

Financial Statements of

**CANADIAN BLOOD SERVICES  
DEFINED BENEFIT PENSION PLAN**

Year ended December 31, 2005



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## **AUDITORS' REPORT TO THE JOINT BOARD OF TRUSTEES**

We have audited the statement of net assets available for benefits of the Canadian Blood Services Defined Benefit Pension Plan as at December 31, 2005 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Pension Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits as at December 31, 2005 and the change in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Ottawa, Canada  
April 4, 2006

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Statement of Net Assets Available for Benefits

December 31, 2005, with comparative figures for 2004

	2005	2004
<b>Assets</b>		
Contributions receivable:		
Employer – current service	\$ 350,191	\$ 404,609
Members – current service	238,177	287,769
Members – past service	68,119	93,945
Investments (note 3)	107,293,825	90,441,369
	<u>107,950,312</u>	<u>91,227,692</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 9)	333,460	426,606
Claim from Canadian Red Cross Society Pension Plan (note 4)	527,984	431,000
Termination and pension benefits payable	2,181,525	3,302,849
	<u>3,042,969</u>	<u>4,160,455</u>
<b>Net assets available for benefits</b>	<u>\$ 104,907,343</u>	<u>\$ 87,067,237</u>

See accompanying notes to financial statements.

On behalf of the Joint Board of Trustees:

 Trustee

 Trustee

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Increase in assets:		
Contributions:		
Employer – current service	\$ 5,783,312	\$ 5,309,062
Members – current service	4,128,956	3,885,752
	<u>9,912,268</u>	<u>9,194,814</u>
Investment income	5,653,138	3,002,287
Change in net unrealized gains	4,960,450	4,997,609
Net realized gain on sale of investments	1,004,876	330,252
	<u>21,530,732</u>	<u>17,524,962</u>
Transfers of assets (note 5)	384,591	1,114
Transfers of assets from Canadian Blood Services Defined Contribution Pension Plan (note 6)	–	129,835
Total increase in assets	<u>21,915,323</u>	<u>17,655,911</u>
Decrease in assets:		
Pension benefits	868,332	977,834
Termination benefits	2,095,542	589,579
Administration fees (note 8)	1,014,359	1,170,906
Claim from Canadian Red Cross Society Pension Plan (note 4)	96,984	431,000
Total decrease in assets	<u>4,075,217</u>	<u>3,169,319</u>
Increase in net assets available for benefits	17,840,106	14,486,592
Net assets available for benefits, beginning of year	87,067,237	72,580,645
Net assets available for benefits, end of year	<u>\$ 104,907,343</u>	<u>\$ 87,067,237</u>

See accompanying notes to financial statements.

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements

Year ended December 31, 2005

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## 1. Description of the Plan:

The following description of the Canadian Blood Services Defined Benefit Pension Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan Text and Trust Agreement. The Plan became effective September 28, 1998.

### (a) General:

The Plan is administered by Trustees appointed by Canadian Blood Services ("CBS") and the Participating Unions, in accordance with terms of the Trust Agreement.

The Plan is a defined benefit plan covering members of Participating Unions and those other unionized and non-unionized employees of CBS who are eligible, and elect to join. Eligible employees who are not represented by Participating Unions may otherwise elect to join the Canadian Blood Services Defined Contribution Pension Plan. The Plan is registered under the Pension Benefits Act, 1990 (Ontario) and Regulations; Registration #1048800.

### (b) Funding policy:

Members' and the employer's contribution rates may vary according to the cost of the Plan. If the cost of the Plan, determined in accordance with the provisions of the Plan, is between 9.5% and 11.5% of pensionable earnings, then members will contribute 4.75% of pensionable earnings and the employer will contribute the difference between the cost of the Plan and 4.75%. If the cost of the Plan becomes higher than 11.5% of pensionable earnings, then both the member and the employer will increase their contribution rate on a 50/50 shared basis. If the cost of the Plan becomes less than 9.5% of pensionable earnings, then both the member and the employer will decrease their contribution rate on a 50/50 shared basis. Members contribute an amount equal to 5% of pensionable earnings and the employer contributes an amount equal to 7% of the member's pensionable earnings.

Members that were making additional, optional contributions of 2% of pensionable earnings on December 1, 1998 could continue to make these contributions until the earlier of November 30, 2004, or the date he or she retired, left CBS, died or elected to stop making these payments. The employer contributed an annual amount equal to 50% of members' additional, optional contributions.

