Fund Performance

The Plan earned a negative 19.3% in 2008. This was below our benchmark return of negative 17.6% and was marginally lower than the median loss of 18.4% experienced by the RBC Dexia universe of large Canadian pension plans. This is the first time since Plan inception eight years ago that the Plan has not beaten its benchmark. Total plan assets are depicted below.

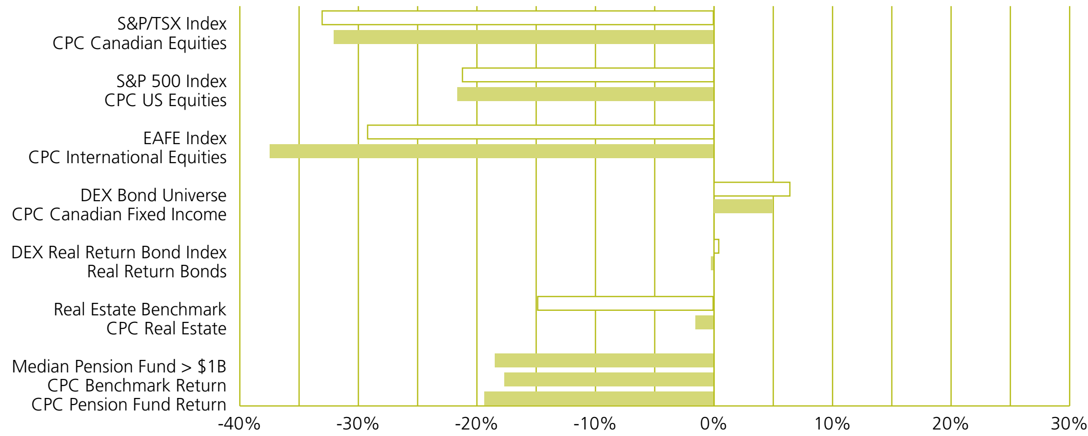
Total Pension Fund Assets

As at December 31, 2008

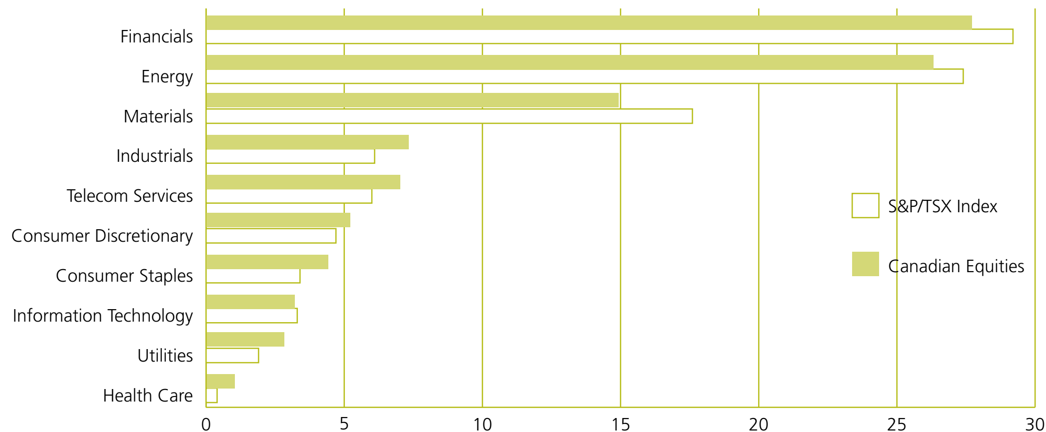


The individual asset class returns for 2008 are shown below against their benchmark returns. As an asset class Canadian equities marginally outperformed against the benchmark while U.S. equities marginally underperformed against the benchmark. As can be seen, 2008 was a difficult year for active management in the international markets. The plan underperformed the benchmark as a result of a modest exposure to emerging market economies which were down sharply on the year, but are not represented in the benchmark index. The only traditional asset classes that achieved a positive return in 2008 were bonds and cash and short-term investments. Real return bonds acted as a drag on performance as they were essentially flat on the year while the benchmark used, the nominal bond index, was up on the year. Overall the Plan benefited from an underweight position in the poorly performing U.S. and international markets. As well by keeping our currency hedge near the lower end of its range, the Plan was able to benefit from most of the currency appreciation of the US dollar in late 2008. Our year end industry sector weights versus the indexes for North American equities are shown below.

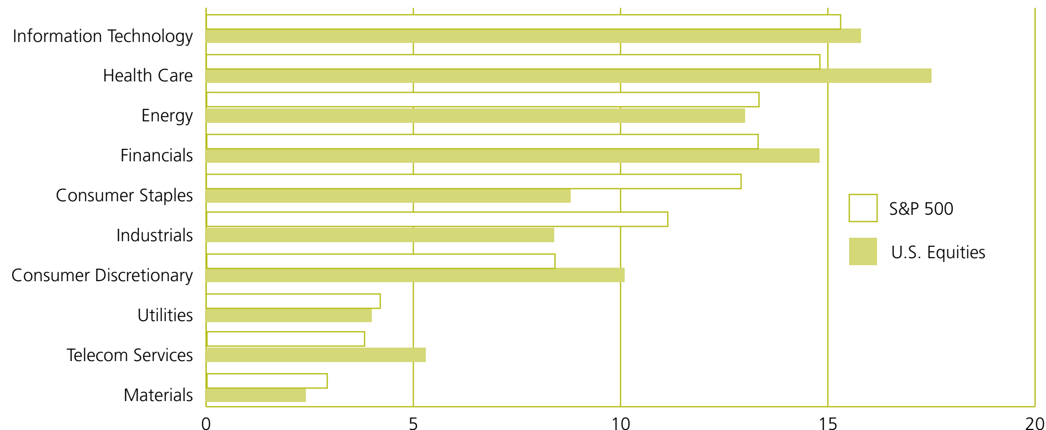
1 Year Returns as at December 31, 2008
by Asset class and Total Plan



CPC Canadian Equities as at December 31, 2008
Sector Weight Relative to the S&P/TSX Composite Index



CPC U.S. Equities as at December 31, 2008
Sector Weight Relative to the S&P 500 Index



Equity holdings greater than $25 million

(% of the overall fund)

December 31, 2008 *(In millions)*		
Royal Bank of Canada	$ 139	1.20%
EnCana	118	1.02%
TD Bank	101	0.87%
Bank of Nova Scotia	99	0.85%
Manulife Financial	85	0.73%
Exxon Mobil	84	0.72%
Potash Corporation	76	0.65%
Canadian Natural Resources	75	0.65%
Rogers Communications	72	0.62%
TransCanada	69	0.59%
Barrick Gold	69	0.59%
Research in Motion	63	0.54%
Suncor Energy	63	0.54%
Nexen	61	0.52%
Goldcorp	59	0.51%
Talisman Energy	56	0.48%
BCE	55	0.47%
Canadian National Railway	54	0.46%
Enbridge	51	0.44%
Johnson & Johnson	48	0.41%
Bank of Montreal	47	0.40%
Royal Dutch Shell	47	0.40%
Imperial Oil	45	0.39%
Thomson Reuters	43	0.37%
CIBC	42	0.36%
SNC Lavalin	41	0.35%
Microsoft	41	0.35%
Pfizer	41	0.35%
Chevron	39	0.34%
AT&T	39	0.34%
Shaw Communications	39	0.34%
Kinross Gold	38	0.33%
France Telecom	37	0.32%
E.ON AG	36	0.31%
Petro Canada	36	0.31%
Metro Inc.	35	0.30%
Sun Life Financial	34	0.29%
Procter & Gamble	33	0.28%
Sanofi Aventis	31	0.27%
Allianz	29	0.25%
General Electric	28	0.24%
Cisco Systems	28	0.24%
Pepsico	28	0.24%
Verizon Communications	27	0.23%
Canadian Tire	26	0.22%
Bombardier	26	0.22%
Total SA	25	0.22%
	$ 2,458	**21.12%**

