



IN REPLY REFER TO

BC RAIL LTD. PENSION PLAN

ADMINISTRATOR'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the BC Rail Ltd. Pension Plan were prepared by the Superannuation Commission, the administrator of the plan. The commission is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada.


In discharging its responsibility for the integrity and fairness of the financial statements, the Superannuation Commission maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of William M. Mercer Limited has been appointed the independent consulting actuary to the plan. The role of the actuary is to complete an actuarial valuation of the plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The Auditor General of British Columbia has performed an independent audit of the financial statements of the plan in accordance with generally accepted auditing standards. The resulting audit opinion is set out in the Report of the Auditor General attached to these financial statements.



JOHN A. MOCHRIE
Superannuation Commissioner



P. LOUISE YOUNG, C.A.,
Executive Director,
Information Management,
Finance and Administration
Superannuation Commission

March 22, 2000

Report of the Auditor General of British Columbia

To the Directors, BC Rail Ltd., and

To the Superannuation Commissioner, Trustee:

I have audited the statement of net assets available for benefits of the *BC Rail Ltd. Pension Plan* as at December 31, 1999 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Superannuation Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *BC Rail Ltd. Pension Plan* as at December 31, 1999 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



*Victoria, British Columbia
March 22, 2000*

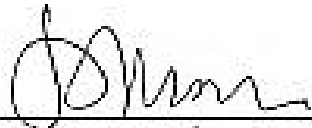
Wayne Strelhoff, CA
Auditor General

BC RAIL LTD. PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
(\$ Thousands)

December 31	1999	1998
ASSETS		
Investments (Note 3)	\$ 600,200	\$ 551,732
Receivables		
Employer's contributions	5	37
Accrued interest	-	1
Other	164	101
	<u>169</u>	<u>139</u>
Cash	7	42
Total Assets	600,376	551,913
LIABILITIES		
Accounts payable and accrued expenses	710	673
Total Liabilities	710	673
NET ASSETS AVAILABLE FOR BENEFITS	\$ 599,666	\$ 551,240

Obligations for Pension Benefits (Note 6)

The eight accompanying notes are an integral part of these financial statements.



 John A. Mochrie
 Trustee



 P. Louise Young, C.A.,
 Executive Director,
 Information Management, Finance
 and Administration

BC RAIL LTD. PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
(\$ Thousands)

For the year ended December 31	1999	1998
INCREASE IN ASSETS		
Net investment income (Note 4)	\$ 64,182	\$ 56,651
Contributions (Note 5)		
Members	15	41
Employer	7	46
	<u>22</u>	<u>87</u>
Total Increase in Assets	<u>64,204</u>	<u>56,738</u>
DECREASE IN ASSETS		
Pension benefits paid	11,817	11,021
Termination benefits paid	3,961	3,978
Total Decrease in Assets	<u>15,778</u>	<u>14,999</u>
INCREASE IN NET ASSETS	48,426	41,739
NET ASSETS AVAILABLE FOR BENEFITS		
AT BEGINNING OF YEAR	551,240	509,501
NET ASSETS AVAILABLE FOR BENEFITS		
AT END OF YEAR	<u>\$ 599,666</u>	<u>\$ 551,240</u>

**BC RAIL LTD. PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

1. DESCRIPTION OF THE BC RAIL LTD. PENSION PLAN

The following brief description of BC Rail Ltd. Pension Plan (the plan) is provided for general information only. For more information, reference should be made to the plan document.

a) General

The plan is a contributory defined benefit pension plan. All employees who work more than 25 hours per week and who have completed six months probation are required to enroll. Part-time employees have the option to enroll if they have earned 35% of the Canada Pension Plan earnings ceiling in two consecutive calendar years.

b) Roles and Responsibilities

Up until April 1, 2000 the Superannuation Commissioner is responsible for administering the plan and serves as trustee. In carrying out his duties, the commissioner is supported by, and acts as chief executive officer to, the Superannuation Commission, a division of the Ministry of Finance and Corporate Relations of British Columbia.

Effective April 1, 2000 the BC Pension Corporation replaces the Superannuation Commission and continues to provide benefit administration services for the plan.

A trust fund is maintained for the plan in which contributions accumulate and are invested to pay current and future pension benefits. The trustee places funds available for investment with the British Columbia Investment Management Corporation (previously known as the Office of the Chief Investment Officer), which is responsible for day-to-day investment management. Investments are managed within an asset mix policy approved by the trustee.