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

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Year ended December 31, 2005

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## 1. Description of the Plan (continued):

### (c) Benefits:

The Plan provides benefits based on a member's term of service and average earnings over a member's five highest consecutive annualized earnings. In addition, the accumulated additional optional contributions plus the investment earnings thereon, are used to provide additional pension benefits on retirement.

### (d) Income taxes:

The Plan is a Registered Pension Plan as defined in the Canadian Income Tax Act and as such, the revenue of the Plan is not subject to income tax.

## 2. Significant accounting policies:

### (a) Basis of presentation:

These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity, independent of the employer and Plan members. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the period but they do not portray the funding requirements of the Plan or the benefit security of individual Plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. Significant management estimates include assumptions used in calculating the obligations for pension benefits.

### (b) Investments:

Investments are recorded at fair value and investment transactions are recognized on a settlement-date basis. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for benefits as the change in net unrealized gains (losses).

Fair values of pooled fund investments are the unit values supplied by the pooled fund manager, which represent the Plan's proportionate share of underlying net assets at fair values determined using closing market prices.

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

Notes to Financial Statements, page 3

Year ended December 31, 2005

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## 2. Significant accounting policies (continued):

(c) Net realized gain on sales of investments:

The net realized gain on sales of investments is the difference between proceeds received and the average cost of investments sold.

(d) Investment income:

Investment income, which is reported on the accrual basis, includes interest income and distributions from pooled fund investments. Distributions from pooled fund investments include the Plan's proportionate share of interest, dividends and realized gains or losses.

(e) Foreign currency translation:

The fair values of foreign currency denominated investments included in the statement of net assets available for benefits are translated into Canadian dollars at year end rates of exchange. Gains and losses arising from translation are included in the change in net unrealized gains or losses.

Foreign currency denominated transactions are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

(f) Past service contributions:

Past service contributions are recognized as revenue in the year contributions are received or receivable by the Plan.

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

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Year ended December 31, 2005

### 3. Investments:

(a) Investments are comprised of the following at December 31:

		Market value 2005		Market value 2004		
Cash	\$	35,146	0.03%	\$	8,558	0.01%
Royal Trust Money Market Fund		175,455	0.16%		246,648	0.27%
McLean Budden Pooled Funds:						
Money Market Fund		74,125	0.07%		–	0.00%
Equity Growth Fund		38,128,415	35.54%		32,053,497	35.44%
Fixed Income Fund		18,269,619	17.03%		15,308,754	16.93%
Aberdeen Socially Responsible International Fund		12,714,444	11.85%		10,253,730	11.34%
Barclays Pooled Funds:						
Hedge Synthetic						
U.S. Fund		17,661,762	16.46%		15,471,746	17.11%
Universe Bond Index Fund		20,234,859	18.86%		17,098,436	18.90%
		\$ 107,293,825	100%		\$ 90,441,369	100%

(b) Whereas investments are stated at market value in the Statement of Net Assets Available for Benefits, the cost of these investments at December 31 is as follows:

		Cost 2005		Cost 2004		
Cash	\$	35,146	0.04%	\$	8,558	0.01%
Royal Trust Money Market Fund		175,481	0.19%		246,648	0.31%
McLean Budden Pooled Funds:						
Money Market Fund		74,125	0.08%		–	\$
Equity Growth Fund		30,280,715	32.91%		27,440,889	34.25%
Fixed Income Fund		18,266,208	19.85%		15,243,195	19.02%
Aberdeen Socially Responsible International Fund		9,224,376	10.02%		8,032,352	10.02%
Barclays Pooled Funds:						
Hedge Synthetic						
U.S. Fund		13,771,751	14.97%		11,963,194	14.93%
Universe Bond Index Fund		20,192,801	21.94%		17,193,452	21.46%
		\$ 92,020,603	100%		\$ 80,128,288	100%

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

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Year ended December 31, 2005

### 3. Investments (continued):

#### (c) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes on income and the market value of fixed income investments. This risk arises from Plan investments whose returns are linked to interest rates. Such investments consist of the Fixed Income, Money Market, and Bond Index funds.

