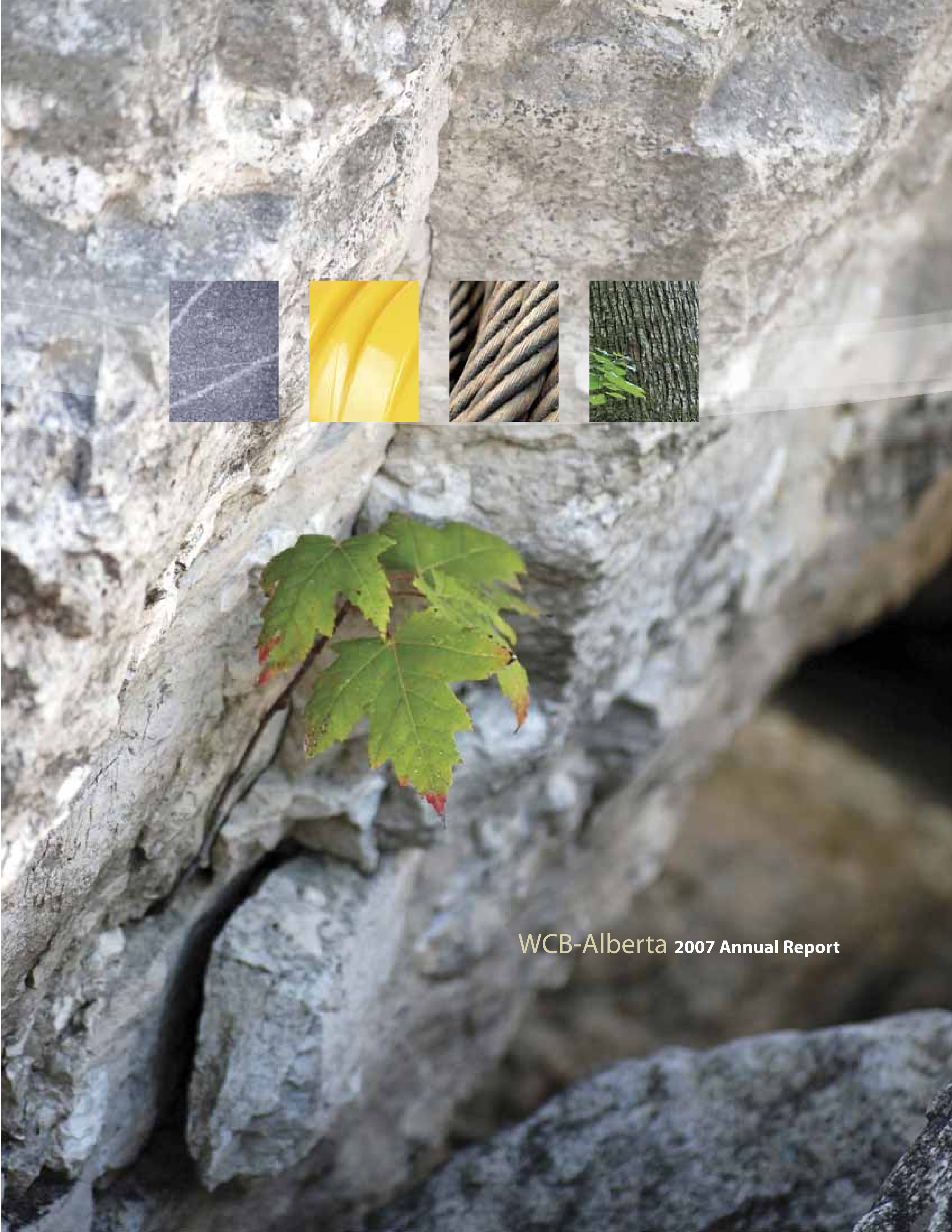

WCB-Alberta **2007 Annual Report**

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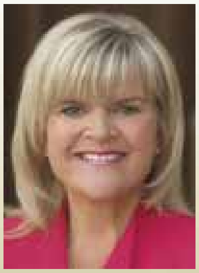
Financials



Message to Stakeholders from the Minister

ALBERTA
EMPLOYMENT, IMMIGRATION AND INDUSTRY

Office of the Minister

The strength of the workers' compensation system is grounded in its long history of providing a hand up when it is needed most. I am proud to be a part of that tradition.

Since its establishment in 1918, the Workers' Compensation Board - Alberta has worked with employees and employers to minimize the impact of workplace illness and injury. In 2007, 135,185 employers funded workers' compensation protection for more than 1.7 million workers.

Alberta's system is successful because workers and employers understand that the key to a great workers' compensation system is to work together—and they do. The results speak for themselves:

- ↘ Lost-time claim rate of 2.1 per 100 workers
- ↘ Disabling-injury rate of 3.6 per 100 workers
- ↘ Average employer premium rate 8.9 per cent lower than the previous year
- → Actual return-to-work results of 91.6 per cent

Good access to benefits and services for injured workers at a reasonable cost for Alberta employers means that the system is strong. Through a sustained commitment to focus on workplace safety and sound disability management, we are all making a lasting difference.

Alberta's continued growth provides both challenges and opportunities. It also magnifies the importance of our ongoing commitment to making workplaces safer. Let's continue to do what is right—together.

Iris Evans
Minister
MLA for Sherwood Park Constituency

208 Legislature Building, Edmonton, Alberta, Canada T5K 2B6 Telephone 780/415-4800 Fax 780/422-9556

Our system
Our partnerships
Our people
Our results

Our system. At WCB-Alberta, our strength starts with the system. The workers' compensation system is built on a solid, 89-year history of helping Albertans. This foundation guides who we are and what we do. It also enables us to evolve and grow along with Albertans.

Our partnerships. Strong partnerships with stakeholders are crucial at WCB. We work closely with injured workers, employers and health care providers to reduce the impact of workplace illness and injury. These partnerships ensure that our focus on a safe, healthy, strong Alberta never wavers.

Our people. Then there is the strength of experience. For our staff, working at WCB is not just a job. We are committed to recruiting, training and retaining talented, dedicated employees who care about people. WCB's commitment to fairness and strong customer service is reflected in the work we do and the relationships we build.

Our results. Our strength is also evident in the numbers. A secure financial position continues to be a priority. Our solid financial position allows us to effectively manage claims and costs, and deliver the necessary support to injured Albertans now and in the future.

An organization's strength—and, in turn, its success—can be measured in many different ways. Throughout the pages of this year's annual report, you will see our core strengths come together, showing how we provide stakeholders with the results they need. This is our measure of success.

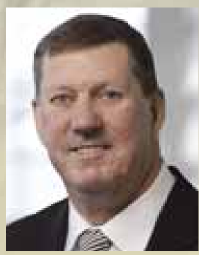
Vision

Albertans working—a safe, healthy and strong Alberta

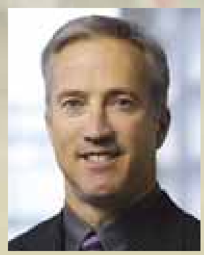
Mission

WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.

Message from the Chair and the President & CEO



David Carpenter
Chair, Board of Directors



Guy Kerr
President & CEO

"Together, we have the opportunity to do great things for Alberta workers and employers. By acting today we ensure our strength tomorrow."

The workers' compensation system works because a lot of people care. From WCB employees to employers, labour leaders, workers, health care professionals and government—it is our concern for working Albertans that is key to maintaining a strong and fair system.

In 2007 we proved once again that we are strongest when we work together. As partners we are a diverse group, with different perspectives and backgrounds, but we have one common goal: ensuring the system works for all its stakeholders.

With strength comes responsibility to others and to ourselves. WCB's mission challenges the organization to reduce the impact of workplace illness and injury by working with its partners. With a clear strategy and the right customer focus in place, the organization and its partners have made positive strides.

More than ever, employers are working together and with WCB and government to improve their safety and reporting performance. We continue to make advances in disability management, helping workers return to the job in less time than ever before. And for the first time since 2005, the number of disabling injuries is starting to come down, which means fewer people are getting hurt. This is a sign of safer workplaces.

As an organization we take pride in the steady advances we have made over the last few years. Our journey of change has been rewarding because we've remained focused on doing what is right. But it's our extraordinary employees who bring our focus to life. They set out each day to make fair decisions and they are passionately committed to helping clients move forward.

As we move forward together, there will be challenges. The number of workers covered grows dramatically each year, putting pressure on the system. As more temporary foreign workers join work sites, we have to find new ways of delivering our services so we can offer these workers the same quality of service we would offer any other. And the volatility of investment markets puts pressure on our financial stability. If we maintain our focus, we will keep moving in the right direction.

We look forward to a future in which we and our partners continue to match our commitment to disability management with our compassion, our financial strength with our fairness, our power with our purpose. Together, we have the opportunity to do great things for Alberta workers and employers. By acting today we ensure our strength tomorrow.

David B. Carpenter
Chair, Board of Directors
Workers' Compensation Board - Alberta

Guy R. Kerr
President & CEO
Workers' Compensation Board - Alberta

Board of Directors' Role

The WCB Board of Directors embodies good governance through its focus on the strategic direction of the organization and its monitoring of corporate performance. The Board is accountable to all Albertans through the Minister of Employment and Immigration (formerly Employment, Immigration and Industry), and, in turn, holds WCB management accountable for maintaining a compensation system that works for all stakeholders.

Board Committees

The committees of the Board of Directors review information from all areas of the business, and identify and assess risks to help the Board make informed decisions.

Audit Committee

The Audit Committee reviews the audit and risk management functions of the organization, including financial statements, the annual report, internal control over financial reporting, external audit processes and management audit.

Finance Committee

The Finance Committee oversees the organization's financial strategies and performance, from the budget and financial plan to economic and business assumptions, premium-rate setting and investment management.

Governance Committee

The Governance Committee regularly reviews governance policy and ensures the Board of Directors consistently demonstrates a best practice approach in its role.

Human Resource and Compensation Committee

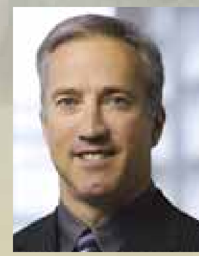
The Human Resource and Compensation Committee oversees human resource matters, including management philosophies and policies, and corporate goals, objectives and performance.

Policy Committee

The Policy Committee reviews policies and legislative changes related to benefits and premiums. It also ensures stakeholder involvement in relation to policy development and revision.

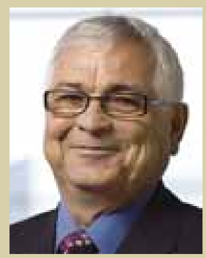
2007 Board of Directors

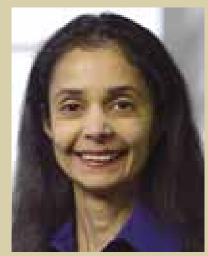

David Carpenter
Chair, Board of Directors


Guy Kerr
President & CEO

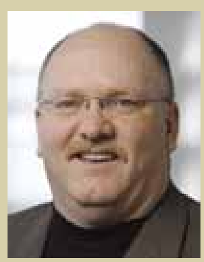
Representative of the interests of **Employers**

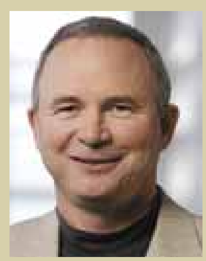

Willard Kirkpatrick

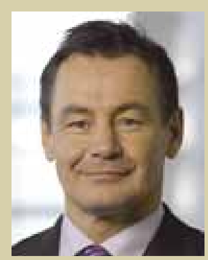

Don Oborowsky


Fauzia Lalani

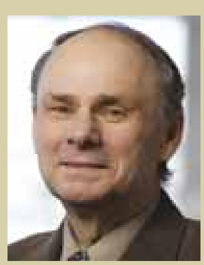
Representative of the interests of **Workers**

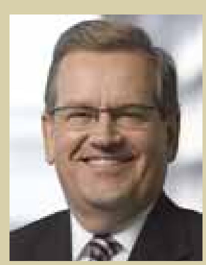

Timothy Brower

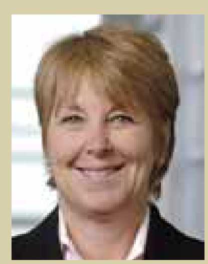

Mark McCullough


Richard Mirasty

Representative of the interests of the **General Public**


Jim Kallal


Norbert Van Wyk


Rosemary Pahl

2007 Strategic Management Council

Pictured above. From left to right:

Roxy Shulha-McKay
V.P. Employee and Corporate Services

Ron Helmhold
Chief Financial Officer

Guy Kerr
President & CEO

Dieter Brunsch
V.P. Customer Service and Risk Management

Wendy King
V.P. Customer Service and Disability Management

Jim Wheadon
V.P. Communications and Information Management

Douglas Mah
Secretary and General Counsel

Strategic Management Council's Role

Our Strategic Management Council (SMC) provides the leadership to rally our organization around our vision of Albertans working. By working together with our Board of Directors, our many partners and our stakeholders, our executive team has led a dynamic group of dedicated employees to strong results.

"Teamwork is the ability to work together toward a common vision. The ability to direct individual accomplishments toward organizational objectives. It is the fuel that allows common people to attain uncommon results."

- Andrew Carnegie

Workplace strength

On the safe side

Employer puts renewed focus on workplace safety

A solid safety program makes good business sense.

Our company manufactures camp trailers for the oil industry, and we've rapidly expanded over the past five years. We've always had an informal safety program in place, but our safety record was pretty bad and our WCB premium rates were high.

We needed a dramatic philosophical shift in the way we approached worksite safety. At first it wasn't easy to get everyone on board, but our employees and our company benefit from a successful safety program.

Now if an employee sprains an ankle, he or she has the opportunity to return to work the next day doing modified duties. If that had happened five years ago, that same employee would have been off work for days.