Investment Developments and Initiatives

2008 saw several noteworthy developments within the Plan as detailed below:

- 2008 was the first full year of managing the Canadian and U.S. equity index portfolios in-house. The results were positive with the portfolios adding value against their benchmarks as well as generating cost savings.
- In Q1 of 2008, given the deteriorating credit and counterparty risk environment, the Plan decided to suspend its securities lending program pending a risk review. All securities were successfully repatriated and no losses were incurred. The program remains on hold.
- In 2008 private equity investment activity commenced with 2 initial commitments of $50 million US each with established private equity managers. The majority of these commitments have yet to be drawn down.
- The Plan after its manager review, replaced one international fund manager.
- Currency hedging added value against the benchmark as a result of operating the hedge ratios towards the lower end of the allowable range. The Plan's hedge ratio is below that of most large pension plans and this served us well in 2008 as the US dollar strengthened.
- Canadian real estate investments were increased substantially, ending the year at $557 million up from $387 million at the end of 2007.
- At the December 2008 Board meeting, the SIPP was updated to incorporate the results of the asset-liability modelling exercise undertaken during the year. The long-term target allocation to real estate and infrastructure investments has been increased and the allocation to Canadian equities has been decreased. The transition will occur opportunistically over the medium term.
- The VP Pension Fund and Chief Investment Officer continued his activities with the asset backed commercial paper (ABCP) restructuring committee throughout 2008. A successful outcome was achieved in late December with the restructuring to be finalized and new notes issued on January 21, 2009.
- Both the Pension Services and Pension Investment groups continue to provide pensions and services to its pensioners and other plan members, at below median industry costs.
- In December the federal government announced a review of pension legislation to help pension plans meet the challenges facing them. The Corporation will respond with ideas to maintain the integrity and long-term health of the pension system.

Economic Environment Going Forward

It is difficult to foresee a turnaround in the world economy without the United States leading the way. The erosion of wealth in the United States whether through the stock market and 401k plans or through house price depreciation, as well as highly publicized layoffs and fears of more to come, has led to a profound change in the spending habits of the American consumer. The duration of this new thrift is yet to be determined.

By year end 2008, the savings rate in the U.S. had increased from virtually zero, if not negative, to around 3.6% on an annualized basis. While this is positive in the long run, in the short term any retrenchment in consumer spending, given that it is approximately 70% of U.S. GDP, will be very damaging. We see car sales falling at a 30% to 50% rate, layoffs are being announced on a daily basis with the economy experiencing job losses for 12 consecutive months. Leading economic indicators are bleak. Housing prices continue to decline, foreclosures to climb and the Q4 vacancy rate in the U.S. was 2.9% (19 million homes), the highest level since data collection began in 1956.

In Canada, the problems in central Canada, led by the car-makers and other export oriented industries, have been compounded by the impact on western Canada of sharply lower oil prices by the end of 2008.

Tens of billions of dollars of business investment, particularly in the oil sands has been cancelled or deferred. In December Canada recorded its first trade deficit since 1976.

On a global basis the International Monetary Fund continues to ratchet down its forecast of world economic growth for 2009, now at 0.5%, the weakest level in 60 years.

This is the situation as we enter 2009. While the recent news has been extremely negative, there are some positives.

- Massive stimulus, particularly in the United States, is being injected into the economy in the form of historically low interest rates, income and payroll tax cuts, and spending on infrastructure and other programs. Historically these types of actions are very positive for the economy.
- The election of Barack Obama has the possibility of improving world cooperation in major areas. A renewed emphasis on addressing climate change for example could provide new avenues for economic growth. As well his election may create a sense of hope and optimism, which is a necessary prerequisite, for a rapid rebound in consumer spending. Expectations however may be unrealistically high.
- On a valuation basis equity markets around the world appear undervalued on a long term basis with many markets trading at multi-year lows.
- Lower commodity prices should act to keep inflation in check in the short term. They should also allow for more protracted growth once the environment improves.
- Corporate credit markets have begun to show signs of improvement.
- The emerging market story, particularly China and India, remains intact. Despite the recent slowdown, the pending addition of hundreds of millions of new participants into the market economy is very bullish for the world economy in the longer term.

In summary the depth of the decline in wealth, and even more so, the speed with which it occurred, has been breathtaking, due to the interconnectedness of the world economic system. While some problems are fundamental, the primary effort required to avoid a deep and protracted recession is to restore confidence and credibility in the financial system and overcome the increasingly prevalent fear that things will only get worse.

Many economists are forecasting negative GDP growth in the first half but a recovery in the second half of 2009. Historically equity markets tend to move higher about six months ahead of the end of the recession, so even if these views are optimistic and the recession, which has been on-going already for over a year, does not end until mid 2010 equity markets could still rebound in 2009.

A major risk to the recovery scenario is that governments around the world will likely face increasing pressure to enact protectionist policies, which could further damage world trade, as even countries that believe in free and fair trade will be forced to respond. To facilitate a sustained recovery these protectionist pressures will need to be resisted.

Policy makers are certainly using all tools at their disposal, so while it is too early yet to know if 2009 will see a recovery, there are some grounds for optimism. Even failing a broad recovery there should at least be selective opportunities in specific areas such as infrastructure or private equity. Despite the foregoing, it may turn out that the only solution to the current crisis is time.

In a proactive move the Department of Finance has begun a consultative process with pension plan sponsors and other interested stakeholders designed to identify where current federal regulation needs to be revised to recognize the current economic reality and still protect the pension benefit of plan members. On January 9th, 2009, the Department of Finance, on behalf of the Minister of Finance, issued

a consultation paper titled Strengthening the Legislative and Regulatory Framework for Private Pension Plans subject to the *Pension Benefits Standards Act, 1985*. Canada Post is pleased to be participating in this consultative process and provided comments on the consultation paper to the Department of Finance in March 2009.