The following table summarizes the weighted-average term to maturity and average effective yield at December 31 for these investments:

	Fair value	2005 Weighted average term to maturity	Average effective yield	Fair value	2004 Weighted average term to maturity	Average effective yield
Royal Trust Money Market Fund	\$ 175,455	0.09 years	1.95%	\$ 246,648	0.1 years	1.76%
McLean Budden Pooled Funds:						
Money Market Fund	74,125	0.3 years	3.30%	–	0.0 years	0.00%
Fixed income	18,269,619	10.8 years	4.23%	15,308,754	10.3 years	4.17%
Barclays Pooled Fund:						
Universe Bond	20,234,859	10.05 years	4.21%	17,098,436	9.41 years	4.11%

The average effective yield is based on the estimated annual income from a security, generally based on its coupon and its fair value at December 31.

The pooled funds are valued at prices based on market value of the underlying securities held by the pooled fund.

#### (d) Foreign currency risk:

Foreign currency exposure arises from the Plan's holdings of non-Canadian denominated investments. Included in the Statement of Net Assets Available for Benefits are investments totalling \$12,714,444 (2004 - \$10,253,730), which are exposed to foreign currency movements. The Plan has also invested \$17,661,762 (2004 - \$15,471,746) in a U.S. synthetic pooled fund that replicates a U.S. equity index and foreign currency risk is limited to gains or losses in the underlying U.S. equity index.

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

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Year ended December 31, 2005

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### 3. Investments (continued):

(e) Credit risk:

Concentrations of credit risk exist when a significant proportion of the portfolio is invested in securities with similar characteristics and/or subject to similar economic, political and other conditions that may prevail. The investment mix disclosed above is within the requirements of the Statement of Investment Policies and Procedures, which was developed by the Trustees of the Plan.

### 4. Claim from Canadian Red Cross Society Pension Plan:

During 2003, the Plan received \$35,241,000 from the Canadian Red Cross Society Pension Plan ("CRCS Plan") pursuant to the settlement of an agreement to transfer pension assets and liabilities from the CRCS Plan to the Canadian Blood Services Defined Benefit Pension Plan in respect of pensionable service prior to September 28, 1998 for CRCS Plan members who transferred to CBS as a result of the acquisition of the blood supply system.

In August 2004, the Canadian Red Cross Society ("CRCS") informed CBS and the Trustees of the Plan of an adjustment in the calculation of unit values of certain investment funds for the period from 2001 to 2003. This adjustment resulted in the identification of an overpayment of \$431,000 to the Plan during 2003. The Trustees of the Plan have advised the CRCS that they have relied on the amount of assets transferred in 2003 (including the \$431,000) in determining and granting benefit improvements in the Plan. The Trustees take the position that the Plan should not have to return any funds, however the Plan may be required to do so in the event that CRCS pursues this claim and is successful. The amount of the claim at December 31, 2005 has been adjusted by accrued interest.

### 5. Transfers of assets:

	2005	2004
Transfers from the Canadian Blood Services Pension Plans Trust	\$ –	\$ 1,114
Transfers from other pension plans	384,591	–
	<u>\$ 384,591</u>	<u>\$ 1,114</u>

The transfers from the Canadian Blood Services Pension Plans Trust are in respect of past service elected by members as a result of a pension enrolment review conducted pursuant to an order of the Ontario Supreme Court issued May 19, 2000 (the "Court Order"), transfers of other amounts specified in the Court Order, and its proportionate allocation of any residual.

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## 6. Transfer of assets from Canadian Blood Services Defined Contribution Pension Plan:

In 2004, included in transfers from the Canadian Blood Services Defined Contribution Pension Plan are transfers in respect of former members of the Canadian Blood Services Defined Contribution Pension Plan who terminated their employment (and membership in the Canadian Blood Services Defined Contribution Pension Plan), were subsequently rehired and enrolled in the Canadian Blood Services Defined Benefit Pension Plan during this subsequent period of employment, and elected to transfer the funds in their retirement account to the Canadian Blood Services Defined Benefit Pension Plan.

## 7. Obligations for pension benefits:

The actuarial present value of accrued pension benefits was determined using the projected benefit method pro-rated on service and management's long-term best estimate assumptions about future experience. An actuarial valuation was performed December 31, 2004 by Mercer Human Resource Consulting, a firm of consulting actuaries. Amounts reported in these financial statements are extrapolated from this valuation.