Not only did a formal safety program lower our premium rates, it also boosted our employees' confidence in the company. We're constantly competing with other industries to retain qualified employees, and if we take extra care of our staff, they'll want to continue working here.

"If we take extra care of our staff, they'll want to continue working here."

Ken Frances helped his company strengthen its safety program, increasing employee confidence in turn.

At Shanco we want our employees to be safe on the worksite. Now we're not only talking about safety at work, we're practicing it on a daily basis.

Ken Frances
Chief operating officer, Shanco Camp Services
Grande Prairie

Performance strength

Four strategic themes focus our organization on the activities that have the greatest positive impact on our stakeholders.

	STRATEGIC THEME	OBJECTIVE
Focus on Return to Work	**WCB provides the right benefits and services to help injured workers successfully return to work.**	• Through timely medical and vocational support, maintain performance by managing return-to-work outcomes on cases lasting longer than three months. Keep within five per cent of 1,077 cases. • Effectively implement return-to-work planning and outcomes to maximize worker earnings. Do not exceed capitalized economic-loss payment budget of $103.5 million by more than 10 per cent. • Ensure 60 per cent of vocational rehabilitation cases achieve return-to-work earnings at or above 75 per cent of pre-accident income.
Leveraging Prevention	**WCB uses its resources to promote and reward safe work practices and good disability management.**	• Increase by seven per cent the number of Partners in Injury Reduction companies covered by a certificate of recognition. • Target improvements in the health, safety and claims management practices of the 692 poorest-performing employers to reduce by 65 per cent the number receiving a poor performance surcharge in 2009.
Commitment to Fairness	**WCB fosters relationships and makes fair decisions built on a foundation of trust.**	• Improve the quality of communication with customers by exceeding an 80 per cent quality score on key decision communication letters. • Increase the number of electronic self-serve transactions processed by WCB systems by 15 per cent from our baseline of 1,834,793. • Develop new products to expand electronic self-serve capabilities for injured workers and employers.

Financial Stability	**WCB's ability to meet the needs of employers and workers is a cornerstone of the workers' compensation system.**	• Through a comprehensive program of operational initiatives ensure that,
		  ◦ transaction-year claim costs do not exceed the 2007 budget by more than five per cent.
		  ◦ 95 per cent or more of the premium revenue target set for 2007 is met.

Each year, through the development of a balanced scorecard, we turn our strategy into action and commit to significantly and measurably reduce the impact of workplace illness and injury on Albertans.

RESULTS

Achieved. More Albertans returned to work successfully. At the end of the year, there were 936 active cases lasting longer than three months, and a return-to-work percentage of 91.6 per cent.

Achieved. We issued $68.0 million in economic-loss payments—34.3 per cent below budget and 28.5 per cent lower than the previous year. This means more workers earned a greater percentage of their pre-accident earnings after their return to work.

Achieved. Injured workers with serious return-to-work challenges were successful in achieving 75 per cent or more of their pre-accident income in 61.3 per cent of cases.

Achieved. Employers demonstrated their commitment to safety through an increase of 12.2 per cent.

Partially achieved. Fifty-nine per cent of the targeted employers will be out of a poor-performance surcharge position in 2009. Many of these employers are on the right track for long-term success.

Achieved. With the right tools, training and support, customer service teams continued to deliver results by achieving an overall quality score of 87.7 per cent on key decision letters in the fourth quarter.

Achieved. WCB stakeholders continued to access eLink applications, as transactions increased by 25.4 per cent.

Achieved. A new eLink application for workers was introduced in December 2007. Now, injured workers can access benefit payment information online.

A number of enhancements to existing eLink applications, in the form of online credit card payments, employer ReportCards and others, were successfully implemented.

Achieved. Overall transaction-year claim costs were 17.7 per cent below budget and 7.2 per cent lower than the previous year.

Achieved. Premium revenue was 4.5 per cent higher than target. The combination of more insurable earnings and higher-than-average billed premium rates are the primary factors in our positive premium revenue performance.

"I've found my calling, and I really enjoy the work I do. With help, it all fell into place after my injury."

System **strength**

With the help of job developer Audrey Robichaud, injured worker Wayne Ward found strength in a new career.

A solid system

Opening up opportunities for injured workers

After 32 injury-free years, my days as a truck driver were numbered.

One minute I was on the back of my truck checking some ties, and the next minute my world went dark. I don't remember exactly how I fell, only that I hit the concrete floor five feet below. I fractured my right elbow and two fingers on my right hand. I also had a small laceration on my head.

I was in a great deal of pain, and I was referred to Millard Health for rehabilitation. This included strength training exercises to repair the damage to my elbow and hand. My employer provided me with modified work, but because of the extent of my injuries, I wasn't able to return to my job as a truck driver.

Audrey Robichaud, my job developer at Millard Health, helped me focus on my other skills in my search for a new career. I'm now working as a health and safety officer, which is a natural fit. I've found my calling, and I really enjoy the work I do. With Audrey's help, it all fell into place after my injury.

Wayne Ward
Health and safety officer
Fractured right elbow and fingers on right hand

Inner strength

"My advice to other injured workers? Stick it out. You get better, and miracles do happen."

Byron Tarasoff suffered a devastating injury, but discovered strength in himself and the people around him to make a significant recovery.

The power of perseverance

Creating a new lease on life

I just wanted my life back.

I'm 25 years old and have been a social butterfly my whole life. On December 8, 2005, that all changed. A 52-pound sheave fell from 40 feet above, hitting me in the back of the head. The force knocked me forward in the snubbing basket I was working in, and I hit my head on the steel surface. I don't remember this; my mom told me the story.

I was in a coma for three weeks.

When I woke up in the University of Alberta hospital, I couldn't do the simplest of things, like walking or talking. I felt alone, and there were times I was suicidal.

I started the head trauma program at Millard Health in June 2006. My occupational therapist encouraged me to talk about my injury and helped rebuild my self-confidence. My family and friends also helped me throughout my recovery.

I've made a lot of progress since my accident.

I'm now back at work with my employer, Quattro Energy Services Inc. My advice to other injured workers? Stick it out. You get better, and miracles do happen.

Byron Tarasoff
Snubber in the oil industry
Massive head trauma

"I care about my clients. They could easily be a friend, neighbour, or relative of mine. I will continue to be there for them every step of the way."

Organizational strength

Rebecca Parker gathers strength from the job that allows her to help clients recover from injuries every day.

Finding a way–WCB staff make a difference

I care about my clients.

As a WCB case manager, I hear about many tragic workplace injuries, and I can empathize with what my clients are going through. They could easily be a friend, neighbour, or relative of mine.

My job gives me the opportunity to help injured workers like Paul Gillespie recover from his injuries and return to work. Paul was injured after the tractor he was driving hit a trench. The tractor came to a sudden stop, and his seat was ripped off the base of the cab. A back exam showed that his spinal cord was swelling, and he was immediately rushed to the hospital for emergency surgery.

Not only was Paul's injury more serious than we first thought, but he also had to face the reality that he wouldn't be returning to his old job. Our focus was simple at first—we needed to get Paul's health back. Now that he's on the road to recovery, we've started to shift our focus to his future career goals.

I want to see Paul succeed, and I will continue to be there for him every step of the way.

Rebecca Parker
Case manager
WCB-Alberta

Summary of Claims Administered

	2007		2006	
Active claims as of January 1		27,963		26,583
New time-lost claims	35,083		37,577	
New medical-aid-only claims	140,214		143,582	
Total new claims reported	175,297		181,159	
Recurrent claims[1]	14,182		15,589	
	189,479	189,479	196,748	196,748
Total claims administered		217,442		223,331

[1] *Previously inactive claims that required further adjudication or case management. Claims may reopen for a number of reasons such as payments for medical aid or requests for further compensation benefits.*

Non-eligible claims

TIME-LOST CLAIMS	2007	2006
Insufficient information available to process claim	242	204
Not covered under Workers' Compensation Act	124	145
Injury or illness not arising out of/in course of employment	2,019	2,097
Other	13	17

MEDICAL-AID-ONLY CLAIMS	2007	2006
Insufficient information available to process claim	4,251	3,874
Not covered under Workers' Compensation Act	1,465	1,422
Injury or illness not arising out of/in course of employment	3,467	3,033
Other	25	31

Return to work with new or accident employer

	2003	2004	2005	2006	2007
Total return to work	86.8%	88.5%	91.0%	92.4%	91.6%
Return to accident employer	83.8%	85.8%	88.4%	90.1%	89.2%
Return to other employment	3.0%	2.7%	2.6%	2.3%	2.4%

Number of modified-work-only claims as a percentage of claims reported

2003	2004	2005	2006	2007
9.8%	12.3%	13.6%	14.9%	15.7%

New claims by nature of injury	2007	2006
Sprain or strain	58,832	59,586
Superficial wound	32,101	34,216
Open wound	31,397	32,413
Occupational illness	11,533	12,251
Fracture, dislocation or nerve damage	7,708	8,184
Burn or scald	5,252	5,706
Multiple traumatic injuries	2,948	3,573
Intracranial injury	1,000	996
Environmental conditions	348	282
Other traumatic injury	16,459	15,372
Non-personal damage	586	577
Unclassified	7,133	8,003
TOTAL	175,297	181,159

New claims by part of body	2007	2006
Back	26,737	26,962
Finger(s)	25,933	27,141
Hand(s) or wrist(s)	19,633	20,182
Chest or shoulder(s)	15,859	15,911
Eye(s)	12,793	15,029
Foot (feet), toe(s) or ankle(s)	13,789	13,790
Arm(s)	12,389	13,262
Head	11,479	11,353
Knee(s)	9,521	9,703
Multiple parts	8,175	9,095
Leg(s)	5,936	5,898
Neck	3,438	3,223
Hip or pelvis	2,158	2,249
Ear(s)	2,696	2,481
Body system(s)	2,233	2,215
Abdomen	982	1,085
Non-personal damage	599	598
Unclassified	947	982
TOTAL	175,297	181,159

2007 Financial Highlights

Premium revenue of $977.7 million exceeded budget by $42.5 million and was down $25.6 million from 2006 due primarily to the reduction in the average provisional premium rate.

Average premium rate of $1.46 per $100.00 of insurable earnings was $0.03 over budget. This is 10.4% lower than the average rate collected in 2006.

Investment revenue of $568.0 million was once again a key driver of WCB's strong financial performance. The result was $214.4 million better than budget but $150.2 million lower than in 2006.

Claim costs of $855.3 million were $192.0 million under budget and $30.2 million lower than in 2006. The unexpected drop in claim volumes was a major reason for the lower-than-expected claim costs.

Administration expenses of $72.7 million were 2.1% under budget and $6.4 million higher than in 2006.

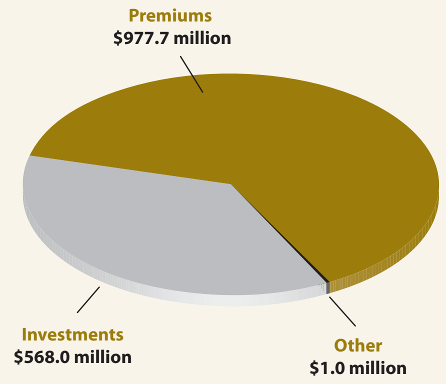
Operating surplus of $587.5 million was $447.2 million better than budget and $161.9 million less than in 2006.

Funded Position of $1,673.3 million decreased by $139.4 million over 2006.

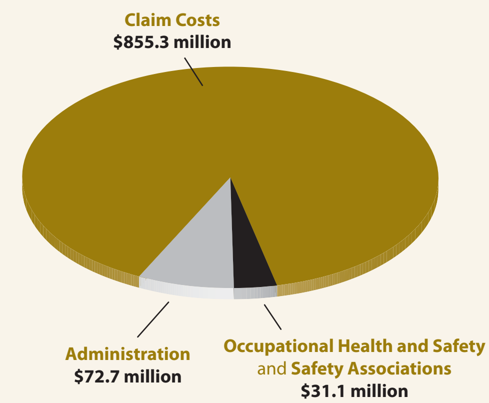
Investment portfolio decreased by $80.4 million, or 1.2% under 2006 on a fair-value basis.

Claim benefit liabilities rose $209.4 million, or 4.8% over 2006.

Revenue Breakdown: $1,546.7 million



Expenses Breakdown: $959.1 million



WCB-Alberta

Management Discussion and Analysis

of Financial Statements and Operating Results for the Year Ended December 31, 2007

Management Discussion and Analysis of 2007 Financial Statements and Operating Results

The Management Discussion and Analysis (MD&A) provides management's perspective on key issues that affect current and future performance of the Workers' Compensation Board of Alberta (WCB-Alberta, WCB). The MD&A, prepared as at March 20, 2008, should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2007.

Forward-looking statements

This report contains forward-looking statements about certain matters that are by their nature subject to many risks and uncertainties, which may cause actual results to differ materially from the statements made herein. Forward-looking statements include, but are not limited to, WCB objectives, strategies, targeted and expected financial results, and the outlook for WCB's business and for the Alberta and global economies. Risks and uncertainties include, but are not limited to, changing market, industry and general economic factors or conditions; changes in legislation affecting WCB policies and practices; changes in accounting standards; the ability to retain and recruit qualified personnel; and other risks, known or unknown. Some are predictable or within WCB control; many others are not. The reader is hereby cautioned not to place undue reliance on these forward-looking statements.

Unless otherwise indicated, all amounts shown are in millions of Canadian dollars.

Business Overview

Corporate profile

Founded in 1918, the Workers' Compensation Board is a not-for-profit organization with a legislative mandate under the Workers' Compensation Act (the Act) to administer the workers' compensation system for the province of Alberta. While accountable to the Minister of Employment and Immigration, WCB is not a provincial government department or Crown corporation, but is independently funded and operated as an insurance enterprise. Through the payment of premiums, over 135,000 employers fund the system, which covers more than 1.74 million workers.