Funding Valuation

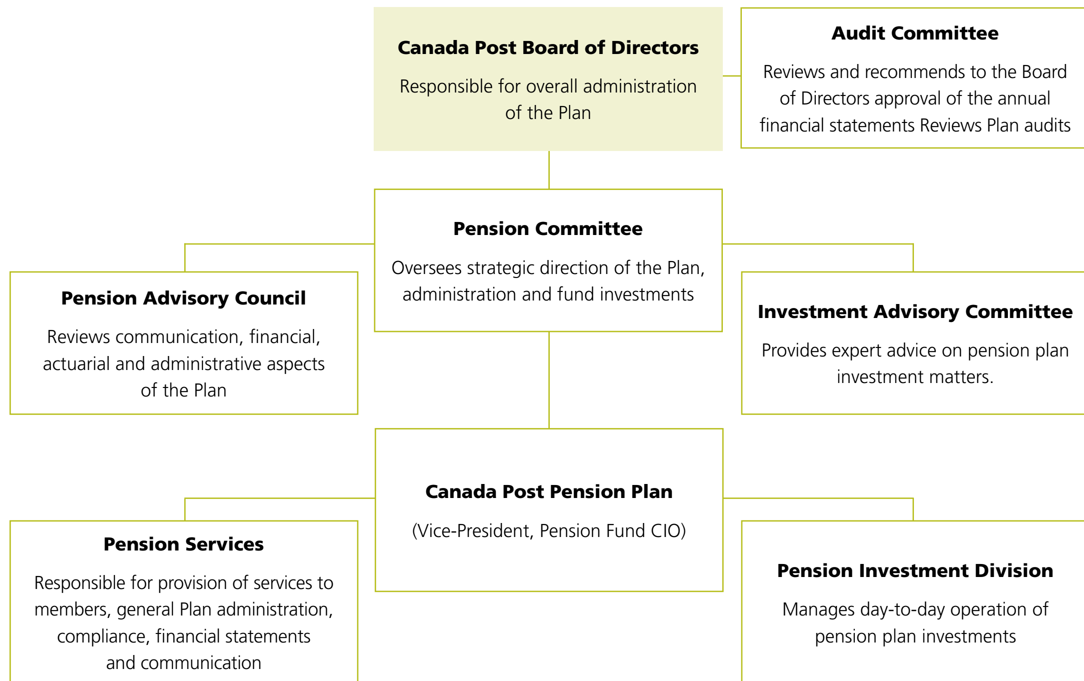
The Plan is required to file periodic actuarial valuations with the pension regulator, the Office of the Superintendent of Financial Institutions (OSFI). These actuarial valuations are required to set out the funded status of the Plan on a going-concern and a solvency basis. The financial position of the Plan as at December 31, 2007 showed a solvency surplus of $449 million and a going-concern funding surplus of $1,257 million. Based on these results the Corporation filed a December 31, 2007 actuarial valuation with OSFI that disclosed the surplus on both a solvency and going-concern basis.

As the Plan was in a solvency surplus position as at December 31, 2007, the Corporation will not be required to file the next actuarial valuation for the Plan with OSFI until December 31, 2010 or at an earlier date if required under the PBSA. However, as small changes in discount rates can have a significant impact on the results of actuarial valuations prepared on a solvency basis, the Corporation, as the plan sponsor, will continue to carefully monitor the impact of changes in discount rates, the return on plan assets, and changes in legislation on the financial position of the Plan on both a solvency and going-concern basis. The preliminary actuarial valuation as at December 31, 2008 shows a solvency deficit of approximately $1,190 million, down from a surplus of $449 million at the end of 2007, and a going-concern funding surplus of $675 million, down from a $1,257 million surplus at the end of 2007.

Pension Plan Governance

The purpose of governance is to ensure effective Board, Committee and management decision-making through the use of processes and controls to ensure the Plan is administered responsibly. Further, it describes the accountabilities of those tasked with pension fiduciary responsibilities for carrying out activities to ensure delivery of the pension promise.

Canada Post Pension Plan Governance Structure



The governance structure designed by Canada Post management was based on advice and discussion with external pension industry experts as well as unions\associations, and then approved by the Board of Directors.

Following a five year cycle, a proposal was developed in 2008 to conduct a formal review of the Pension Plan's governance structure in 2009 (last review was conducted in 2004). Working with the necessary internal stakeholders, clarified and strengthened documentation for Pension Plan governance will be developed. Additionally, the review will further clarify pension fiduciary responsibilities, for those charged with carrying out these activities.

Communication with members is an important fiduciary obligation. In 2008, the Canada Post Pension Plan 2007 Annual Report was issued in the spring as well as the annual personalized pension benefit statement for active or inactive members. The latter is a legal requirement under the federal *Pension Benefits Standards Act, 1985*. In addition, publications of Pension Plan News and InTouch were issued to their respective audiences. The website continued to attract even higher usage in 2008 and all the aforementioned publications may be found on the pension plan web site at www.cpcpension.com.

Board, Committee and Council Memberships

The following outlines the Board, Committee and Council memberships involved in the governance of the Plan as at December 31, 2008:

	Board of Directors	Audit Committee	Pension Committee	Investment Advisory Committee	Pension Advisory Council
Marc A. Courtois	Chairman of the Board	•	•		
Moya Greene	•				
Denyse Chicoyne, C.F.A., MBA	•	•	Chairperson	•	
Thomas W. Cryer, F.C.A.	•	Chairperson	•		
A. Michel Lavigne, F.C.A.	•	•	•		
Dr. Duarene E. Lewis, C.M., M.B.A.	•				
Siân M. Matthews	•				
Iris G. Petten	•				
Robert B. Pletch, Q.C.	•	•			
William H. Sheffield	•		•		
Donald Woodley	•				
Lorne Braithwaite, MBA, BComm				Chairperson	
Isla Carmichael, PH.D, M.Ed, AM				•	
Phillip H. Doherty, BComm, MBA, CA				•	
Hugh Mackenzie, MA				•	
Kenneth W. McArthur, BComm, CA				•	
Douglas D. Greaves, BA (Hons), C.F.A.				•	Chairperson
Daryl Bean (PSAC/UPCE)					•
Gayle Bossenberry (CUPW)					•
Madeleine Cléroux (CUPW)					•
Terry Cotton (APOC)					•
George Kuehnbaum (CUPW)					•
Donald Lafleur (CUPW)					•
Stuart Learmont (elected by active members not represented by a bargaining agent)					•
John MacKinnon (Canada Post)					•
Daniel Maheux (CPAA)					•
Micki McCune (elected by all active members of the Plan)					•
Peter McGann (Canada Post)					•
Mike Moeller (UPCE/APOC/CPAA Rep)					•
Jo-Anne Polak (Canada Post)					•
William Price (elected retiree representative)					•
Brad Smith (Canada Post)					•

APOC – Association of Postal Officials of Canada

CPAA – Canadian Postmasters and Assistants Association

CUPW – Canadian Union of Postal Workers

PSAC – Public Service Alliance of Canada

UPCE – Union of Postal Communications Employees

Financial Reporting

Management's Responsibility for Financial Reporting

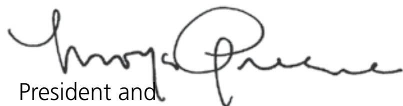
The financial statements of the Canada Post Corporation Registered Pension Plan (the Plan) have been prepared by management, which is responsible for the integrity and fairness of the data presented therein. The accounting policies followed in the preparation of these financial statements conform to Canadian generally accepted accounting principles. Where appropriate, the financial statements include amounts based on management's best estimates and judgments.

In support of its responsibilities, management maintains systems of internal control and supporting procedures to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring and training, the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines. Internal Audit plans audits and reviews of pension activities on a cyclical basis, unless otherwise warranted through annual risk assessments.

Ultimate responsibility for the financial statements rests with the Canada Post Corporation Board of Directors. The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control principally through the Audit Committee and the Pension Committee. The Audit Committee oversees the internal audit activities of the Plan, reviews the annual financial statements and the external auditors' report, and recommends them to the Board of Directors for approval. The Pension Committee, which is composed of the Chairman of the Board of Directors of Canada Post Corporation and four directors who are not employees of the Corporation, meets regularly with management to satisfy itself that the responsibilities delegated are properly discharged.