The actuarial present value of the benefits as at December 31, 2005 and the principal components of changes in actuarial present values during the year, were as follows:

	2005	2004
Actuarial present value of accrued pension benefits at beginning of the year	\$ 90,884,858	\$ 77,846,869
Interest accrued on benefits	5,842,392	5,419,833
Benefits accrued	9,208,662	8,402,094
Plan amendments	—	600,000
Changes in actuarial assumptions	(1,656,000)	—
Actuarial experience gains	(6,328,256)	—
Pensions and termination payments	(1,966,359)	(1,383,938)
Actuarial present value of accrued pension benefits at end of the year before adjustment	95,985,297	90,884,858
Adjustment for amounts already reflected in termination and pension benefits payable on the statement of net assets available for benefits	(1,023,503)	(2,558,672)
Actuarial present value of accrued pension benefits at end of year after adjustment	\$ 94,961,794	\$ 88,326,186

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

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Year ended December 31, 2005

## 7. Obligations for pension benefits (continued):

The assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long-term market conditions. These assumptions reflect the set of management's long-term best estimate assumptions used in the most recent actuarial valuation and have not been changed for purposes of the extrapolation of obligations for pension benefits as at December 31, 2005. Significant long-term actuarial assumptions used in the valuation were:

	2005	2004
Inflation rate	3.00%	3.00%
Discount rate	6.50%	6.50%
Salary escalation rate	4.25%	4.25%
Asset rate of return	6.50%	6.50%

The actuarial value of net assets available for benefits has been determined using amounts that reflect long-term market trends (consistent with assumptions underlying the valuation of the accrued pension benefits). The valuation is based on a three-year moving-average-market method. Under this method, the fair value of investments is the underlying basis, but fluctuations are averaged over a three-year period.

The actuarial asset values are:

	2005	2004
Fair value of net assets available for benefits	\$ 104,907,343	\$ 87,067,237
Adjustment to fair value for actuarial purposes	(5,752,838)	(5,250,606)
Actuarial value of net assets available for benefits	\$ 99,154,505	\$ 81,816,631

The difference between the actuarial value of net assets available for benefits and the actuarial present value of accrued pension benefits at December 31, 2005 was a surplus of \$4,192,711 (2004 – a deficit of \$6,509,555).

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

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Year ended December 31, 2005

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## 8. Administration fees:

Administration fees incurred by the Trustees, including expenses paid by CBS on behalf of the Plan, have been charged to the Plan. Included in other administration fees is a charge of \$23,000 (2004 - \$Nil) by Canadian Blood Services for shared administration fees.

	2005	2004
Investment management	\$ 305,254	\$ 275,750
Third party administration fees	313,562	484,072
Professional fees	218,709	267,015
Other administration fees	152,834	122,569
Audit fees	24,000	21,500
	<hr/> \$ 1,014,359	<hr/> \$ 1,170,906

## 9. Accounts payable and accrued liabilities:

At December 31, 2005, the net amount payable to CBS is \$254,969 (2004 - \$310,618) and the amount payable to third parties is \$78,491 (2004 - \$115,988).

## 10. Financial instruments:

The fair values of contributions receivable, accounts payable and accrued liabilities, claim from Canadian Red Cross Society Pension Plan and termination and pension benefits payable approximate their carrying value due to the fact that these financial instruments will be settled in the short term.

# CANADIAN BLOOD SERVICES DEFINED BENEFIT PENSION PLAN

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Year ended December 31, 2005

## 11. Statutory disclosure:

The following information is provided in respect of individual investments with a cost or fair value in excess of 1% of the cost or fair value of the investments held, as required by the Pension Benefits Act (Ontario).

Fund Name	Fund Operator	Nature of Investments	2005 Market Value	2004 Market Value
Hedge Synthetic U.S. Fund	Barclays Global Investors	Hedge Synthetic U.S.	\$ 17,661,762	\$ 15,471,746
Universe Bond Index Fund	Barclays Global Investors	Fixed income	20,234,859	17,098,436
International Fund	Aberdeen Asset Management	Foreign equity	12,714,444	10,253,730
Equity Growth Fund	McLean Budden Asset Management	Canadian equity	38,128,415	32,053,497
Income Fund	McLean Budden Asset Management	Fixed income	18,269,619	15,308,754
			<b>\$107,009,099</b>	<b>\$ 90,186,163</b>