WCB's mandate

In Canada, workers' compensation is a no-fault disability insurance system that protects both employers and workers against the economic impact of work-related injuries and occupational diseases. Based on the Meredith Principle,[1] the system covers injured workers for lost employment income and provides health care, rehabilitation and other services required because of a work-related injury, while employers are shielded from litigation. This system brings economic stability to the workplace through collective liability that minimizes the risks and expenses of injury. To achieve these objectives, the Act established the Accident Fund and imposed a statutory obligation on the WCB to ensure that it be fully funded.

[1]Refer to the Glossary for an outline of the concepts

At the highest and simplest level, WCB-Alberta is involved in two significant and complementary business activities: customer operations and financial management.

Customer operations provides disability insurance for workplace injuries. Key business processes include assessment and collection of premiums from employers, payment of compensation benefits to injured workers and return-to-work services.

Financial management uses an integrated risk-based approach to manage assets and liabilities and generate an adequate return on invested assets to pay for claim-related obligations. Key business processes include strategic financial planning, rate setting, investment management, claim benefit liability valuation, financial risk management and financial-performance reporting. Strong financial management not only ensures security of benefits for workers and fair premiums for employers, but also provides appropriate tools for evaluating how effectively WCB is meeting its financial obligations.

WCB vision and mission

The core principles set out in WCB's vision and mission shape the corporate beliefs and values that guide the organization's operating philosophy:

Vision
Albertans working – a safe, healthy and strong Alberta

Mission
WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.

WCB's strategic vision is to make a positive and lasting impact on the people, society and economy of Alberta through what it does, while the mission statement describes the operating guidelines for how it intends to conduct business.

2007 Financial Performance

OPERATING HIGHLIGHTS

Once again, the major themes underscoring WCB-Alberta's financial results for fiscal 2007 centre around the Alberta economy and the global capital markets. Behind the headline stories, WCB's commitment to service excellence continued to deliver record results in operating outcomes that contributed significantly to another strong financial performance. The important themes that underscore the 2007 performance include the following:

- Total revenue of $1,546.7 million offset by total expenses of $959.1 million yields an operating surplus of $587.5 million, a decrease of 21.6% over the $749.4 million surplus in 2006. These operating results contributed to the Funded Position of $1,673.3 million, or 133.0%, which is net of special dividends of $348.7 million payable in 2008. This dividend arises primarily from the exceptional investment returns over the past several years; however, recent market performance suggests much lower returns for the near term.

- Total premium revenue of $977.7 million is down 2.5% from the $1,003.3 million in 2006, reflecting the drop in the average provisional premium rate from $1.57 per $100.00 of insurable earnings in 2006 to $1.43 in 2007.
- Investment revenue is down in 2007 at $568.0 million compared to $718.2 million in 2006 due to a significant drop in the gains from the investment portfolio. During the second half of 2007, financial markets responded to significant write-downs on debt instruments triggered by the sub-prime mortgage situation. What started as a liquidity crunch soon turned into a global credit crisis with significant risk repricing. These market events led to an annualized return of 2.9% for WCB's investment portfolio at the end of 2007, down from the 2006 return of 12.1%.
- Total claim costs of $855.3 million decreased $30.2 million, or 3.4%, from the previous year due primarily to lower long-term disability benefit costs and a decline in claim volume. Effective case management and the ongoing focus on return-to-work outcomes continued to produce impressive results on the cost side. Average claim duration continued its downward trend, ending the year at 33.0 days. Claim volume of 175,297 is down 3.2% from 2006 even though provincial employment growth of 4.3%[2] is comparable to the previous year. Administration and other expenses of $103.8 million brought total expenses to $959.1 million, or 1.5% lower than 2006.

The table below summarizes the major contributors to WCB's operating surplus of $587.5 million.

($ millions)	**2007 Budget**	**2007 Actual**	2006 Actual
Premiums			
Surplus premium revenue resulting from the actual premium rate collected of $1.46 (2006 – $1.63) being higher than the required premium rate of $1.31 (2006 – $1.34), based on insurable earnings	$ -	$ 96.1	$ 176.3
Investments			
Excess of investment income over the interest requirement of $242.5 million (2006 – $229.4 million) on the claim benefit liability	110.5	325.5	488.8
Claim benefit liabilities			
Change in discount rate on claim benefit liabilities	-	(114.8)	-
Other changes in actuarial methods and assumptions	-	194.4	(8.2)
Actuarial adjustments due to claims experience	29.2	91.3	86.0
Other			
Other revenue (expense) items	0.6	(5.0)	6.5
Operating surplus	$ 140.3	$ 587.5	$ 749.4

In its simplest terms, the funding model for WCB operates on the premise that in a given year, premiums cover all operating costs on a break-even basis, while investment returns are expected to cover the annual interest requirement on the liability. Operating surpluses or deficits arise when actual cost and returns are different from forecasted expectations, which rely on economic and business assumptions based on available information at a point in time. Given the volatile performance of local and global economies, forecasting is subject to a great deal of uncertainty and risk. Consequently, actual results will likely differ significantly from even the most rigorously developed plans.

[2] *Alberta Employment and Immigration, Labour Force Statistics, December 2007*

Customer Operations

PREMIUMS

Insurable earnings

$1.4 billion (2.1%) over budget

Alberta's economy continued to apply upward pressure on payrolls, increasing 2007 insurable earnings to $66.9 billion compared to the budget of $65.5 billion. The business/personal/professional services sector showed the largest absolute increase against the budget, at 6.5%, followed by construction at 3.6%.

$6.3 billion (10.4%) over prior year

Alberta employment growth and wage escalation were the primary factors for the 10.4% increase in 2007, with the construction and business/personal/professional services sectors leading the way with 17.0% and 14.6% increases, respectively.

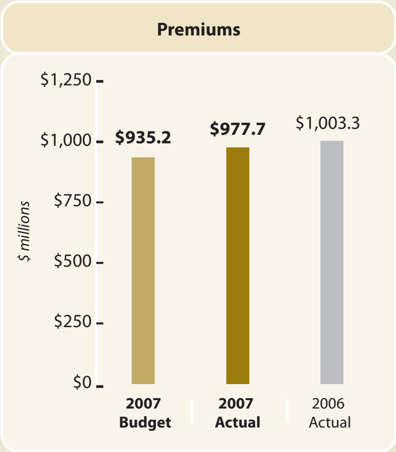
Premium revenue

$42.5 million (4.5%) over budget

The 2007 positive variance in premium revenue of $42.5 million stemmed primarily from higher increases in insurable earnings than planned, particularly in higher-rated industries. Again, construction led all sectors at $14.9 million, or 4.9% higher than the budget, with business/personal/professional services at $11.4 million (18.0%) and trade following at $11.3 million (9.9%).

$25.6 million (2.5%) under prior year

The decrease in revenues from $1,003.3 million to $977.7 million was due primarily to the reduction in the average provisional premium rate from $1.57 for 2006 to $1.43 for 2007.



PREMIUM RATES

Total premium revenue requirements for rate-setting purposes are based on projected operating expenses for the following year. Base revenue requirements are composed of fully funded costs of claims arising in the current year, administration costs related to those claims, general administration expenses for WCB operations, and transfer levies. In addition, premiums include a funding levy for the Occupational Disease Reserve plus any special levies necessary to replenish the Accident Fund in accordance with the Funding Policy.

Average premium rate

$0.03 (2.1%) over budget

Similar to 2006, higher wage growth, primarily in higher-rated industries, resulted in an average actual rate that was $0.03 above budget.

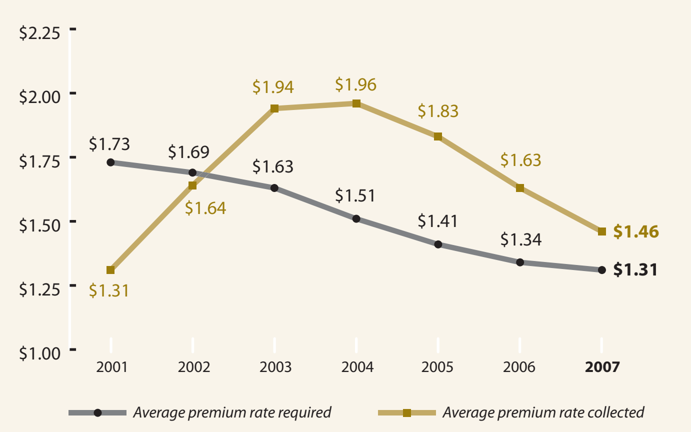
$0.14 (8.9%) budget reduction from prior year

The reduction from $1.57 to $1.43 in the average budget rate reflects reductions in the requirements for operating costs.

Average Premium Rate

The chart presents a seven-year trend comparison of required versus collected premium rates. In 2001, the shortfall in the required rate resulted from subsidizing the rates through excess investment returns. Current and future premium rates are no longer discounted, as the Funding Policy stipulates that the required rate and resulting revenue cover the current-year fully funded claim costs.

Average Premium Rates, Required vs. Collected, 2001–2007



The 2007 premium requirement and rate were based on projected fully funded claim costs and insurable earnings using the best information available in early Q4 2006. Better-than-expected cost performance, coupled with higher-than-estimated insurable earnings, culminated in higher premiums collected than required for fiscal 2007. The surplus premium of $96.1 million accounts for 16.4% of the overall operating surplus.

CLAIM COSTS

Claim costs are an estimate of current and future costs arising from compensable injuries occurring in 2007, the future costs to administer these claims, and claim benefit liability adjustments relating to prior years' injuries.

Claim costs

$192.0 million (18.3%) under budget

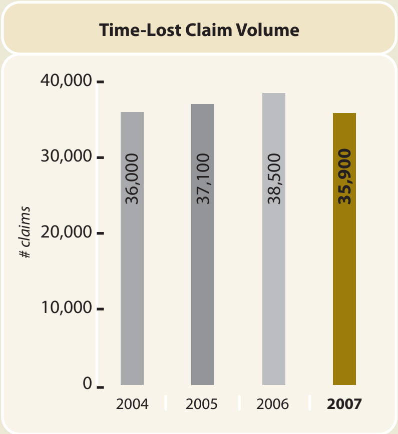
An unexpected drop in claim volume, sound management of current-year and prior-year claims expenditures, and favourable adjustments to the claim benefit liability resulted in lower-than-expected claim costs.

$30.2 million (3.4%) under prior year

Continued improvement in claim resolution and return-to-work outcomes more than offset the effects of wage growth, resulting in claim costs being slightly lower than the prior year.

Claim benefit costs

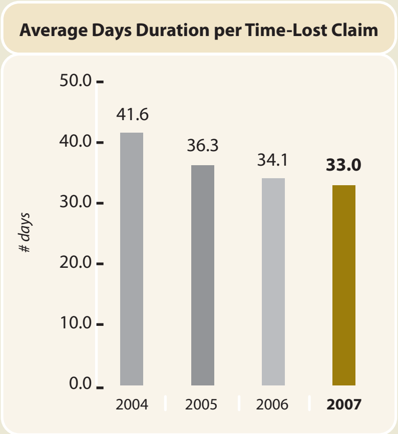
Processed claim-benefit costs for 2007 were well below expectations. Lower volume and costs of economic loss payment and survivor cases contributed $42.5 million to the positive budget variance. Health care costs were $35.0 million lower than expected due to decreasing volume and duration of injuries, while the impact of lower claim volume on other cost categories accounts for another $37.2 million of the variance. The remaining $77.3 million of the claim costs variance stems primarily from the effects of these declining costs and volumes on the claim benefit liability.



Claim volume

The Alberta economy added 82,500[3] jobs during 2007, a year-over-year gain of 4.3%. Similarly, the number of workers covered by WCB increased by 5.7%. Despite rising employment, time-lost-claim (TLC) volume fell from 38,500 in 2006 to 35,900 in 2007, a drop of 6.8%.

The increase in covered workers, coupled with the drop in TLC volume, resulted in the TLC projected rate dropping to 2.06 claims per 100 workers, a substantial decrease of 11.6%. Similarly, the disabling-injury rate (TLC + modified-work- only cases = disabling injuries) dropped by 8.3% to 3.64 disabling injuries per 100 workers.



Claim duration

Effective case management, medical management, innovative modified work programs and coordinated return-to-work planning resulted in another record achievement for claim duration (average elapsed time from accident to return to work) of 33.0 days, down from 34.1 days in 2006.

[3] *Alberta Employment and Immigration, Labour Force Statistics, December 2007*

ADMINISTRATION

$1.6 million (2.1%) under budget

Administration came in under budget, mainly due to effective expenditure management and lower-than-expected employee benefit costs.

$6.3 million (9.5%) higher than prior year

The increase over 2006 reflects inflationary pressure on operating costs from Alberta's rapidly expanding economy. Over the past five years, administration expenses have increased on average by 3.8% per year.

Administration expenses exclude claim-related administration costs (2007 – $70.8 million, 2006 – $65.4 million) that are included in claim costs.

Financial Management

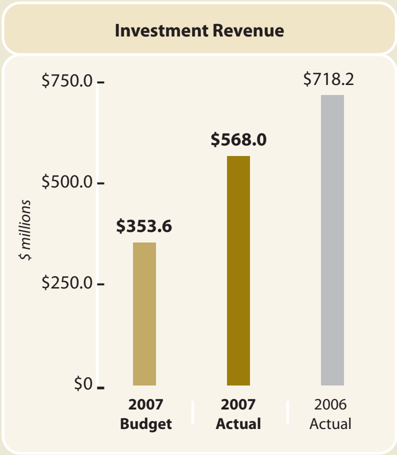
Investment revenue

$214.4 million (60.6%) over budget

The primary contributor to the 2007 budget variance was the currency hedging program, which generated $118.3 million, while portfolio gains released from Accumulated Other Comprehensive Income were $62.5 million higher than expected.