The Plan's actuary, Mercer (Canada) Limited, completed an actuarial assessment of the assets and going-concern liabilities of the Plan as of December 31, 2008, for inclusion in the Plan's financial statements. The results of the actuaries' assessment are set out in the actuaries' opinion. This assessment was performed in accordance with accepted actuarial practice. The actuarial assumptions used in these financial statements are management's best estimate of future economic events.

The Plan's external auditors, PricewaterhouseCoopers LLP, conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards and performed such tests and other procedures as they considered necessary to express an opinion. The external auditors have access to the Audit and Pension Committees to discuss their audit and related findings as to the integrity of the Plan's financial reporting and the adequacy of internal control systems.



President and
Chief Executive Officer
March 25, 2009

Chief Financial Officer
March 25, 2009

Actuaries’ Opinion

Ottawa
March 16, 2009

Mercer (Canada) Limited was retained by Canada Post Corporation to perform an actuarial assessment of the assets and going-concern liabilities of the Registered Pension Plan as of December 31, 2008, for inclusion in the Plan’s financial statements.

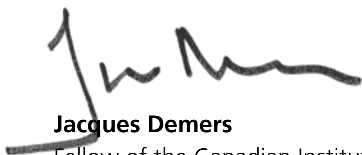
The objective of the financial statements is to fairly present the financial position of the Plan as of December 31, 2008, as a going concern. While the actuarial assumptions used to estimate liabilities for the Plan’s financial statements represent management’s best estimate of future events, and while 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 at that time, as well as the contributions required to fund it.

As part of our assessment, we examined the Plan’s recent experience relative to the economic and non-economic assumptions and presented our findings to management. In addition, we provided management with statistical, survey and other information used to develop its long-term assumptions.

Our assessment of the Plan’s actuarial assets and liabilities was based on:

- an extrapolation to December 31, 2008 of the results of our December 31, 2007 actuarial valuation of the Plan’s going-concern liabilities,
- pension fund data provided by Canada Post as of December 31, 2008,
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements, and
- assumptions about future events that have been developed by management and Mercer (Canada) Limited and are considered management’s best estimate of these events.

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



Jacques Demers
Fellow of the Canadian Institute
of Actuaries
Fellow of the Society of Actuaries

Cory Skinner
Fellow of the Canadian Institute
of Actuaries
Fellow of the Society of Actuaries

Mercer (Canada) Limited

Auditors' Report

March 26, 2009

To the Board of Directors of the Canada Post Corporation Registered Pension Plan

We have audited the statement of net assets available for benefits and accrued pension benefits and surplus of the **Canada Post Corporation Registered Pension Plan** (the "Plan") as at December 31, 2008 and the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus for the year then ended. These financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits, accrued pension benefits and surplus of the Plan as at December 31, 2008 and the changes in net assets available for benefits, accrued pension benefits and surplus for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Ottawa, Ontario

Financial Statements

Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Surplus

As at December 31 *(In millions of dollars)*	**2008**	2007
NET ASSETS AVAILABLE FOR BENEFITS		
ASSETS		
Investments (note 5)	**$ 11,676**	$ 14,573
Investment related receivables (note 5)	**82**	85
Contribution receivables (note 7)	**109**	74
	11,867	14,732
LIABILITIES		
Investment related liabilities (note 5)	**140**	46
Accounts payable and accrued liabilities (note 8)	**18**	20
	158	66
NET ASSETS AVAILABLE FOR BENEFITS	**11,709**	14,666
Actuarial asset value adjustment (note 14)	**3,073**	(266)
ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS	**$ 14,782**	$ 14,400
ACCRUED PENSION BENEFITS AND SURPLUS		
Accrued pension benefits (note 15)	**14,107**	13,071
Surplus	**675**	1,329
ACCRUED PENSION BENEFITS AND SURPLUS	**$ 14,782**	$ 14,400

See accompanying notes to the financial statements

Approved on behalf of the Board

Marc A. Courtois
Chairman of the Board of Directors

Thomas Cryer
Chairperson of the Audit Committee

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31 *(in millions of dollars)*	**2008**	2007
INCREASES/(DECREASES) IN ASSETS		
Net investment income (note10)	**$ –**	$ 317
Contributions (note 11)	**248**	282
	248	599
DECREASES IN ASSETS		
Net investment loss (note 10)	**2,778**	–
Benefits (note 12)	**374**	311
Administration expenses (note 13 and 18)	**53**	52
	3,205	363
(Decrease)/increase in net assets available for benefits	**(2,957)**	236
Net assets available for benefits, beginning of year	**14,666**	14,430
Net assets available for benefits, end of year	**$ 11,709**	$ 14,666

See accompanying notes to the financial statements

Statement of Changes in Accrued Pension Benefits

For the year ended December 31 *(in millions of dollars)*	**2008**	2007
Accrued pension benefits, beginning of year	**$ 13,071**	$ 12,097
Increase in accrued pension benefits:		
Interest on accrued pension benefits	**792**	729
Benefits accrued	**527**	544
Changes in actuarial assumptions (note 15.b)	**70**	(9)
Experience losses (note 15.c)	**21**	21
	1,410	1,285
Decrease in accrued pension benefits:		
Benefits (note 12)	**374**	311
Net increase in accrued pension benefits	**1,036**	974
Accrued pension benefits, end of year	**$ 14,107**	$ 13,071

Statement of Changes in Surplus

For the year ended December 31 *(in millions of dollars)*	**2008**	2007
Surplus, beginning of year	**$ 1,329**	$ 993
(Decrease)/increase in net assets available for benefits	**(2,957)**	236
Change in actuarial asset value adjustment (note 14)	**3,339**	1,074
Increase in actuarial value of net assets available for benefits	**382**	1,310
Net increase in accrued pension benefits	**(1,036)**	(974)
Surplus, end of year	**$ 675**	$ 1,329

See accompanying notes to the financial statements

Notes to the Financial Statements

1. Plan description

The following description of the Canada Post Corporation Registered Pension Plan (the Plan) is a summary only. An exact and complete description of the Plan provisions can be found in the official Plan document. If there is any conflict between this summary and the official Plan document, the official Plan document will govern.

a) General

The Plan is a defined benefit plan. The Plan was established by Canada Post Corporation (the Corporation) effective October 1, 2000. The Plan is registered with Canada Revenue Agency (CRA) under registration number 1063874, and is subject to the requirements of the Canada *Income Tax Act* (ITA) and the regulations thereunder. The Plan is also registered with the Office of the Superintendent of Financial Institutions Canada (OSFI) under registration number 57136, and is subject to the *Pension Benefits Standards Act, 1985 (PBSA)* and the regulations thereunder. The Corporation administers the Plan.

b) Benefits

Retirement pensions
A retirement pension is based on pensionable service, the highest average pensionable earnings for five consecutive years of employment, and the age of the member at retirement. Members are eligible for an early retirement pension from age 50 or any time after attaining 30 years of eligibility service. An unreduced retirement pension is available at age 60 with at least two years of pensionable service or at age 55 with 30 years of pensionable service.

Termination of employment benefits
Termination of employment benefits depend on a member's years of pensionable service and age and may include a return of contributions with interest, a lump sum amount equivalent to the commuted value of the pension, or a deferred pension.

Bridge benefits
A bridge benefit is a temporary benefit in addition to a retirement pension. It is payable from retirement until the member reaches age 65, unless death or disability occurs first.