The BC Rail Pension Committee was established to make recommendations to BC Rail Ltd. regarding changes in benefits, modifications to the plan and the administrative practices of the plan.

c) Pension Benefits

All members with two years of credited service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65;
- at age 60, with at least 25 years of pensionable service; or
- at age 55 or older, with a total of age plus service equalling 85 or more.

BC RAIL LTD. PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999

1. DESCRIPTION OF THE BC RAIL LTD. PENSION PLAN (continued)

c) Pension Benefits (continued)

Other retiring members have a reduction formula applied to their pensions.

The plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the plan provides an unreduced benefit of 1.3% of pensionable earnings, up to the average CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of credited service (to a maximum of 35 years). Pensionable earnings is based on the member's highest five-year average salary out of any consecutive ten-year period (HAS). The plan also provides a bridging benefit which is payable to age 65 (or the date of death, if earlier). The bridging benefit is .7% of the lesser of YMPE or the HAS, for each year of the member's credited service since January 1, 1966 (when CPP was introduced).

Increases to pension payments are provided each January 1 in accordance with the excess interest indexing provisions of the plan. These increases relate to the rates of return of the plan and the annual increase in the Consumer Price Index (CPI) as at the previous September 30. The granting of indexing is subject to the adequacy of the rate of return in the prior year and, if applicable, the availability of funding set aside in the indexing reserve (see Note 6). At January 1, 1999, pensioners received a full CPI increase of .7% (1998 - 1.6%). A full CPI increase of 2.6% will be provided at January 1, 2000.

d) Termination Benefits and Reciprocal Arrangements

A terminating member who is not eligible for a pension may receive a refund of contributions with interest.

A terminating member who is eligible for a pension, may choose one of the following benefits:

- a deferred pension; or
- a transfer of the greater of the commuted value of the pension benefit, or 150% of his or her personal contributions with interest, to a locked-in or similar tax-sheltered plan.

In addition, excess contributions, as defined in the plan, will be paid if applicable.

For deferred pension benefits, the highest five-year average annual salary used in the benefit calculation is adjusted at the time the pension is granted for cost of living changes during the deferral period.

BC RAIL LTD. PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999

1. DESCRIPTION OF THE BC RAIL LTD. PENSION PLAN (continued)

d) Termination Benefits and Reciprocal Arrangements (continued)

The plan has reciprocal pension arrangements with certain other pension plans which may benefit members who have service under those plans.

e) Other Benefits

Disability and survivor benefits are available under the plan.

f) Income Taxes

The plan is a Registered Pension Plan as defined in the *Income Tax Act (Canada)* and is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements present the aggregate financial position of the plan as a separate financial reporting entity, independent of the plan's contributing employer and members.

b) Investments

Investments are stated at market value. Market value is derived from external quotations or appraisals. Investment purchases and sales are recorded on trade date.

c) Investment Income

Investment income is recorded on the accrual basis.

BC RAIL LTD. PENSION PLAN
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1999

3. INVESTMENTS (Market Value)

	<u>1999</u>	<u>1998</u>
	<i>(\$ Thousands)</i>	
Short-term	\$ 17,850	\$ 17,075
Canadian Bonds	206,899	210,981
Canadian Equities	178,303	150,510
U.S. Equities	80,991	70,700
International Equities	53,227	41,131
Mortgages	20,752	17,193
Real Estate	42,178	44,142
	<u>\$600,200</u>	<u>\$551,732</u>

Pension plan investments consist primarily of direct ownership in units of pooled investment portfolios, managed by the British Columbia Investment Management Corporation. Each unit gives its holder a proportionate share in the net assets of the pooled fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian money market securities, such as treasury bills, with terms of 15 months or less. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and in the case of international equities refer to investments in Europe, Australia and the Far East. Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of Canadian diversified income-producing properties.

4. INVESTMENT INCOME

	<u>1999</u>		<u>1998</u>	
	Income Allocation	Current Period Change In Market Value	Total	Total
	<i>(\$ Thousands)</i>			
Short-term	\$ 861	\$ (6)	\$ 855	\$ 590
Canadian Bonds	12,467	(14,402)	(1,935)	18,134
Canadian Equities	2,579	36,901	39,480	648
U.S. Equities	1,102	9,231	10,333	21,797
International Equities	825	10,592	11,417	9,616
Mortgages	1,237	(316)	921	1,027
Real Estate	2,109	1,712	3,821	5,620
	<u>\$21,180</u>	<u>\$ 43,712</u>	<u>\$64,892</u>	<u>\$57,432</u>
Investment Management Costs			(710)	(781)
Net Investment Income			<u>\$64,182</u>	<u>\$56,651</u>