$150.2 million (20.9%) under prior year

The decrease from 2006 is due to a significant drop in gains realized from portfolio turnover, as well as generally lower bond yields.



INVESTMENTS

From 2004 to 2007, investment returns were one of the key drivers of WCB's exceptional financial results. The following discussion provides an overview of the economic and market forces that had a direct impact on WCB's investment portfolio and returns.

Capital markets overview

Financial markets enjoyed sustained growth as the world economy recorded real GDP growth of 4.7% in 2007, down moderately from a rising trend in 2006.[4] Gains in equity prices in emerging markets coincided with generally favourable macroeconomic conditions and a strong appetite for risk among global investors. Among major asset classes, 2007 performance was led by emerging market equities.

Another event in 2007 was the significant contraction in liquidity following the collapse of the sub-prime mortgage market. Concerns in the financial and housing sectors related to sub-prime mortgages and their spillover into the securitized-debt market rapidly affected liquidity and valuations on a global scale, leading to a repricing of risk throughout the capital markets.

These issues affected the domestic fixed income market when the Canadian non-bank sponsored asset-backed commercial paper (ABCP) market collapsed, culminating in loss of liquidity and declining valuations. As at December 31, 2007, WCB's indirect exposure through pooled investment funds, consisting primarily of bank-sponsored paper and structured investment vehicles, totaled approximately $56.3 million. As the December 31, 2007 valuation of the pooled investments reflects the current market value of these products, any differences from their year-end valuations that may arise through eventual sale or maturity should not materially affect WCB's financial position or results in 2008.

Portfolio performance

Market returns

The portfolio earned a nominal market rate of return of 2.9% for 2007 (0.8% below the policy benchmark) and earned 9.4% for the four-year period ended December 31, 2007 (0.1% above the benchmark). This is still well above long-term expectations of 6.3% per annum from the 2007 Asset-Liability Study. The primary goal of the investment portfolio is to earn a real rate of return (nominal rate less inflation) that meets or exceeds the actuarial required real rate of return. On this basis, the real rate of return for 2007 of negative 2.0% (nominal rate of 2.9% less inflation of 4.9%) was well below the actuarial required rate of 3.0%. It is important to note that because the portfolio is designed to produce sustainable positive returns over a long investment horizon, the risk of short-term volatility is anticipated and managed in accordance with the Investment Policy.

Benchmark returns

The benchmark return is composed of benchmark index returns for each asset class, weighted by the policy asset mix. Performance vs. the benchmark is a relative measure of success in implementing the investment program through active management. In all asset classes except Canadian bonds, Canadian equities and global equities, the portfolio outperformed the benchmarks as a result of the successful active management strategies deployed by fund managers. For the underperforming asset classes, the key factor was the desire to hold assets with strong potential for long-term appreciation rather than assets that respond to short-term market fluctuations.

The *2007 Annual Investment Report* at www.wcb.ab.ca contains a detailed analysis of portfolio returns.

[4] *Alberta Employment and Immigration, Economic Outlook for Alberta Spring Update March 2008, World Trade and GDP Growth*

INVESTMENT POLICY

The Investment Policy contains the goals, objectives and target asset mix for the portfolio. It also describes the permitted investments, constraints and controls for management of the portfolio. The underlying investment philosophy emphasizes minimizing volatility while maximizing returns. The desired outcome is to generate investment returns over the long term that exceed the actuarial required real rate of return (currently 3.0%) with greater certainty. Investment returns are expected to cover the annual interest requirement of the liability.

Portfolio management

Asset mix

Asset mix is the primary driver of portfolio risk and return, with targets defined in the Investment Policy. As at December 31, 2007, the investment portfolio was in compliance with the Investment Policy.

2007 Asset Mix vs. Policy Mix

Asset Class	Actual Asset Mix[1]	Policy Asset Mix
Cash and cash equivalents	1.2%	1.0%
Conventional bonds and mortgages	41.8%	40.5%
Real return bonds	6.7%	8.0%
Real estate	5.5%	5.0%
Canadian equity	11.2%	11.5%
Global equity	29.2%	30.0%
Emerging-markets equity	4.4%	4.0%
	100.0%	100.0%

[1] *Asset mix percentages reflect the effects of asset overlay contracts secured against the cash balance of the portfolio. Asset overlays are a portfolio management technique used to achieve desired exposures without actually holding market securities directly.*

Use of derivatives

WCB's investment portfolio includes derivatives that are used to manage asset exposures. Derivative contracts are undertaken to provide market exposure, to replicate permitted investments, or as part of a hedging strategy to reduce portfolio risk. They are used only within stringent guidelines and controls, and not for speculative reasons. Derivative positions are monitored on a monthly basis for compliance with the Investment Policy and reported to senior management and WCB's Finance Committee on a quarterly basis.

The investment portfolio includes passive currency overlays to hedge foreign-currency exposure. Fifty per cent (+/–10%) of the foreign-currency exposure assumed through the global-equity asset class is hedged back to Canadian dollars, while 100% of the new global-fixed-income mandate is hedged. Hedging transactions are executed through an external overlay manager independent of the underlying foreign-equity managers, and the performance impact is clearly separated and monitored.

Enhanced risk management

During 2007, WCB initiated research into a structured risk-management approach that quantifies and monitors risk in an integrated and disciplined manner through the systematic evaluation of risk tolerance, development of risk metrics, and analytical reporting of risk performance. Implementation of this approach is anticipated to begin in 2008.

CLAIM BENEFIT LIABILITIES

At the end of each fiscal year, WCB determines its claim benefit liabilities for all injuries that have taken place up to that date. These liabilities represent the actuarial present value of all future benefit and related administration costs, excluding costs attributable to self-insured employers. As at December 31, 2007, claim benefit liabilities aggregated to $4,606.3 million, an increase of $209.4 million, or 4.8%, over 2006.

Significant changes in liabilities

The overall increase in liability of $209.4 million is attributable to the following:

($ millions)	
Provision for future costs of current-year injuries	$ 563.5
Interest requirement on the liabilty	242.5
Benefit payments for prior years' injuries	(425.7)
Change in the real discount rate from 3.25% to 3.00%	114.8
Changes in actuarial methods and assumptions	(194.4)
Claim-cost-experience gains	(91.3)
	$ 209.4

Actuarial methods and assumptions

The most significant change in methods and assumptions was the reduction in the real discount rate[5] from 3.25% to 3.00%, which increased the liability by $114.8 million. As the real discount rate decreases, the amount of assets needed to pay for the projected future benefits increases; hence, the value of the liability also increases.

The following changes in the methods and assumptions used to value the liability decreased the liability by $194.4 million:

- introduction of development rates and transfer probabilities for economic loss payments (ELPs) ($55.4 million)
- new incidence rates for outstanding ELPs ($125.1 million)
- other changes ($13.9 million)

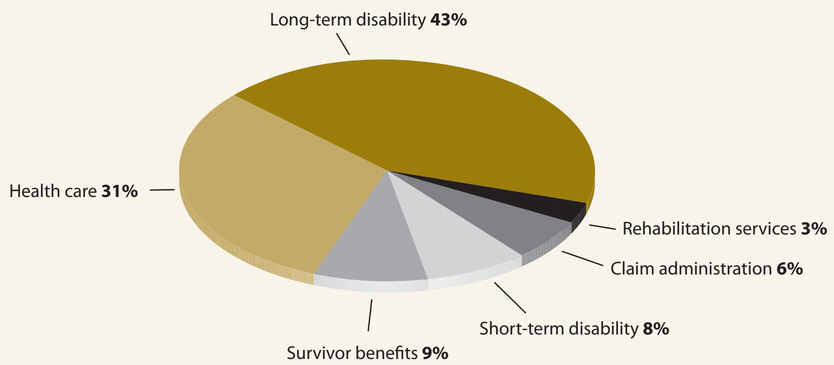
[5] *Refer to the Glossary for further explanation of the rate.*

Impact of claims experience

Differences between actual experience and what was expected in the prior valuation result in experience losses (which increase the liability) or gains (which decrease the liability). The difference between actual long-term cost-of-living adjustments and inflation, versus what was expected, resulted in a loss of $77.1 million. Actual claim costs were lower than expected, resulting in a $168.4 million gain. Net claims-experience gains were therefore $91.3 million. Claims-experience gains of $168.4 million include the following factors:

($ millions)		
Lower volume of ELP awards in 2007 than expected	$	72.2
Greater-than-expected recovery of pre-accident earnings for ELPs in-pay		25.5
Lower health-care-costs experience		20.0
Lower short-term-disability experience		14.2
Other experience gains		36.5
	$	168.4

Claim Benefit Liabilities, December 31, 2007



Sensitivity of actuarial assumptions

Claim benefit liabilities are estimated primarily using actuarial assumptions for the real discount rate, the claim incidence rate, the cost escalation rate and benefits duration. Because of the large values involved, the liability estimates are highly sensitive to even small changes in these actuarial assumptions.

Details of the changes in claim benefit liabilities during 2007, as well as further discussion of the sensitivity of actuarial assumptions, can be found in Note 11, Claim Benefit Liabilities, in the accompanying financial statements and notes.

FUNDING POLICY

The primary financial-management strategy is the Funding Policy, which represents the framework within which financial decisions and plans are made. The Funding Policy is not a static process, but evolves—through rigorous management review, stakeholder consultation and Board of Director approval—to address changing economic and financial circumstances. The vision is to establish a Funding Policy, supported by comprehensive asset-liability analysis that responds dynamically to changing economic conditions.

Funding principles and objectives

The strategic aim of funding and investment policies is to strive for balance between financial risk (i.e., volatility), investment returns and funding stability. Specifically, the Funding Policy embodies these financial objectives:

- Minimize the risk of becoming unfunded.
- Minimize cost volatility to employers.
- Charge premiums that reflect the cost of current-year claims.

The funding mechanisms that evolved from these objectives address those risks that may affect the financial stability of WCB—primarily investment volatility. Funding Policy rules are in place to minimize these risks, with ongoing monitoring and evaluation to ensure that they continue to respond effectively to changing economic conditions.

Funding rules

The rules guiding financial decisions under the Funding Policy include the following:

- premium-rate design based on current-year fully funded claim costs (i.e., full cost recovery with no rate subsidization or smoothing)
- minimum premium cost to employers set at 60% of industry-rated premiums
- multiple target ranges to guide funding decisions and accommodate volatility
- surplus distribution dividend or fund replenishment levy used as funding adjustment mechanisms

These rules help achieve equity and consistency in the attribution of costs among employers and ensure intergenerational equity by requiring current employers to cover the cost of current-year injuries.

Funding allocations

The Accident Fund represents all the WCB assets available to discharge its legislative mandate. The allocation of assets to each of the WCB's fiduciary obligations is expressed as a percentage of total liabilities as at the reporting date:

- Fully funded status is achieved when assets are sufficient for payment of all current and future compensation and related administration costs (target level: 100%).
- Assets are retained in the Fund Balance to lessen the risk of becoming unfunded (minimum target level: 16%).
- Assets are reserved in the Occupational Disease Reserve (ODR) to provide for significant unforeseen costs related to latent occupational injury or disease (target level: 6%).

The target funding range is between 116% and 122%. Surplus assets exceeding the 122% funding level are available for distribution to employers, whereas replenishment levies would be required if assets fell below 116%. Proposed changes to this target range will be reviewed in 2008 using the WCB's policy consultation process.

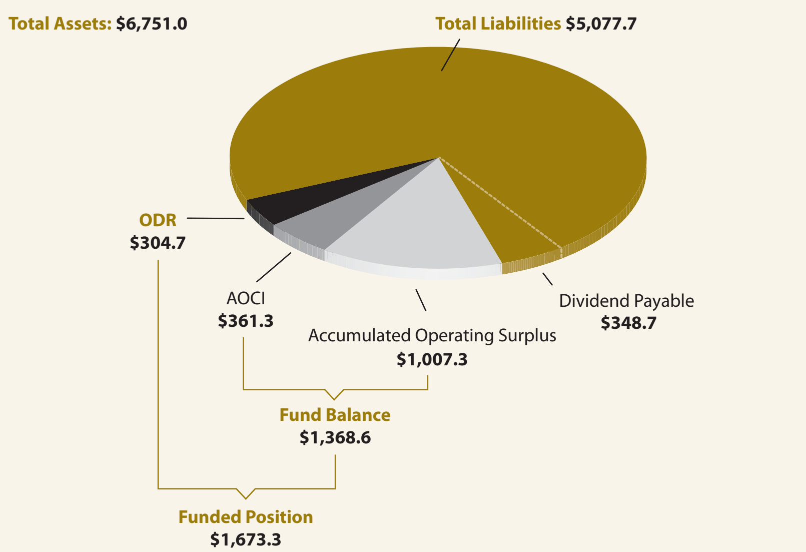
Funded Position

The table below presents the major changes in Funded Position and the ending balance as at December 31, 2007:

($ millions)	Opening	**2007 Change**	**Ending**
Accumulated operating surplus for the year	$ 762.1	$ 587.5	$ 1,349.6
Special dividends	-	(336.0)	(336.0)
ODR maintenance funding	-	(6.3)	(6.3)
Accumulated operating surplus	762.1	245.2	1,007.3
Net unrealized gains on available-for-investment securities	752.2	(390.9)	361.3
Fund Balance	1,514.3	(145.7)	1,368.6
Occupational Disease Reserve	298.4	6.3	304.7
Funded Position	$ 1,812.7	$ (139.4)	$ 1,673.3

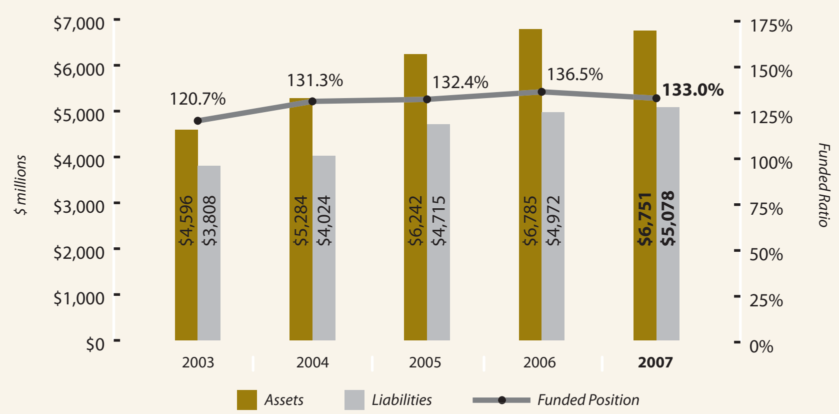
As at December 31, 2007, the funded ratio (total assets to total liabilities) was 133.0%, compared to 136.5% at the end of 2006. Viewed from another perspective, WCB has total assets of $6.8 billion to cover its total estimated liabilities of $5.1 billion. This position is the result of sustained economic growth, successful case-management initiatives and a well-managed investment portfolio. Based on this strong position, WCB-Alberta will be paying a special dividend in 2008 to return a portion of excess funding to employers.