Disability pensions
A disability pension is an immediate pension payable on an unreduced basis. It is available to qualified members prior to age 60.

Death benefits
Death benefits include on-going financial support to survivors and dependant children, lump-sum payments, and refunds of contributions with interest. The Plan provides a minimum payment guarantee on the death of the member.

Indexing of benefits
Pension and survivor benefits are automatically indexed for inflation, in January of each year, by a percentage that reflects the average increase in the consumer price index.

c) Funding

Contributions are required from both the Corporation and the employee in order to fund benefits. These contributions, along with investment earnings, are designed to ensure the financial security of member benefits. The Plan's funding policy is reviewed annually, and continually aims to achieve long-term stability in contribution rates for both the Corporation and Plan members. Contribution rates are established through actuarial funding valuations which are conducted regularly to determine the funded position of the Plan. Employees who are members of the Plan are required to contribute a percentage of their pensionable salary to the Plan fund, that is, in 2008, 5.77% of earnings up to the Year's Maximum Pensionable Earnings (defined by the Canada Pension Plan and Quebec Pension Plan as $44,900 in 2008) and 9.27% of earnings in excess of this maximum.

d) Plan amendments

No material amendments were made to the Plan provisions in 2008 or 2007.

2. Summary of significant accounting policies

a) Presentation

These financial statements present the financial position and results of operations of the Plan in accordance with Canadian generally accepted accounting principles.

b) Investments

Investments are stated at fair value. Fair value is 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.

- Valuation of investments

  Fair value of investments is determined as follows:

  1. Short-term securities are valued at cost or amortized cost that, together with accrued interest or discounts earned, approximate fair value.
  2. Fixed income securities are valued on the basis of quoted market closing prices using the average of the bid and ask prices. Where quoted year-end closing prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, and financial analysis, as appropriate.
  3. Equities are valued at year-end quoted market closing prices. Where a public market price is not available for an investment asset or liability, a suitable method of valuation is used by management to determine fair value using appropriate valuation techniques. In making such valuations, consideration is given to the use of bid and ask prices, previous transaction prices, discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics or other valuation techniques that are judged relevant to the specific situation.

4. Pooled funds are valued at year-end net asset values, as provided by the pooled fund manager, using the year-end quoted market closing prices of underlying securities held in the pooled fund.
5. Foreign exchange forward contracts are valued using year-end quoted market closing prices.
6. Real estate investments are valued on the basis of external appraisals, usually annually (and at least once every three years), by professionally qualified independent appraisers, certified by the Appraisal Institute of Canada. The appraisals are in accordance with generally accepted appraisal practices and procedures, based mainly on the discounted cash flows of income approach. Direct and segregated pooled fund investments are typically carried at cost in the year of acquisition, net of transaction costs, as an approximation of fair value, unless specific and conclusive reasons exist to change the value.
7. Private equity investments are valued at fair value by the external private investment fund managers and are audited annually. Where a public market is not available for an investment, the external private equity manager will determine the fair value using appropriate valuation techniques. In determining such valuations, consideration is given to previous transaction prices, discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics or other valuation techniques that are judged relevant to the specific situation.

- Investment transactions and income

Investment transactions are recognized on a trade-date basis. Real estate investment transactions are recognized on the date of closing for direct investments. Real estate and private equity pooled fund investment transactions are recognized on the cash call date. Investment income, including interest income, is recorded on an accrual basis. Dividend income is recognized on the ex-dividend date. Real estate and private equity income, net of expenses, is recognized as dividends or distributions are declared. Realized capital gains and losses on the sale of investments include gains and losses on disposition. Unrealized capital gains and losses on investments represent the change in the difference between the cost and fair value of investments at the beginning and end of each year.

- Investment transaction costs

Transaction costs are incremental costs incurred in the purchase and sale of investments. Transaction costs are expensed and included in administration expenses in the statement of changes in net assets available for benefits.

c) Non-investment assets and liabilities

The fair value of non-investment assets and liabilities approximates the carrying value due to their short-term nature.

d) Accrued pension benefits

Accrued pension benefits are based on the most recent actuarial valuation extrapolated to the year-end reporting date (note 15).

e) Contributions

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Elective service contributions are recorded in the year in which the member commits to buy back elective service. Contributions for approved leave of absence without pay are recorded in the year in which the leave without pay occurred. Solvency contributions are recorded in the year recommended by the Plan actuary in the statutory actuarial valuation.

f) Foreign currency translation

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 transaction. Foreign exchange forward contracts are reported at fair value at the reporting date. The realized and unrealized gains and losses arising from these translations are included in investment income.

g) Actuarial asset value adjustment

The actuarial value of net assets available for benefits is determined using a formula that smoothes out the effects of the volatility in market values over a five-year period. It recognizes excess gains and losses occurring in a particular year evenly over the current and the following four years. Excess gains and losses are determined by reference to a long-term rate of return assumption of 7% per year prior to December 31, 2007 and 7.25% after December 31, 2007 (note 14). The actuarial asset value adjustment reflects the portion of such excess gains or losses not yet recognized for purposes of determining the net assets available for benefits.

h) Use of estimates

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 as at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Significant estimates are used primarily in the determination of the actuarial asset value adjustment, accrued pension benefits, accrued contributions on team incentive payments and the valuation of investments. Management monitors estimates and assumptions used in the preparation of the financial statements, as actual results may differ from these estimates, and the differences could be material.

i) Benefits

Benefits include payments made during the year and accruals for unpaid but earned benefits at December 31.

3. Adoption of new accounting standards

On January 1, 2008 the Plan adopted the Canadian Institute of Chartered Accountants Handbook Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation. The new disclosure standards replace Section 3861, Financial Instruments – Disclosure and Presentation. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Plan manages these risks. Note 6 to the financial statements provides these additional disclosures on financial instruments. The existing recommendations for the presentation of financial instruments were carried forward unchanged.

4. Future changes in accounting policy

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the use of International Financial Reporting Standards (IFRS) will be required for Canadian publicly accountable enterprises for fiscal years beginning on or after January 2011. The AcSB is currently assessing the future impact of IFRS on the financial statements of pension plans.

5. Investments

Summary of investments

(in millions of dollars)	**2008**		2007	
	Fair Value	**Cost**	Fair Value	Cost
Cash and short-term securities	$ 321	$ 319	$ 676	$ 673
Fixed income				
Canadian *	3,361	3,366	3,325	3,280
United States	19	22	31	32
International	107	103	87	86
Real return bonds	992	929	995	896
	4,479	4,420	4,438	4,294
Equities				
Canadian	2,662	2,915	4,157	3,063
United States **	2,042	2,595	2,403	2,592
International	1,615	2,243	2,513	2,411
	6,319	7,753	9,073	8,066
Real Estate (note 9.a)	557	516	386	322
Investments	**11,676**	**13,008**	14,573	13,355
Accrued investment income	41	41	45	45
Investment trades to settle	39	39	29	29
Withholding taxes recoverable	2	2	2	2
Foreign exchange forward contracts	–	–	9	–
Investment related receivables	**82**	**82**	85	76
Investment trades to settle	(49)	(49)	(46)	(46)
Foreign exchange forward contracts	(91)	–	–	–
Investment related liabilities	**(140)**	**(49)**	(46)	(46)
Transaction costs	–	(11)	–	(9)
Net investments	**$ 11,618**	**$ 13,030**	$ 14,612	$ 13,376