BC RAIL LTD. PENSION PLAN
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1999

4. INVESTMENT INCOME (continued)

The income allocation portion of investment income represents pooled investment portfolio income attributable to the pension fund, as a unitholder, and as calculated by the British Columbia Investment Management Corporation, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

5. CONTRIBUTIONS

	1999	1998
	<i>(\$ Thousands)</i>	
Members' contributions		
Leave of absence	\$15	\$41
Employer's contributions		
Leave of absence	7	46
Total Contributions	<u>\$22</u>	<u>\$87</u>

As a result of plan surplus, a contribution holiday began July 1, 1996 and was in effect throughout 1999.

6. OBLIGATIONS FOR PENSION BENEFITS

An actuarial valuation is performed at least once every three years. The latest valuation was made as of December 31, 1997 by William M. Mercer Limited. The calculations to December 31, 1999 are based upon an extrapolation from the December 31, 1997 valuation. At the last valuation, net assets for the purposes of the valuation were \$479.2 million, accrued pension benefits were \$402.4 million, with a resulting net surplus of \$76.8 million.

The present value of the accrued pension benefit was determined using the projected benefit method prorated on service. The actuarial value of net assets has been determined at amounts that reflect long-term market trends (consistent with assumptions underlying the valuation of the accrued pension benefits).

Using the long-term assumptions (asset rate of return of 7.0% per year and salary escalation rate of 5.0% per year), the extrapolated actuarial value of net assets at December 31, 1999 is \$515.7 million and the extrapolated accrued pension benefits are \$458.8 million. Therefore, the extrapolated net surplus as at December 31, 1999 is \$56.9 million.

**BC RAIL LTD. PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

6. OBLIGATIONS FOR PENSION BENEFITS (continued)

In the short term, actual wage increases, investment earnings and the incidence of retirements and withdrawals may vary significantly from the long-term assumptions used in the extrapolation. While the actual experience is recognized when the complete actuarial valuation takes place, these variances can limit the accuracy of short-term extrapolations made between valuation dates. The next valuation will be prepared as at December 31, 1999 and the results will be available for the December 31, 2000 financial statements.

An "indexing reserve" was established effective January 1, 1990. The reserve represents fund assets set aside for the funding of any indexing granted in years when fund investment performance would not otherwise permit indexing as envisaged in the plan provisions. This reserve is increased in years when the plan's excess returns are more than that required to provide full inflation adjustments, or decreased to "top up" the amount available for indexing in years when the excess returns do not provide full inflation adjustments. The extrapolated value of this reserve as at December 31, 1999 for current pensioners is \$50.9 million (1998 - \$47.6 million). This amount is included in the extrapolated actuarial present value of accrued pension benefits and is based on an extrapolation from the December 31, 1997 value of the reserve.

7. FUNDING POLICY - CONTRIBUTIONS

Members and BC Rail Ltd. have been on a temporary suspension of contributions (contribution holiday) since July 1, 1996. The contribution holiday is a result of the plan's surplus position and the situation will be reviewed annually.

Prior to the contribution holiday, members contributed to the plan 4.5% of pensionable earnings up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) (\$37,400 in 1999), and 6% of pensionable earnings above that. No contributions are required after completion of 35 years of credited service, or while a member is on an approved long-term disability absence.

The actuarial valuation determines the employer contribution rate. However, the employer contributions cannot be less than the members' required contributions. Based on the 1997 valuation, BC Rail Ltd.'s current service cost to provide the pension benefits is 7.6% of pensionable earnings.

**BC RAIL LTD. PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

8. RELATED PARTY TRANSACTIONS

a) Administration, Actuarial and Medical Plan Costs

Administration and actuarial costs incurred are not reflected in the Statement of Changes in Net Assets Available for Benefits. These expenses are paid directly by the employer and are not included as expenses of the pension plan (1999 - \$299,631; 1998 - \$622,074).

Medical plan premiums for pensioners are also paid separately from the pension plan by BC Rail Ltd. (1999 - \$405,098; 1998 - \$403,422).

b) Investment Management Costs

The British Columbia Investment Management Corporation (BCIMC) has responsibility for managing investments on behalf of the plan and uses internal and external investment managers for this purpose. Total investment management fees for 1999 were \$709,745. Of this amount, \$160,301 was charged for BCIMC's internal investment management services (1998 - total fees \$781,045; internal management services \$168,634).