Allocation of Fund Assets, December 31, 2007 ($ millions)



The chart below presents the Funded Position from 2003 through 2007. For comparability with current results, assets and liabilities for 2003 have been restated to reflect fair-value accounting.

Funded Position, 2003–2007



Risk Management

OVERSIGHT

Under the WCB corporate governance structure, the Board of Directors is responsible for overall risk management. The executive team, which has a mandate to identify and manage enterprise level risk, is assisted by the Risk Management Committee, composed of a group of senior managers with responsibility for risk identification, assessment and mitigation at the operating level.

RISK ASSESSMENT

WCB has three primary processes for managing risk in the corporation. First, risk management is embedded as an inherent function of day-to-day business. Projects or changes to business processes must go through a documented risk analysis to assess risk and identify mitigation plans and controls to lessen the likelihood or impact of these risks. The second process is to systematically complete a comprehensive risk assessment of emerging corporate risks as they develop throughout the year. Finally, WCB also completes an annual corporate risk assessment that engages departmental management teams and senior managers to develop a comprehensive organizational risk register. The executive team prioritizes those risks with the highest potential residual impact to the WCB and selects a number for comprehensive risk assessment and mitigation.

SIGNIFICANT RISKS

WCB has identified the following risk exposures that could have significant impact on the organization and its operations.

Benefit cost risk

Many of WCB's current and future claims are subject to external factors that have potentially significant impacts on the amount and duration of related benefit costs. These risks and uncertainties are driven largely by economic conditions, such as escalation of health care costs and wage growth; however, other factors may arise through administrative precedents established through the appeals process, legislative changes, or from new medical findings for occupational disease, among others. All these factors add significant uncertainty to WCB's cost structure and may impose, over time, significant pressures on the funding model.

Fraud-related risk

WCB annually collects approximately one billion dollars in premium revenue and distributes or reserves a similar amount for claim benefits and administrative costs. The magnitude of these costs and the number of individuals and companies involved in these processes—approximately 135,000 employers, 180,000 claimants and thousands of service providers—create an inherent risk for fraud. WCB has an extensive audit program used to monitor the organization's ability to protect against fraud and implement additional controls, as required, to strengthen WCB's management of fraud risk.

Funding risk

Managing the components of WCB's overall Funded Position is a complex process that involves forecasting, liability projection, investment management and operational performance. Although these processes are within management's influence or control, many of the assumptions used in forecasting involve significant uncertainty regarding the future. Asset-liability management is being enhanced to provide better systems, tools, processes and information to enhance forecasting, financial-planning and decision-making processes within WCB.

Investment risk

In its investment portfolio, WCB is exposed to financial risk, which include market and credit risk, among others. Market risk is the risk that the fair value of investments and/or associated cash flows may change because of changing general economic conditions or factors specific to individual securities. Credit risk is the potential of a debt issuer or counterparty in a financial contract to default on its obligation to WCB. Details of financial risks related to investments are discussed in Note 7, Financial Risk Management, in the accompanying financial statements and notes.

Premium risk

WCB has exposure to premium risk, which is the risk that premiums set for the coming fiscal period will not be sufficient to cover the operating costs in that year. These risks and uncertainties are largely driven by provincial economic conditions, such as employment growth and wage escalation. To manage premium-pricing risk, WCB has instituted a comprehensive forecasting program that leverages widely accepted economic-forecasting sources, such as the Conference Board of Canada.

Technology risk

To support its core business processes, WCB uses a number of information systems for processing transactions and maintaining claimant and employer information. If these systems were to fail or were compromised, significant disruption to business processes and customer service could result. To mitigate technology risk, WCB maintains a business continuity plan, system controls and backup systems to prevent processing failures and provides extensive training to develop internal system expertise.

Implications of Accounting Policies and Estimates

The adoption of accounting policies in accordance with Canadian generally accepted accounting principles (GAAP) requires that management make assumptions and estimates that could significantly affect the results of operations and WCB's financial condition. The following discusses significant accounting policies and estimates that may have a material effect on current and future financial statements.

Premiums

In advance of the fiscal year, and based on Funding Policy and projections in the Five-Year Plan, WCB estimates the total premium amount necessary to cover estimated claims costs, transfer levies, administration expenses and funding requirements. Because premium rates are set well in advance of revenue being realized, they reflect macroeconomic and business assumptions that will likely change prior to and during the fiscal period. Consequently, the premiums collected may be more or less than sufficient to cover estimated funding requirements, and the difference could be significant under dynamic business conditions.

Investments

Investment assets are financial instruments that have been designated as available-for-sale securities, whose primary purpose is to maintain capital and generate investment income over the long term. Because WCB accounts for investments at fair value, which reflects realizable market value, this accounting policy could lead to significant volatility in the balance sheet in turbulent capital markets. Any funding ratios based on asset values would therefore be volatile as well.

Derivatives

The fair value of a derivative contract is its change in value with respect to the change in the underlying security or reference index to which the contract is linked. Gains and losses on both outstanding and closed derivative contracts are recognized in income in the periods in which they arose. Since the fair value of a derivative is exposed to market changes, the underlying derivative positions could be volatile as well.

Asset capitalization and amortization

The acquisition or development costs of long-lived assets are amortized over their useful lives. Selection of applicable costs to capitalize and the estimate of asset useful life both require application of professional judgment within the context of corporate policy and industry practice. Furthermore, future periods will be affected by the estimate of useful life and choice of amortization pattern, which determine the timing and amount of expense recognized in each of those future periods.

Valuation of claim benefit liabilities

WCB has significant obligations extending well into the future for compensation benefits to injured workers. WCB applies the actuarial present value methodology for its claim benefit liabilities. The actuarial process projects benefit cost streams into the future and discounts them to present value using a discount rate linked to the return on the investment assets funding those liabilities. Measurement uncertainty is high because assumptions regarding the amount, timing and duration of the benefit commitments and expected future return on assets are all difficult to predict accurately and are influenced by external factors outside management's control. Consequently, the selection of one assumption over another in estimating claim benefit liabilities could have a material impact on the liability valuation.

Governance and Compliance

Legislative authority

Under the authority of the Workers' Compensation Act, the WCB is a provincial board-governed organization that operates independently while reporting to the Minister of Employment and Immigration (the Minister).

Accountability Framework reporting

Through consultation with the Minister and stakeholders, the Accountability Framework was approved in 2002 to provide Albertans with a set of performance measures that compare actual WCB results against established standards and/or industry benchmarks. These measures cover such areas of WCB operations as communications with stakeholders, client satisfaction, consistency, clarity and fairness of claim decisions, timeliness and effectiveness of WCB services, financial capability and effectiveness of injury prevention programs. The Auditor General reviews the reported measures for completeness, comparability and clarity, but does not audit the results. The *2007 Accountability Framework Report* can be viewed at www.wcb.ab.ca.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (ICOFR) to provide reasonable assurance regarding the reliability of the entity's financial reporting and the preparation of its financial statements in accordance with generally accepted accounting principles. WCB has developed a framework and plan for the overall ICOFR program, which is anticipated to require several years to complete. The framework is based on best practices under the COSO[6] and COBIT[7] frameworks. The ICOFR program is assisted by WCB's Management Audit group and is coordinated with the Office of the Auditor General with respect to integration with the annual financial audit.

In 2007, significant progress on this initiative was achieved, with completion of controls identification and assessments for investment management and financial reporting processes.

Business planning

An important aspect of the financial planning and budgeting process is its linkage to the WCB's strategic plan and the resulting corporate objectives that are developed each year in support of the strategic plan. These objectives and the related performance indicators set the direction for the organization and identify the significant areas of focus for the coming year. The *2008 Budget and 2008–2012 Financial Plan* establishes the foundation for appropriate resource allocation for attaining the corporate objectives. A copy of the plan can be viewed at www.wcb.ab.ca.

[6] *Committee of Sponsoring Organizations of the Treadway Commission, which developed a governance framework for internal control*

[7] *Control Objectives for Information and Related Technology, a collection of best practices for IT governance, control and assurance*

Emerging Issues

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the changeover date for adoption of International Financial Reporting Standards (IFRS) will be January 1, 2011. Practically, changes to accounting processes and systems must be completed by Q4 2009 in order to develop comparative IFRS financial results for fiscal 2010.

By mid-2007, WCB had completed a comprehensive high-level evaluation and convergence strategy that was subsequently reviewed and validated by an accounting firm. As at the end of 2007, WCB had made substantial progress in the development of assessment tools and reporting templates, as well as the detailed evaluation of IFRS impacts and preliminary positions on accounting policy choices. Following a formal launch of the convergence initiative in 2008, a more detailed plan will be implemented.

Insurance contracts

In May 2007, the International Accounting Standards Board (IASB) issued a discussion paper on insurance contracts. The paper represents the conceptual phase of the standard-setting process, to be followed by an exposure draft expected no earlier than 2010 and a final standard by 2011, with the target effective date likely to be 2012 at the earliest. The paper clearly outlines the IASB's preliminary views on the accounting basis for insurance contracts, which is fair value based on current exit value. Although no impact on financial results is expected until the new standard becomes effective, IFRS implementation over the next three years will provide an appropriate context to monitor developments related to this important standard and to start planning for its eventual adoption.

Looking Ahead

The challenge for WCB-Alberta in the near term will be to manage the business in light of economic uncertainty and to protect the investment portfolio against escalating risk in turbulent markets. To achieve these goals, WCB's business priorities are to build on those operational and financial strategies that have contributed to organizational success. Management will be closely monitoring economic and operating trends to proactively develop effective responses to emerging business issues.

Economic outlook

Anticipating a slowdown or even a de facto recession in the U.S. economy, all major global economies should experience some moderation of their recent GDP growth. Fallout from the global credit crisis and the loss of confidence in the consumer-driven U.S. economy will likely spill over into Canada. Economic forecasts call for 2.6% real GDP growth in 2008, while Alberta can expect real GDP growth of 3.3%[8], up from 2.6% in 2006 ; however, the key economic indicators that have significant implications for WCB are employment and wage growth.

The Conference Board of Canada's forecasted growth for the Alberta economy in 2008 is not expected to have a direct effect on WCB's outlook for planning purposes. Over the past few years, the Conference Board's predictions of Alberta's economic growth have differed markedly from the WCB's experience and forecasts as the population of workers covered by WCB has experienced more significant wage growth changes than the overall provincial average. WCB is projecting employment growth of 2.75%, down from 4.3% in 2007, and expects a 7.0% increase in insurable earnings for 2008, down from 10.4% in 2007.

Investment outlook

From 2003 to 2006, the investment portfolio earned rates of return greater than 10% annually, but for 2007, the market downturn led to a return of only 2.9%. With low bond yields, creeping inflation and dividend yields in the range of 2% to 3%, continuing double-digit returns are highly unlikely. In the near term, volatile, single-digit rates of return are more likely. The total portfolio return for 2008 has been set at 6.4% for planning purposes; however, continued weak market performance may result in much lower returns.

As always, the uncertainty of market returns presents difficult challenges for maintaining financial stability. The investment portfolio strategy has a balanced focus on minimizing volatility while protecting returns through asset diversification and rigorous manager selection.

Business outlook

Customer operations

On the customer operations front, WCB will continue to look for opportunities to improve outcomes. Maintaining current service levels and improving on an already high level of quality will be challenging tasks in the face of escalating costs, a tight market for qualified staff and increasing numbers of foreign workers returning to their native countries post-injury. However, the proven effectiveness of WCB's service delivery model is a solid platform for continuing success, relying on the dedication and professionalism of its staff to deliver services compassionately and in a timely and effective fashion.

[8] *Conference Board of Canada Forecast Winter 2008 as cited in Alberta Finance Current Economic Indicators by Province for the week ended March 28, 2008*

Together with its stakeholders, WCB continues to be successful in injury management, having reached the lowest time-lost claim rate per 100 covered workers in its history. Management remains cautiously optimistic that slow but steady improvement is still attainable. Working with its stakeholders, WCB will continue to capitalize on modified-work opportunities that are both safe and meaningful for injured workers. The right modified-work opportunities have helped injured workers take advantage of on-the-job rehabilitation, while giving employers the chance to keep their valued employees in a tough labour market. For 2008, modified-work-only claims are expected to rise by 7.4%, and time-lost-claim volume is expected to grow by 2.1%, with the number of covered workers increasing by 4.8%. Claim duration is projected to remain stable.

Financial management

Given the uncertainty and risks associated with integrated global markets, the ongoing challenge for WCB financial management is to maintain a planning and decision-making process to protect the integrity and stability of the Accident Fund.

In 2007, WCB engaged its external actuary to conduct an asset-liability study using various economic scenarios to test their impact on WCB's financial position. This modelling study identified possible changes to the Funding Policy that could minimize funding volatility. These changes will be reviewed in 2008 using the WCB's policy consultation process.