* Canadian fixed income includes non-bank third party asset-backed commercial paper (ABCP) with a fair value of $13 million ($17 million in 2007) and a cost of $24 million ($24 million in 2007) (note 5a).
** United States equities includes private equity investments with a fair value of $3 million ($ nil in 2007) and a cost of $3 million ($ nil in 2007).

a) Asset-backed commercial paper

At December 31, 2008, the Plan held ABCP issued by two trusts with an original cost of $24 million and a fair value of $13 million. At the dates the Plan acquired these investments they were rated R1 (High) by Dominion Bond Rating Service (DBRS), the highest credit rating issued for commercial paper, and backed by R1 (High) rated assets and liquidity agreements. The investments matured during the third quarter of 2007 but, as a result of liquidity issues in the Canadian ABCP market, did not settle on maturity. The ABCP in which the Plan has invested has not traded in an active market since mid-August 2007 and as at December 31, 2008 there were no market quotations available. The Plan classifies its ABCP as fixed income investments. The Plan did not record any accrued interest income on the ABCP in the December 31, 2008 financial statements of the Plan. On January 21, 2009, the Plan received $864 thousand of interest for the period from August 2007 to August 31, 2008.

In September 2007, the Pan Canadian Investors Committee (the Committee) was formed to propose a solution to the liquidity problem affecting the ABCP and oversee the proposed restructuring process. In December 2007, the Committee approved an agreement in principle to restructure the ABCP. On January 12, 2009, the Superior Court of Ontario (the Court) granted the Plan Implementation Order allowing implementation of the agreement. On January 21, 2009 the Plan Implementation Order was certified by the Court and the temporary notes were replaced with the new restructured ABCP notes and the initial payment of interest accrued between August 2007 and August 31, 2008 was paid. As of February 19, 2009, there were no market quotations available for ABCP.

Based on details provided by the Committee and other public information available at December 31, 2008, it is estimated that, of the $24 million of ABCP in which the Plan has invested:

- $16 million is represented by a combination of leveraged debt, synthetic assets and traditional securitized assets and the Plan will, on restructuring, receive replacement senior and subordinated long-term floating rate notes; and
- $8 million is represented by assets that include an exposure to US sub-prime mortgages. On restructuring, the Plan will receive un-rated long-term floating rate notes.

In determining an estimate of the fair value of its investments, the Plan relied on information provided by the Committee. The valuation technique used by the Plan to estimate the fair value of its investment in ABCP incorporates risk-adjusted returns considering the best available public information regarding market conditions for such investments as at December 31, 2008. The discount rate applied, depending on the particular investment, is 8.4% - 44.5%. The weighted average coupon rate applied is 1.58% and the weighted average discount rate applied is 11.75%. In determining the fair value of the ABCP as at December 31, 2008, the Plan assumes that returns will be reduced by the cost of a margin facility estimated to be approximately 0.8%. Based on the above methodology, the fair value of ABCP was reduced by a further $4 million ($7 million in 2007) in 2008.

On re-structuring, the ABCP was converted to floating rate notes in accordance with the key elements of the Committee's framework agreement. Under the terms of the re-structuring, the Plan did participate in MAV II. Under the terms of MAV II, investors are not required to participate in a margin funding facility as this facility is provided by another third party. The expected payment date, rating assigned by Dominion Bond Rating Service (DBRS), and maturity value of notes received by the Plan under MAV II on January 21, 2009 is as follows:

(in millions of dollars)

Class	Expected payment date	DBRS rating	Maturity value
A	2017	A	$ 14
B	2017	Unrated	2
C	2017	Unrated	1
Ineligible Tracking Notes	2013 - 2029	Unrated	7
			$ 24

Since the fair value of the ABCP is determined using a risk-adjusted return approach employing various assumptions and is based on the Plan's assessment of market conditions as at December 31, 2008, the reported fair value may change significantly from management's current best estimate in subsequent periods. Continuing uncertainties regarding the development of a market for ABCP, the amount and timing of interest and principal payments, the value of the assets that underlie the ABCP, and the credit and liquidity risks associated with the restructured notes could give rise to further changes in the fair value of the Plan's assets.

b) Securities lending

To enhance investment returns, the Plan entered into a securities lending agreement with its custodian, RBC Dexia Investor Services Trust. The securities lending program is operated by loaning certain of the Plan's available securities to approved borrowers. The Plan suspended its securities lending activities during 2008, pending a risk review. As at December 31, 2008, the Plan's investments did not include any loaned securities ($4,011 million in 2007). Prior to suspending activities in 2008, securities lending generated income of $1 million ($5 million in 2007).

6. Financial risk management

The Plan's investment portfolio is subject to a variety of financial instrument risks that could adversely affect its cash flows, financial position, and income. The Plan uses different methods to minimize the potential adverse effect of these risks on the Plan's performance. These methods include the use of portfolio advisors, a third party risk measurement firm to monitor and measure investment risk, daily monitoring of the Plan's positions, monitoring the fair value of publicly traded debt, foreign exchange rates and interest rates, credit reviews, cash flow projections, monitoring of investment performance results by third-party performance managers, asset-liability studies, and diversifying the investment portfolio within the constraints of the Plan's Statement of Investment Policies and Procedures (SIPP). The SIPP, approved by both the Pension Committee and Board of Directors, prescribes a long-term debt-equity asset mix policy, requires portfolio investment diversification, sets guidelines on investment categories, and limits exposure to individual investments and major asset classes.

Risk management is primarily the responsibility of the Plan's Investment Division. Significant risks are regularly monitored and actions are taken, when appropriate, according to the Plan's approved policies established for that purpose. In addition, as required these risks are reviewed with the Investment Advisory Committee, Pension Committee and Board of Directors of the Corporation.

a) Credit risk

Credit risk is the risk of loss should the counter-party to a transaction default or otherwise fail to perform under the terms of the contract. Short term securities are considered risk free as they consist of Government of Canada notes. The Plan is exposed to credit risk through its fixed income, securities lending program, and real estate investments. Credit risk on its fixed income investments is mitigated by establishing limits on exposure to individual counter-parties, monitoring credit ratings, and adhering to the investment criteria set out in the Plan's SIPP.

The Plan's fixed income investment credit risk exposure, as at December 31, 2008, is as follows:

(in millions of dollars)

Credit rating	2008	
AAA /AA	$ 3,181	71%
A	1,143	25%
BBB	136	3%
<BBB	19	1%
	$ 4,479	**100%**

The securities lending program exposes the Plan to additional counter-party risk. This risk is mitigated by requiring the borrower to provide daily collateral with market values exceeding the market value of loaned securities and by limiting the amount of securities loaned to any one party. In addition, a full indemnity is provided by the Royal Bank of Canada.

Credit risk on the Plan's real estate investments arises from the possibility that tenants may be unable to fulfill their lease commitments. The Plan mitigates this risk by diversifying investments by property type and geographic location and ensuring investments are managed by professional property managers.

b) Price risk

Price risk is the risk of loss that results from changes in interest rate risk, currency risk, and market risk.

i. *Interest rate risk*

Interest rate risk is the risk that the fair value of the Plan's investments will fluctuate due to changes in market interest rates. It arises primarily on interest-bearing financial instruments held in the Plan's fixed income portfolio. Interest rate risk indirectly affects equities as earnings multiples change with changes in interest rates and the relative attractiveness of equities also changes with changes in interest rates. Excess cash and cash equivalents are invested at short-term market interest rates.