WCB will continue to execute effective financial management strategies by enhancing the existing asset-liability management framework. This framework represents a holistic approach to financial analysis, planning and decision making.

2008 premium rate

In 2008, the average premium rate will drop by 7.7 % to $1.32 per $100.00 of insurable earnings from the 2007 provisional average rate of $1.43. This decline in the average premium rate is attributable to stable accident frequency and claim costs, while insurable earnings continue to grow along with Alberta's economy. As well, effective safety initiatives are anticipated to limit the growth in claims to less than the growth in insurable earnings.

With all WCBs having announced their rates for 2008, WCB-Alberta continues to have the lowest average premium rate in Canada. Alberta's premium rates have been consistently among the lowest in Canada over the past decade.

Outlook for financial condition

At the end of 2007, WCB's funded ratio was 133.0% (assets over liabilities), even after special dividends of $348.7 million payable in 2008. Given economic uncertainty and the volatility of investment returns, it is unlikely that future financial performance or special dividends will remain at present levels. Once the Funding Policy and surplus-distribution process have achieved the objective of bringing the Funded Position into the target funding range, the frequency and amount of future dividends are expected to be much lower, even to the point where special premium levies could be required.

Facing the future

Looking toward the future, Alberta's strong compensation system faces some challenges:

- Recent events in financial markets will likely have a material impact on overall funding levels, which reinforces the need to review and consult stakeholders on funding policy.
- An increasingly multilingual and transient workforce may introduce service and communication challenges. WCB-Alberta is committed to ensuring that all workers enjoy the protection and benefits of the workers' compensation system.
- Staff attraction and retention challenges have led to a renewed commitment to continue to be an employer of choice and to look for innovations that will help attract, develop and retain talented staff.

WCB-Alberta is prepared to face these challenges through ongoing stakeholder consultation on key issues, ongoing innovation of its business, development of online systems enabling its clients to transact their WCB business simply and efficiently, and employee retention and development strategies aimed at ensuring that the organization continues to be one of Alberta's top employers.

Together with its partners, WCB will continue to look for ways to minimize the impact of workplace illness and injury for Albertans and their employers. Through clear focus on the core business and commitment to its core values, WCB-Alberta remains well poised to face the future.

WCB-Alberta

2007 Financial Statements

Responsibility for Financial Reporting

The financial statements of the Workers' Compensation Board were prepared by management, which is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting principles consistent with generally accepted accounting principles in Canada.

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

The Board of Directors is responsible for overseeing management in the performance of financial reporting responsibilities and has approved the financial statements included in the annual report.

The Board of Directors is assisted in its responsibilities by its Audit Committee. This committee reviews and recommends approval of the financial statements and meets periodically with management, external auditors, and actuaries concerning internal controls and all other matters relating to financial reporting.

Eckler Ltd. has been appointed as the independent consulting actuary to the WCB. Their role is to complete an independent actuarial valuation of the claim benefit liabilities included in the financial statements of the WCB and to report thereon in accordance with generally accepted actuarial practice.

The Office of the Auditor General, the independent auditor of the WCB, has performed an independent audit of the financial statements of the WCB in accordance with Canadian generally accepted auditing standards. The Auditor's Report outlines the scope of this independent audit and the opinion expressed.

David B. Carpenter, F.C.A.
Chair, Board of Directors
Workers' Compensation Board - Alberta

Guy R. Kerr
President & Chief Executive Officer
Workers' Compensation Board - Alberta

Ron J. Helmhold, C.A.
Chief Financial Officer
Workers' Compensation Board - Alberta

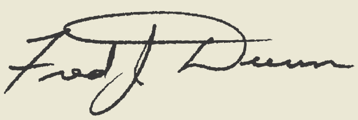
Auditor's Report

To the Board of Directors of the Workers' Compensation Board - Alberta

I have audited the balance sheet of the Workers' Compensation Board - Alberta as at December 31, 2007 and the statements of operations, comprehensive income, changes in funded position, and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian 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 Board as at December 31, 2007 and the results of its operations, results of its comprehensive income, movements in funded position, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



F. C. A.
Auditor General
Edmonton, Alberta
March 20, 2008

Eckler Ltd.
Consultants and Actuaries

Actuarial Statement of Opinion on the Valuation of the Benefit Liabilities of the Workers' Compensation Board - Alberta as at December 31, 2007

I have completed the actuarial valuation of the benefit liabilities of the Workers' Compensation Board - Alberta (WCB) for the financial statements of the WCB as at December 31, 2007. In my opinion, the actuarial liabilities of $4,606.3 million make reasonable provision for future payments for short term disability, vocational rehabilitation, long term disability, survivor and health care benefits, as well as claims administration costs, on account of claims that occurred on or before December 31, 2007; it does not include a provision for future claims arising from latent occupational disease or for benefits and payments that are on a self-insured basis.

The valuation was based on the provisions of the *Workers' Compensation Act* of Alberta and on the WCB's policies and administrative practices in effect as of December 31, 2007. The data on which the valuation is based were provided by the WCB; I applied such checks of reasonableness of the data as I considered appropriate, and have concluded that the data are sufficiently reliable to permit a realistic valuation of the liabilities and that the data are consistent with WCB'S financial statements. The liabilities included herein have been computed by the WCB in accordance with methods and assumptions approved by me; I have made such tests of the calculations as were deemed necessary.

The economic assumptions adopted for purposes of computing the liabilities are consistent with the WCB's funding and investment policies. For this valuation, a real rate of return of 3.00% was used to discount expected payments subject to inflation, a reduction of 0.25% when compared with the rate used for the valuation as at December 31, 2006. Benefits subject to cost of living adjustments (COLA) were discounted at 3.50%, making implicit provision for the future indexing of benefits on the assumption that investment earnings on WCB's assets will exceed increases in the Consumer Price Index (CPI) by 3.00% per year, over the long term, and that COLA will be provided at CPI minus 0.50%. Other economic assumptions underlying the calculations are annual changes in CPI of 2.50%, as well as health care costs and vocational rehabilitation benefits assumed to grow at annual rates of 6.75% and 3.50% respectively; these rates are the same as those used in the previous valuation, except for the elimination of specific increases for pharmaceutical costs and personal care allowances which were used in last-year valuation.

Except as described herein, the methods and assumptions employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. Projections of future claim payments and awards have been made using factors developed from the WCB's claims experience, mortality and other assumptions. There have been changes in the methodology and assumptions to value the outstanding claims in this valuation, with the use of an exposure index reflecting the variation in the number of workers covered by the WCB and the average risk associated with these workers, as well as the determination of cost factors under a revised basis. The actuarial assumptions used to value economic loss payments (ELP) have also been reviewed, using more WCB experience in determining the incidence rates and the values of ELP awards.

Details of the data, actuarial assumptions, valuation methods and analysis of results are set out in my actuarial report as at December 31, 2007, of which this statement of opinion forms part.

In my opinion, the data on which the valuation is based are sufficient and reliable, the assumptions, in aggregate, are appropriate for the purposes of the valuation, and the methods employed are consistent with sound actuarial principles. This report has been prepared and my opinion given in accordance with accepted actuarial practice.

Richard Larouche, **F.S.A., F.C.I.A.**
Actuary
Eckler Ltd.
March 14, 2008

The Workers' Compensation Board - Alberta

Balance Sheet

As at December 31

($ thousands)	Notes	**2007**	2006
ASSETS			
Cash and cash equivalents	4	$ 160,443	$ 61,898
Receivables	5	64,785	119,065
Investments	6, 7	6,471,335	6,551,728
Property, plant and equipment	8	54,432	52,029
		$ 6,750,995	$ 6,784,720
LIABILITIES			
Payables and accruals	9	$ 122,681	$ 131,805
Dividends payable	10	348,745	443,344
Claim benefit liabilities	11	4,606,300	4,396,900
		5,077,726	4,972,049
FUNDED POSITION			
Fund Balance		1,368,569	1,514,271
Occupational Disease Reserve		304,700	298,400
		1,673,269	1,812,671
		$ 6,750,995	$ 6,784,720

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Approved by the Board of Directors:

David B. Carpenter, F.C.A.
Chair, Board of Directors
Workers' Compensation Board - Alberta

Guy R. Kerr
President & Chief Executive Officer
Workers' Compensation Board - Alberta

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

The Workers' Compensation Board - Alberta

Statement of Operations

Year ended December 31

($ thousands)		2007		2006
	Notes	**Budget**	**Actual**	Actual
REVENUE				
Premium	13	$ 935,183	$ 977,725	$ 1,003,292
Investment	14	353,601	567,975	718,173
Other	15	561	950	2,133
		1,289,345	1,546,650	1,723,598
EXPENSES				
Claim costs	11, 20	1,047,279	855,264	885,538
Administration	16	74,333	72,761	66,427
Injury reduction	19	27,407	31,076	22,226
		1,149,019	959,101	974,191
OPERATING SURPLUS		$ 140,326	$ 587,549	$ 749,407

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

The Workers' Compensation Board - Alberta

Statement of Comprehensive Income

Year ended December 31

($ thousands)	Notes	**2007**	2006
OPERATING SURPLUS		$ 587,549	$ 749,407
OTHER COMPREHENSIVE INCOME			
Net unrealized gains (losses) on available-for-sale investments arising during the year		(158,399)	501,130
Net investment (gains) realized during the year and reported in the statement of operations		(238,919)	(524,911)
Loss realized during the year from write-down of impaired investments and reported in the statement of operations	14	6,435	2,740
		(390,883)	(21,041)
TOTAL COMPREHENSIVE INCOME		$ 196,666	$ 728,366

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

The Workers' Compensation Board - Alberta

Statement of Changes in Funded Position

Year ended December 31

($ thousands)	Notes	2007	2006
FUND BALANCE			
Accumulated operating surplus			
Balance, beginning of year		$ 762,140	$ 470,070
Operating surplus		587,549	749,407
Dividends	10	(336,068)	(441,937)
Transfer to reserve		(6,300)	(15,400)
		1,007,321	762,140
Accumulated other comprehensive income			
Balance, beginning of year		752,131	773,172
Other comprehensive income		(390,883)	(21,041)
	6	361,248	752,131
Fund Balance, end of year		1,368,569	1,514,271
OCCUPATIONAL DISEASE RESERVE			
Balance, beginning of year		298,400	283,000
Transfer from accumulated operating surplus		6,300	15,400
		304,700	298,400
		$ 1,673,269	$ 1,812,671

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

The Workers' Compensation Board - Alberta

Statement of Cash Flows

Year ended December 31

($ thousands)	Notes	2007 Budget	2007 Actual	2006 Actual
OPERATING ACTIVITIES				
Cash inflows				
Employer premiums		$ 954,042	$ 1,030,368	$ 991,825
Dividend, interest and derivative income		164,298	306,577	206,653
Realized net investment gains		189,303	238,919	524,911
Other		403	1,354	1,323
Cash outflows				
Benefits to claimants and/or third parties on their behalf		(671,397)	(542,507)	(556,067)
Employee and supplier payments for administrative and other goods and services		(162,391)	(175,899)	(136,794)
Injury reduction program funding		(27,407)	(31,074)	(22,167)
Net cash from operating activities		446,851	827,738	1,009,684
INVESTING ACTIVITIES				
Cash outflows				
Purchase of investments—net of sales		19,891	(288,013)	(558,048)
Purchase of capital assets—net of disposals		(11,500)	(10,513)	(9,900)
Net cash from (used for) investing activities		8,391	(298,526)	(567,948)
FUNDING POLICY ACTIVITIES				
Cash outflows				
Special dividends to employers	10	(455,242)	(430,667)	(431,626)
Net cash used for Funding Policy activities		(455,242)	(430,667)	(431,626)
NET INCREASE IN CASH AND CASH EQUIVALENTS		-	98,545	10,110
Cash and cash equivalents, beginning of year		62,000	61,898	51,788
CASH AND CASH EQUIVALENTS, END OF YEAR		$ 62,000	$ 160,443	$ 61,898

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

Notes to the Financial Statements

(thousands of dollars unless stated otherwise)

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements of WCB have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

Accounting estimates and measurement uncertainty

The preparation of financial statements in conformity with GAAP requires the use of estimates as at the date of the financial statements that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods presented.

Measurement uncertainty exists when there is a variance between the recognized amount and another reasonable amount. Some accounting measurements require management's best estimates, based on assumptions as at the financial statement date, that reflect the most probable set of economic conditions and planned courses of action.

Claim benefit liabilities, the reserve for occupational disease, the Partners in Injury Reduction accrual, accrued premium revenue, and accrued dividends payable are the most significant items that are based on accounting estimates. Actual results could differ from the estimates made by management in these financial statements, and these differences, which may be material, could require adjustment in subsequent reporting periods.

Comprehensive income

Comprehensive income includes current operating surplus and other comprehensive income (OCI).

OCI is comprised of unrealized fair-value gains and losses from investments less previously deferred unrealized gains and losses that have been realized during the period through sale or provided for as a write down and recognized in current income.

Accumulated other comprehensive income (AOCI) includes unrealized fair-value gains and losses arising from holding available-for-sale investments. When the underlying securities are subsequently sold or written down, the resulting realized gain or loss is released from AOCI into investment income in the statement of operations.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rate. Foreign-currency transactions are translated into Canadian dollars using the exchange rate in effect when those transactions occur. Foreign currency gains and losses are recognized in income in the period in which they arise.

Cash and cash equivalents

Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash and short-term investments held by custodians for investment purposes are not available for general use, and accordingly are included in investments.

Investments

Portfolio investments, which comprise securities held for long-term capital appreciation and generation of income, are reported at fair value. Fixed income, marketable equity securities, and real estate investments are classified as available-for-sale investments. Derivatives used to manage asset and risk exposures are classified as held-for-trading instruments. All investments are initially recognized at acquisition cost (including any premium or discount at date of purchase) and subsequently remeasured at fair value at each reporting date. WCB utilizes trade-date accounting (date when transactions are entered into rather than when they are settled) for all purchases and sales of financial assets in its investment portfolio.