To properly manage the Plan's interest rate risk, appropriate guidelines on the weighting and duration for the fixed income portfolio are set and monitored.

The terms to contractual maturity of interest-bearing financial instruments, as at December 31, are as follows:

	Terms to maturity				**2008**		2007	
Interest-bearing financial instruments *(in millions of dollars)*	Within 1 Year	1 to 5 Years	>5 to 10 Years	Over 10 Years	**Total**	**Yield to Maturity**	Total	Yield to Maturity
Fixed income - bonds								
Government of Canada	$ 28	$ 986	$ 98	$ 207	$ 1,319	2.0%	$ 1,276	4.1%
Canadian corporate	24	362	258	583	1,227	6.3%	1,275	5.4%
United States corporate	–	8	10	1	19	6.9%	31	4.3%
International corporate	–	54	32	21	107	3.4%	87	5.0%
Provincial and municipal	1	235	273	306	815	3.9%	774	4.6%
Real return - Canada	–	–	–	808	808	2.2%	845	1.9%
Real return - Provincial	–	7	24	153	184	3.0%	150	2.3%
	$ 53	**$ 1,652**	**$ 695**	**$ 2,079**	**$ 4,479**	**3.2%**	$ 4,438	3.9%

As at December 31, 2008, if the prevailing interest rates raised or lowered by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, net assets would have decreased or increased by approximately $397 million. The Plan's interest rate sensitivity was determined based on the weighted duration of the Plan's portfolio. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

ii. *Currency risk*

Currency risk is the risk that the value of the Plan's financial instruments will fluctuate due to changes in foreign exchange rates. It arises from securities and foreign exchange forward contracts that are denominated in a currency other than the Canadian dollar, which is the Plan's reporting currency. The Plan is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates.

The Plan's net exposure by geographical location of the issuer and by currency, as at December 31, is as follows:

(in millions of dollars)	**Geographical location**		**Currency**	
Currency - Canadian $ equivalent net of foreign exchange forward contracts	**2008**	2007	**2008**	2007
Canadian dollar	$ 7,824	$ 9,544	$ 8,774	$ 10,405
United States dollar	2,143	2,482	1,640	2,242
Euro	661	1,521	414	866
Other European	368	126	298	500
Japanese yen	332	483	345	329
Other Pacific	100	189	81	186
Emerging markets	190	267	66	84
	$ 11,618	$ 14,612	**$ 11,618**	$ 14,612

As at December 31, 2008, if the Canadian dollar strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets would have increased or decreased by approximately $284 million. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Foreign exchange forward contracts

The Plan does not speculate in currencies or hold net short positions, but to mitigate its overall currency exposure, the Plan enters into foreign exchange forward contracts for the purchase or sale of foreign currency, to adjust the exposure to a particular currency. To mitigate counter-party risk, all transactions settle on a net basis. The Plan hedges between 15% and 45% of its total foreign currency exposure. No single foreign currency exposure can exceed 20% of Plan assets. All current contracts expire within one month. The Plan only deals with highly-rated counterparties, typically major financial institutions, with a minimum credit rating of "A" as reported by a recognized credit rating agency. The Plan's foreign exchange forward contracts by currency, as at December 31, are as follows:

	2008				2007			
Currency *(in millions of dollars)*	**Receivable**	**Payable**	**Net**	**Average rate**	Receivable	Payable	Net	Average rate
United States dollar	$ 552	$ (622)	$ (70)	$ 1.10	$ 490	$ (483)	$ 7	$ 1.00
Euro	189	(218)	(29)	1.49	121	(123)	(2)	1.42
British pound	70	(62)	8	2.00	63	(61)	2	2.02
Swiss franc	–	–	–	–	16	(16)	–	0.90
Japanese yen	–	–	–	–	160	(158)	2	0.01
	$ 811	**$ (902)**	**$ (91)**		$ 850	$ (841)	$ 9	

iii. *Market risk*

Market risk is the risk that the value of a financial instrument will fluctuate as a result of factors affecting all securities traded in a market or market segment. The Plan is exposed to risk on its equity investments. The Plan moderates this risk by its policy of diversifying its investments across asset classes based on criteria established in the SIPP. Fund managers and Investment staff regularly monitor the portfolio by sector, country, market capitalization and trading liquidity.

As at December 31, 2008, 54% of the Plan's net assets available for benefits were traded on stock exchanges. If equity prices on the stock exchanges increased or decreased by 10% as at the year-end, with other all factors remaining constant, net assets would have increased or decreased by approximately $674 million. This represents an increase (decrease) of 10.7% of total equity holdings and an increase (decrease) of 5.8% in total assets available for benefits. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

c) Liquidity risk

Liquidity risk is the risk that the Plan will not be able to meets its financial obligations as they fall due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Plan forecasts its cash requirements over the near and long term to determine whether sufficient funds will be available. The Plan's primary sources of liquidity are funds generated from the Plan's investments and employer and employee contributions. The Plan primarily invests in securities that are traded in active markets and can be readily sold. Real estate pooled fund investments are also subject to liquidity risk. Liquidity risk associated with real estate pooled funds is mitigated by managing the overall amount invested in pooled fund investments and limiting the amount invested in any one pooled fund. The Plan retains sufficient cash and cash equivalent positions to maintain a reasonable level of liquidity.

d) Asset-backed commercial paper

The Plan's valuation of ABCP was based on its assessment of the conditions as at December 31, 2008, which may change in subsequent periods. The most important assumption in determining the fair value of ABCP is the discount rate assigned to the new notes. A 1% increase (decrease) in the discount rate would have resulted in a (decrease) increase in the estimated fair value of ABCP held by the Plan of approximately $1 million. The liquidity disruption in the Canadian market for ABCP has not had a significant impact on the Plan's operations. The Plan holds sufficient available liquid investments to meet its financial and operational requirements.

7. Contribution receivables

(in millions of dollars)		**2008**	2007
Current service contributions	- Sponsor	$ 30	$ –
	- Members	19	16
Other contributions *	- Leave of absence	29	25
	- Elective service	31	33
		$ 109	$ 74

* Leave of absence contribution receivables for approved leave of absence without pay are generally payable over a period equal to twice the period of leave of absence. Elective service contribution receivables for eligible service are payable over a maximum payment period of 20 years for members 45 years or older at the date of election, or to age 65 for members less than age 45 at the date of election.

8. Accounts payable and accrued liabilities

(in millions of dollars)	**2008**	2007
Accounts payable and accrued liabilities	$ 8	$ 10
Accrued benefits payable	10	10
	$ 18	$ 20

9. Investment in real estate

(a) Investment in real estate

The Plan's investment in real estate as at December 31, is as follows:

(in millions of dollars)	**2008**		2007	
	Fair Value	**Cost**	Fair Value	Cost
Direct investments	$ 180	$ 183	$ 85	$ 79
Pooled funds	377	333	301	243
	$ 557	**$ 516**	$ 386	$ 322

(b) Real estate income

Real estate income for the year ended December 31, is as follows:

(in millions of dollars)	**2008**	2007
Investment income	$ 13	$ 9
Realized capital gains on disposal	1	3
Unrealized capital gains	23	33
	$ 37	$ 45

10. Net investment (loss) income

Net Investment (loss) income by primary financial instrument type for the year ended December 31, is as follows:

(in millions of dollars)	**2008**	2007
Interest income		
Cash and short-term securities	$ 17	$ 36
Bonds - Canadian	168	157
Bonds - Real return	30	27
	215	220
Dividend income		
Canadian equities	114	88
United States equities	69	71
International equities	78	58
	261	217
Real estate (note 9.b)	13	9
Securities lending income (note 5.b)	1	5
Realized capital (losses) gains on disposal		
Canadian fixed income	45	(1)
United States fixed income	3	(4)
Canadian equities	(97)	581
United States equities	(187)	102
International equities	(333)	272
Real estate (note 9.b)	1	3
	(568)	953
Realized currency losses on disposal		
Canadian equities	(2)	(4)
United States equities	(65)	(12)
International equities	15	(23)
Cash and short-term securities	–	(1)
	(52)	(40)
Net realized investment (losses) income	(130)	1,364
Unrealized net capital losses *	(3,547)	(640)
Unrealized net currency gains (losses)	899	(407)
Net change in unrealized losses on investments	(2,648)	(1,047)
	$ (2,778)	$ 317

* Unrealized net capital losses include $4 million in 2008 ($7 million in 2007) relating to the change in fair value of ABCP.

11. Contributions

(in millions of dollars)		**2008**	2007
Sponsor	- Current service	$ 61	$ 100
Members	- Current service	181	173
	- Past service	5	8
	- Transfers from other plans	1	1
		$ 248	$ 282

As the Plan's December 31, 2007 actuarial valuation disclosed a solvency surplus of $449 million ($283 million in 2006) the Corporation was not required to make special payments to the Plan during 2008. In July 2007 the Corporation ceased making current service contributions to the Plan to recover special payments previously made, as the Plan was fully funded on all actuarial measures. During 2008 the decline in stock markets around the world weakened the Plan's financial position on a solvency basis. In November 2008 the Corporation resumed current service contributions to the Plan. In 2008, the Corporation recovered special payments previously made to the Plan of $212 million ($161 million in 2007).

12. Benefits

(in millions of dollars)	**2008**	2007
Retirement and survivor pensions	$ 325	$ 262
Commuted value transfers, lump sum death benefits and refunds	48	48
Transfers to other plans	1	1
	$ 374	$ 311

13. Administration expenses

(in millions of dollars)	**2008**	2007
Plan administration	$ 10	$ 10
Investment fees *	40	39
Professional fees	1	1
Custodial fees	2	2
	$ 53	$ 52

* Investment fees include transaction costs of $17 million ($17 million in 2007).

14. Actuarial asset value adjustment

The market value of assets is actuarially adjusted to smooth out gains and losses through amortization over a five-year period (note 2.g). The actuarial asset value adjustment changed by $3,339 million ($1,074 million increase in 2007) during the year. The composition of the actuarial asset value adjustment, as at December 31, is summarized below:

(in millions of dollars)	**Unamortized (gains)/losses 2008**	Unamortized (gains)/losses to be recognized in 2009	2010	2011	2012	Unamortized (gains)/losses 2007
2004	**$ -**	$ -	$ -	$ -	$ -	$ (70)
2005	**(132)**	(132)				(264)
2006	**(352)**	(176)	(176)			(528)
2007	**447**	149	149	149		596
2008	**$ 3,110**	$ 778	$ 777	$ 778	$ 777	$ -
	$ 3,073	$ 619	$ 750	$ 927	$ 777	$ (266)

15. Accrued pension benefits

a) Actuarial methodology

The actuarial methods used to prepare these financial statements are consistent with those used to prepare the statutory actuarial valuation on a going-concern basis. The most recent statutory actuarial valuation, prepared by Mercer (Canada) Limited as at December 31, 2007, was extrapolated to determine the accrued pension benefit as at December 31, 2008. The valuation used the projected benefit method prorated on service with respect to benefits, and assumes that the Plan will continue on a going-concern basis.

b) Actuarial assumptions

The actuarial assumptions used in determining accrued pension benefits of $14,107 million ($13,071 million in 2007) are management's best estimate of future economic events and include demographic and financial assumptions. During 2008, a review of these assumptions was conducted to ensure their adequacy and appropriateness. For the actuarial present value of accrued pension benefits determined as at December 31, the following long-term economic assumptions were selected:

	2008	2007
Discount rate	**6.0%**	6.0%
Salary escalation rate		
- Union groups	per the most recent collective agreement	
- Other	**3.5%**	3.5%
- Following expiry of collective agreement	**CPI + 1.0%**	CPI + 1.0%
Consumer price index (CPI)	**2.5%**	2.5%

In addition to the above economic assumptions, various assumptions were also made for salary promotional scale, mortality, retirement and turnover. The change in actuarial assumptions of $70 million ($9 million in 2007) resulted from the recognition of team incentive payments in pensionable earnings in the year earned.

c) Experience losses (gains)

The composition of the experience losses (gains), as at December 31, is summarized below:

(in millions of dollars)	**2008**	2007
Elective service	$13	$17
Economic	12	25
Demographic	(4)	(21)
	$21	$21

16. Supplementary Retirement Arrangement (SRA)

The SRA provides Plan members and their survivors with benefits that, because of limitations imposed by the ITA, cannot be provided under a registered pension plan. The SRA, together with the Plan, provides overall pension benefits to eligible members.

The SRA is registered with CRA as a Retirement Compensation Arrangement under registration number RC4102229 and is administered in accordance with the applicable requirements of the ITA. Because the assets of the SRA are held in a separate fund, the net assets available for benefits and the accrued pension benefits of the SRA are not included in these financial statements.

17. Funding valuation

In accordance with the PBSA and the ITA, an actuarial valuation is required to be filed at least every three years, on a going-concern and solvency basis, to estimate the Plan's financial position and to determine the Plan's funding requirements. Annual actuarial valuations are required to be filed when the funding ratios in the latest solvency valuation are less than 1.0.

The latest actuarial valuation for regulatory funding purposes was prepared as at December 31, 2007 by the Plan's actuary Mercer (Canada) Limited, and a copy of this valuation was filed with OSFI and CRA. At December 31, 2007, the valuation disclosed a going-concern surplus of $1,257 million ($993 million in 2006) and a solvency surplus of $449 million ($283 million in 2006). The current extrapolated estimate of the financial position of the Plan as at December 31, 2008 is a going-concern surplus of approximately $675 million and a solvency deficit of approximately $1,190 million. The Plan is required, at a minimum, to file an actuarial valuation as at December 31, 2010, or at an earlier date if required under the PBSA.

The funding valuation methodology and the assumptions used to determine the Plan's actuarial liabilities and contribution requirements on a going-concern basis are consistent with those used to produce the results shown in the statement of changes in accrued pension benefits.

18. Related party transactions

Transactions with the Corporation were conducted in the normal course of activities and measured at the exchange amount. Included in administration expenses is $5.6 million ($5.4 million in 2007) for administration services provided by the Corporation to the Plan. Included in accounts payable and accrued liabilities is $1 million ($1.2 million in 2007) due to the Corporation for administration services provided to the Plan.

19. Commitments

In addition to foreign exchange forward contracts, the Plan has committed to enter into real estate and private equity investments which may be funded over the next several years in accordance with agreed to terms and conditions. As at December 31, 2008, potential commitments of $240 million ($166 million in 2007) consisted of $117 million for private equity investments and $123 million for real estate investments. There are no fixed dates associated with these commitments.