Valuation of financial assets

The basis of measurement for financial assets is fair value as at reporting date utilizing the following methods:

- Publicly traded securities are based on their closing market prices or the average of the latest bid/ask prices quoted by independent securities valuation companies.
- Non-publicly-traded securities such as units of private investment pooled funds are valued at the net asset values of the funds, which reflect the fair values of fund assets less fund liabilities.
- The fair value of the real estate fund is based on independent annual appraisals, net of any liabilities against the real properties.
- The fair value of the commercial mortgages fund is based on the market interest rate spread over Bank of Canada bonds with a similar term to maturity.

Valuation of derivatives

Derivatives are financial contracts whose price is dependent on the price of one or more underlying securities, reference rates, or indices. The fair value of WCB's derivative contracts, primarily within pooled funds, is determined by the following methods:

- Interest rate swaps and cross-currency swaps are valued based on discounted cash flows using current market yields and exchange rates.
- Forward foreign-exchange contracts and equity index futures contracts are valued based on quoted market prices.
- Equity and bond index swaps are valued based on changes in the appropriate market index net of accrued floating-rate interest.
- Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.
- Swap option contracts are valued based on discounted cash flows using current market yields and volatility parameters that measure changes in the underlying swaps.

Investment income

Recognition and measurement

WCB recognizes interest revenue as earned, dividends when declared, and investment gains and losses when realized. Interest revenue is recognized over the term of a debt security using the effective interest rate method, and includes amortization of any premium or discount recognized at date of purchase. For real-return bonds, interest revenue also includes amortization, using the effective interest rate method, of adjustments to principal related to changes in inflation. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Unrealized gains and losses on available-for-sale securities are recorded in OCI and recognized in income when realized.

Transaction costs are included in the acquisition cost of individual securities and recognized as part of the realized gains or losses when they are sold or written down. Direct investment expenses such as external custodial and management fees, as well as internal investment management expenses, are netted against investment income.

Derivative income

Included in investment income are changes in fair value resulting from marking derivative contracts to market. WCB's investment portfolio contains certain derivatives that meet hedge accounting requirements. Hedge accounting for these investments is optional, but the ability to apply it is contingent on satisfying rigorous technical requirements with respect to designation, documentation, and effectiveness. WCB does not apply hedge accounting to the hedging relationships in its segregated investments, but uses hedge accounting indirectly in certain pooled investments.

Within some of the WCB's pooled investments are derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps designated as hedges of market risks for the purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the same period as the gains and losses of the securities being hedged on an accrual basis. When a hedge relationship is designated for purposes of hedge accounting, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, the type of derivative used, and the matching of critical terms of the hedged asset and the hedging instrument to measure effectiveness.

When hedge accounting is not applied, all realized and unrealized gains and losses are recognized in investment income in the respective periods in which they arose. Derivative contracts not designated as hedges for the purposes of hedge accounting – primarily bond index swaps, equity index swaps, equity index futures, forward foreign-exchange contracts, credit default swaps and options – are recorded at fair value.

Impairment of financial assets

When the fair value of an investment falls below its cost, and the decline is determined to be other-than-temporary, a loss equivalent to the difference between cost and current fair value is recorded against investment income in the statement of operations. The assessment of other-than-temporary impairment considers the extent of the unrealized loss, the length of time that the security has been in a loss position, the financial condition of the issuer, and WCB's intent to hold the security to any anticipated recovery.

Premium revenue

Premiums are billed when employers report their insurable earnings for the current premium year. For employers who have not reported, premiums are estimated based on historical experience and any difference between actual and estimated premiums is adjusted in the following year. Premium revenue is net of the Partners in Injury Reduction rebate.

Property, plant and equipment

Property, plant and equipment are recorded at cost and amortized over their estimated useful lives. Amortization is calculated using the following annual rates and methods that best reflect the realization of benefits:

Buildings	*2.5% straight-line*
Equipment - computer	*35% declining balance*
- furniture and other	*15% declining balance*
- vehicles	*20% straight-line*
Computer software	*20% straight-line*

WCB evaluates its property, plant and equipment for impairment due to obsolescence, redundancy, deterioration, and/or loss. WCB writes down the carrying value to fair value and records the write-down amount as amortization expense.

Claim benefit liabilities

Claim benefit liabilities represent the actuarial present value, as estimated by WCB's external actuary, of all future benefit payments and claim administration costs that have been incurred in respect of current and prior years' injuries. Claim benefit liabilities have been estimated in accordance with accepted actuarial practice established by the Canadian Institute of Actuaries.

Employee future benefits

Permanent employees of WCB participate in defined benefit pension plans sponsored by the Province of Alberta. As these multi-employer plans meet the accounting requirements for treatment as defined contribution plans, the current year employer contributions are accounted for as current pension expense.

For senior managers, WCB also sponsors a supplemental retirement income plan to provide post-employment benefits in excess of statutory limits. The supplemental plan is a defined benefit plan whose costs are actuarially determined each year using the projected benefit method prorated on service. Actuarial gains and losses arising from the annual valuation are not deferred and amortized, but recognized in benefit plan expense as they arise.

In addition to post-retirement benefits, WCB offers an income continuance plan for long-term disability to all permanent employees. The costs of providing such benefits are actuarially determined by WCB's benefit consultants. Valuation of the liability may result in a net actuarial gain or loss. The gain or loss that is greater than 10% of the benefit obligation is amortized to benefit plan expense over the estimated average expected remaining service period of employees.

2. FINANCIAL REPORTING CHANGES

Financial Instruments – Disclosure Changes

Effective January 1, 2007, the WCB early adopted the new provisions of CICA Handbook Section 3862 *Financial Instruments - Disclosure*, released in July 2006 and effective for fiscal periods beginning on or after October 1, 2007. These revised standards will enhance the standards on financial instruments issued in January 2005 and will expand on their disclosure requirements, placing an increased emphasis on disclosures about the risks and exposures relating to recognized and unrecognized financial instruments and how those risks are managed. The adoption of Section 3862 is not expected to have a material effect on WCB's operating results or financial position.

3. FUNDING BASIS

Legislative authority

The Workers' Compensation Board - Alberta (WCB) operates under the authority of the Workers' Compensation Act (the Act), Revised Statutes of Alberta 2000, Chapter W-15, as amended.

Funding Policy

In accordance with Section 91 of the Act, the Board of Directors established a Funding Policy to ensure that WCB remains financially stable and secure into the future for the benefit of its stakeholders. The Act stipulates the creation of an Accident Fund (the Fund) for the payment of present and future compensation. The Fund is fully funded when the total fund assets equal or exceed total liabilities. This Funded Position (or net assets) represents the current funding status of the Fund. The Funded Position covers those costs, not provided for elsewhere, arising from events that might otherwise unfairly burden employers in the short term, or that might otherwise prevent full funding of the Accident Fund. The Funding Policy establishes a target zone for funding sufficiency, below which fund replenishment may be initiated and above which special dividends may be paid, both subject to approval by the Board of Directors.

The WCB maintains two reserves within the Accident Fund: the Fund Balance and the Occupational Disease Reserve (ODR).

Fund Balance consists of accumulated net operating surpluses and accumulated other comprehensive income, which holds unrealized gains and losses arising from the fair-value basis of accounting for investments. The Fund Balance is replenished via special funding requirements included in premiums. Conversely, funding beyond the target range, as specified in the Funding Policy, is paid out of the Fund Balance as special dividends.

The ODR was established to provide for costs arising from latent occupational injury or disease where a causal link to the workplace has not been established, but may be established in the future. No provision against income has been made for future claims arising from such injury or disease because the determination of such claims cannot be reasonably estimated. The ODR is maintained at a percentage of total liabilities through a transfer from or to the Fund Balance.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of $160,443 (2006 – $61,898), which are substantially all invested in a Government of Alberta money market fund with an average effective market yield of 4.88% per annum (2006 – 4.55% per annum), are approximately $100 million in excess of normal operating requirements. This increase in the level of liquidity represents a planned build-up of cash to meet the expected payment of special dividends payable in 2008.

5. RECEIVABLES

($ thousands)	**2007**	2006
Premium	$ 60,528	$ 112,125
Other	4,257	6,940
	$ 64,785	$ 119,065

Premium receivables of $60,528 (2006 – $112,125) include an estimate of $22,259 (2006 – $58,885) for premium revenue related to employers that had not reported their insurable earnings by year-end. See Note 13 for more details concerning the estimated premiums.

6. INVESTMENTS

The table below presents the fair value of WCB's investments as at December 31, 2007 together with the change in fair value from their cost base.

($ thousands)	2007						2006		
			Unrealized Losses						
	Amortized Cost[1]	Unrealized Gains	Loss position 12 months or less	Loss position 12 months or longer	AOCI	Fair Value	Amortized Cost[1]	AOCI	Fair Value
Available for Sale - Securities									
Fixed income									
Nominal bonds:									
Canada	$ 2,733,618	$ -	$ (45,242)	$ (3,072)	$ (48,314)	$ 2,685,304	$ 2,639,066	$ 35,643	$ 2,674,709
Other markets	49,977	-	(1,070)	-	(1,070)	48,907	-	-	-
Mortgages [2]	21,782	-	(561)	-	(561)	21,221	-	-	-
	2,805,377	-	(46,873)	(3,072)	(49,945)	2,755,432	2,639,066	35,643	2,674,709
Equities									
Domestic:									
Canada	714,439	97,338	(15,220)	-	82,118	796,557	797,080	114,543	911,623
Foreign:									
Global	1,731,066	167,363	(43,100)	-	124,263	1,855,329	1,690,916	422,797	2,113,713
Emerging markets	210,902	-	-	-	-	210,902	215,011	-	215,011
	2,656,407	264,701	(58,320)	-	206,381	2,862,788	2,703,007	537,340	3,240,347
Inflation-sensitive investments									
Real estate	255,516	111,331	-	-	111,331	366,847	163,337	90,718	254,055
Real-return bonds	371,141	74,238	-	-	74,238	445,379	307,571	77,067	384,638
	626,657	185,569	-	-	185,569	812,226	470,908	167,785	638,693
	6,088,441	450,270	(105,193)	(3,072)	342,005	6,430,446	5,812,981	740,768	6,553,749
Derivatives[3]									
Fixed income	-	21,840	(6,120)	-	15,720	16,744	-	1,971	1,971
Equities	-	4,251	(728)	-	3,523	24,145	-	9,392	(3,992)
	-	26,091	(6,848)	-	19,243	40,889	-	11,363	(2,021)
	$ 6,088,441	$ 476,361	$ (112,041)	$ (3,072)	$ 361,248	$ 6,471,335	$ 5,812,981	$ 752,131	$ 6,551,728

[1] *Amortized cost includes the following:*
- *a) the accumulated amortization of discount or premium on fixed income securities; and*
- *b) the written-down value for securities assessed to have an other-than-temporary decline in value.*

[2] *Mortgages include commercial mortgages and multi-unit mortgages but do not include single-dwelling residential mortgages.*

[3] *Fair Value of derivatives includes a $21,646 gain (2006 – $13,384 loss) realized into investment revenue.*

See Note 7 for more details concerning the derivative contracts. Note 14 Investment Revenue provides a breakdown of the sources of investment revenue by asset class.

Unrealized losses for fixed income securities have generally been in a loss position for less than 12 months, arising from an increase in interest rates and a re-pricing of credit risk in the bond market. For equity securities, unrealized losses result largely from the timing of market price changes or environmental factors. Since WCB has the ability and intent to hold securities with unrealized losses until recovery of book value, these securities are not considered to have experienced other-than-temporary impairment.

7. FINANCIAL RISK MANAGEMENT

In accordance with the Investment Policy, WCB manages investment risk by maintaining a well-diversified portfolio, both across and within asset classes, and engages fund managers encompassing a broad range of investment philosophies and styles.

WCB management is responsible for monitoring performance, recommending changes to the Investment Policy, and selecting fund managers. The Board of Directors is ultimately responsible for governance and strategic direction of the investment portfolio through its review and approval of the Investment Policy. From time to time, WCB retains independent consultants to benchmark the performance of its fund managers and to advise on the appropriateness and effectiveness of its Investment Policy and practices.

The following sections describe the key financial risk variables, WCB's risk exposures, and the related mitigation strategies for each risk.

Market risk

WCB is exposed to market risk, which is the risk that the fair value or future cash flows of its investments in publicly traded shares listed on domestic and foreign exchanges and bonds traded over the counter through broker-dealers will fluctuate in the future because of price changes. Such price changes are subject to economic factors and other fluctuations in domestic and global capital markets, as well as risks specific to issuers, which may affect the market value of individual securities.

The table below presents the effect of a material adverse change[1] in the key risk variable – the sector benchmark – for each of the equity mandates in WCB's investment portfolio:

($ thousands)	**2007**		2006	
Equities	**1 std dev**	**2 std dev**	1 std dev	2 std dev
% change in market benchmark	(9.8%)	(19.6%)	(10.9%)	(21.8%)
Canadian	$ (71,368)	$ (131,051)	$ (90,648)	$ (165,060)
% change in market benchmark	(9.7%)	(19.3%)	(11.8%)	(23.6%)
Global	$ (165,290)	$ (303,840)	$ (222,260)	$ (402,024)
% change in market benchmark	(16.1%)	(32.3%)	(17.8%)	(35.6%)
Emerging markets	$ (29,348)	$ (51,537)	$ (32,590)	$ (56,631)

Credit risk

Credit risk related to financial securities arises from the possibility that the counterparty to an instrument fails to discharge its contractual obligation to WCB, or the possibility of a decline in the fair value of a debt security following a rating downgrade.

To mitigate credit default risk, WCB has established specific rules to ensure that the credit ratings of counterparties do not fall below an acceptable threshold. Issuers of debt securities will have at least a B- or equivalent score from a recognized credit-rating agency or must meet other stringent investment criteria. Counterparties for derivative contracts will have at least an A- credit rating or equivalent from a recognized credit-rating agency. WCB does not anticipate that any counterparties will fail to meet their obligations.

[1] *A change is considered to be material when it exceeds the standard deviation, which measures the normal variance in a probability distribution. One standard deviation covers 68% of all probable outcomes; two standard deviations, 95%.*

As at December 31, 2007, the aggregate amount of fixed income securities with counterparty ratings below BBB- is presented in the table below:

($ thousands)	**2007**	2006
Corporate bonds:		
Segregated funds	$ 352	$ -
Pooled funds	13,023	-
	$ 13,375	$ -

Inflation risk

Inflation risk is the risk that a general increase in price level may result in loss of future purchasing power for current monetary assets.

To mitigate the effect of inflation on WCB's future liabilities, the portfolio holds Canadian real-return bonds, which are indexed to the annual change in the Canadian Consumer Price Index. The table following the interest rate risk section below presents the remaining terms to maturity and related yields of the conventional and real-return bond portfolios.

Securities-lending risk

To generate additional income, WCB may lend any of its investments to eligible third parties for short periods. These loans are secured against loss with cash or readily marketable securities having a minimum fair value of 100% of the loan. As of December 31, 2007, outstanding securities on loan amounted to $673,821 (2006 – $472,739). For the year, securities-lending transactions within WCB's segregated funds generated incremental income of $1,644 (2006 – $1,177).

Interest rate risk

Interest rate risk is the risk that the value of a financial security will fluctuate due to changes in market interest rates. WCB's investment portfolio is exposed to interest rate risk through participation in a nominal Canadian bond pool and a global fixed income mandate, as well as through internally managed direct holdings of fixed income securities.

The table below presents the effects of a 50 and 100 bps[1] adverse change in nominal and real interest rates on the respective bond portfolios:

($ thousands)	**2007**		2006	
+/- bp change in nominal interest rate	+50bp	+100bp	+50bp	+100bp
Nominal bonds	$ (91,261)	$ (182,523)	$ (88,256)	$ (176,513)
+/- bp change in real interest rate	+50bp	+100bp	+50bp	+100bp
Real return bonds	$ (35,342)	$ (70,683)	$ (30,829)	$ (61,658)

[1] One basis point (bp) equals 1/100 of 1%; 50 pbs = 50/100 of 1% or 0.5%.

The table below presents the remaining terms to maturity at fair value, along with the average effective yields for each maturity, for fixed income investments exposed to inflation and interest rate risk as at December 31, 2007:

($ thousands)	Remaining term to maturity					
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	2007	2006
Nominal[1] bonds						
Canadian – externally managed	$ 107,578	$ 721,240	$ 708,217	$ 635,372	$ 2,172,407	$ 2,306,715
Average effective yields	3.80%	5.20%	5.35%	5.05%	5.69%	4.63%
Other markets	8,345	14,637	16,375	10,595	49,952	-
Average effective yields	2.75%	4.58%	4.56%	5.69%	4.22%	-
Canadian – internally managed	28,794	210,863	123,797	165,172	528,626	369,965
Average effective yields	4.45%	4.32%	4.82%	4.43%	4.50%	4.23%
	144,717	946,740	848,389	811,139	2,750,985	2,676,680
Real[1] return bonds						
Canadian – internally managed	-	-	-	445,389	445,389	384,638
Average effective yields	-	-	-	2.03%	2.03%	1.77%
	-	-	-	445,389	445,389	384,638
	$ 144,717	$ 946,740	$ 848,389	$ 1,256,528	$ 3,196,374	$ 3,061,318

[1] Nominal yields reflect the total yield to maturity whereas real yields are net of inflation.

Currency risk

Currency risk is the risk that the value of financial assets and liabilities denominated in foreign currencies will fluctuate due to changes in their respective exchange rates.

In its Canadian fixed income pooled investments, WCB is exposed to exchange rate volatility that is managed through forward foreign-exchange contracts and cross-currency interest rate swaps. The global fixed income segregated fund is fully hedged to the Canadian dollar by utilizing forward currency contracts. For its foreign-equity investments, WCB utilizes a currency overlay to hedge 50% of the aggregate currency exposure from foreign equities. The currency overlay is an indexing strategy executed through forward foreign-exchange contracts on the US dollar, Euro and other major currencies.

WCB's largest currency exposure is to the US dollar, with USD-denominated holdings of $1,120 million (2006 – $1,264 million) or 17% of the portfolio; the Euro exposure is next largest with holdings of $249 million (2006 – $237 million) or 4%.

The table below presents the effects of a material change in the Canadian/US dollar and Canadian/Euro exchange rates for the foreign equity mandate:

($ thousands)	**2007**		2006	
10% appreciation in the Canadian dollar	**CAD/USD**	**CAD/EURO**	CAD/USD	CAD/EURO
Global	$ (101,792)	$ (22,660)	$ (114,941)	$ (21,504)

Derivative instruments

Although derivatives represent an important component of WCB's risk management strategy, the portfolio does not contain any derivatives intended for speculative or trading purposes. An example of derivatives used for risk mitigation is the currency overlay described in the currency risk section, which is a partial hedge of the currency exposure. From time to time, derivatives are also utilized as a portfolio management technique, such as the asset overlay, to replicate a target asset mix or achieve certain asset exposures when it is not possible or cost-effective to hold securities directly.

As hedge accounting is optional, WCB has elected not to apply hedge accounting to hedging arrangements within its segregated funds. However, hedge accounting has been applied to certain exposures within the Canadian fixed income pooled fund.

The notional value of a derivative contract used in a hedging arrangement represents the exposure that is being hedged, and is the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional amounts are not indicative of the credit risk associated with such derivative contracts and are not recognized in these financial statements. WCB's credit exposure is represented by the replacement cost of all outstanding contracts in a receivable (positive fair value) position. Counterparty credit risk with respect to derivative contracts is mitigated in accordance with investment guidelines described in the earlier section on credit risk.

The table below presents the notional principal, as well as the fair value of all open derivative contract positions in pooled and segregated funds as at December 31, 2007:

($ thousands)		Remaining term to maturity			2007		2006	
	Asset Mandates	Within 1 year	1 to 5 years	5 to 10 years	Notional Principal	Fair Value	Notional Principal	Fair Value
Asset replication contracts								
Equity index swaps	Canadian equities	97%	3%	-	$ 141,757	$ (728)	$ 243,087	$ 8,914
Equity index futures contracts	Canadian / Global equities	100%	-	-	438,729	7,506	48,486	478
Bond index swaps	Canadian fixed income	100%	-	-	196,964	2,140	637,284	932
Bond futures contracts	Global fixed income	100%	-	-	11,312	56	-	-
					788,762	8,974	928,857	10,324
Interest rate contracts								
Interest rate swaps [1]	Canadian fixed income	-	2%	98%	914,803	(528)	1,524,209	999
Cross-currency interest rate swaps [1]	Canadian fixed income	10%	21%	69%	158,334	19,003	144,596	2,336
					1,073,137	18,475	1,668,805	3,335
Foreign-exchange contracts								
Currency overlay forward contracts	Global equities	100%	-	-	2,950,458	17,997	3,096,824	(13,971)
Forward foreign-exchange contracts	Global equities / fixed income	100%	-	-	200,799	800	152,675	(837)
					3,151,257	18,797	3,249,499	(14,808)
Credit derivatives								
Credit default swaps	Canadian fixed income	1%	18%	81%	2,115,882	(5,592)	1,126,274	685
Other contracts								
Swap option contracts	Canadian fixed income	52%	-	48%	1,243,503	235	2,132,708	(1,557)
					$8,372,541	$ 40,889	$9,106,143	$ (2,021)

[1] *subject to hedge accounting*

8. PROPERTY, PLANT AND EQUIPMENT

($ thousands)	2007			2006
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Land	$ 1,092	$ -	$ 1,092	$ 1,092
Buildings	38,644	15,799	22,845	23,771
Equipment	9,434	7,185	2,249	1,437
Computer software	96,882	76,887	19,995	18,882
Software under development	8,251	-	8,251	6,847
	$ 154,303	$ 99,871	$ 54,432	$ 52,029

9. PAYABLES AND ACCRUALS

($ thousands)	**2007**	2006
Partners in Injury Reduction rebates	$ 76,851	$ 75,806
Accrued employee benefits	23,815	23,184
Other	22,015	32,815
	$ 122,681	$ 131,805

Partners in Injury Reduction (PIR) rebates are paid to those employers that have met the eligibility requirements. The estimated rebate amount is based on several factors including premiums paid, year-over-year improvement on claims experience, and safety performance relative to industry benchmarks, among others. Historically, the PIR rebate accrual has ranged from 6% to 8% of total processed premiums.

10. DIVIDENDS

In accordance with the Funding Policy, the Board of Directors authorized a special dividend for 2007 with final approval of the 2007 audited financial statements. The table below is a reconciliation of the changes in the dividends charged to the Fund Balance and payable to employers that have met the eligibility criteria for the year:

	Charged to Fund Balance		**Dividends Payable**	
($ thousands)	**2007**	2006	**2007**	2006
Dividends, beginning of year			$ 443,344	$ 433,033
Payment of prior years' dividends			(430,667)	(431,626)
			12,677	1,407
Adjustment of prior years' accruals	$ (9,932)	$ (1,407)	(9,932)	(1,407)
Outstanding balance from prior years			2,745	-
Special dividend authorized for the year	346,000	443,344	346,000	443,344
Dividends, end of year	$ 336,068	$ 441,937	$ 348,745	$ 443,344

11. CLAIM BENEFIT LIABILITIES

Claim benefit liabilities as at December 31, 2007 have been independently valued by the WCB's external actuary. Claim benefit liabilities include a provision for all benefits provided by current legislation, WCB policies, and administrative practices. These liabilities also include a provision for the future expenses of administering those benefits, including funding obligations to the Appeals Commission and Medical Panel Office. No provision has been made for claims related to known latent occupational diseases where the claim has not yet been reported and the year of disablement would be in a subsequent period. Claim benefit liabilities also do not include a provision for benefit costs of self-insured employers.

Since the claim benefit liabilities of WCB are of a long-term nature, the actuarial assumptions and methods used to calculate the reported claim benefit liabilities are based on considerations of future expenditures over the long term. As the determination of these liabilities requires assumptions about economic and other events that may occur many years in the future, but which are based on best information as at the valuation date, a significant degree of professional judgment must be exercised in developing these assumptions. Accordingly, changes in future conditions within one year of the financial statement date could require a material change in the recognized amounts.

Estimated future expenditures are expressed in constant dollars and then discounted at the assumed real rate of return on investments, i.e., the difference between expected long term investment earnings and the expected long term general inflation rate. Wage-based disability payments, rehabilitation costs, and claim administration costs are discounted at the rates shown in the assumptions table following the liabilities presentation. Health care costs are ultimately discounted at negative 1.10% (2006 – negative 0.86%) to reflect expected higher increases in health care costs and utilization.

The table below presents a breakdown of WCB's total claim benefit liabilities by benefit category as at December 31, 2007, with details of the transactions during the year:

($ thousands)	2007							2006
	Short-Term Disability	**Long-Term Disability**	**Survivor Benefits**	**Health Care**	**Rehabilitation**	**Claim Administration[2]**	**Total Claim Liabilities**	Total Claim Liabilities
Claim benefit liabilities, beginning of year [1]	$ 358,000	$ 2,012,000	$ 425,100	$ 1,282,300	$ 107,500	$ 212,000	$ 4,396,900	$ 4,165,900
Increase in claim benefit liabilities:								
Claim costs incurred								
Current year injuries	168,476	161,124	19,650	301,077	30,342	95,242	775,911	718,051
Prior years' injuries	4,431	(53,765)	34,596	57,746	4,481	31,864	79,353	167,487
	172,907	107,359	54,246	358,823	34,823	127,106	855,264	885,538
Decrease in claim benefit liabilities:								
Claim payments made								
Current year injuries	72,376	2,524	1,350	106,977	1,742	27,442	212,411	204,051
Prior years' injuries	78,531	127,735	37,596	116,846	20,181	52,564	433,453	450,487
	150,907	130,259	38,946	223,823	21,923	80,006	645,864	654,538
Claim benefit liabilities, end of year	$ 380,000	$ 1,989,100	$ 440,400	$ 1,417,300	$ 120,400	$ 259,100	$ 4,606,300	$ 4,396,900

[1] *Special Needs Allowance provision of $43,900 reclassified from short-term disability to long-term disability.*

[2] *Claim Administration payments of $80,006 (2006 – $73,933) is comprised of general claim administration (see Note 16) of $70,769 (2006 – $65,407), Appeals Commission (reclassified from other expense) of $8,980 (2006 – $8,526), and Medical Panel Office (new statutory obligation) of $257 (2006 – nil).*

Key actuarial assumptions

The table below presents key net discount rate assumptions used to determine the claim benefit liabilities:

	2007	2006
Real rate of return	3.00%	3.25%
Wage-based disability payment rate	3.50%	3.75%
Rehabilitation and claim administration rate	2.00%	2.25%
Health care rate	(1.10%)	(0.86%)

These net discount rates are based on the following underlying long-term assumptions:

	2007	2006
General inflation rate (CPI growth)	2.50%	2.50%
Cost-of-living allowance	2.00%	2.00%
Nominal rate of return	5.58%	5.83%
Rehabilitation and claim administration escalation	3.50%	3.50%
Health care escalation	6.75%	6.75%

The December 31, 2007 valuation of claim benefit liabilities includes several changes to the actuarial assumptions and methods compared to those used for the previous valuation. The most significant change was the reduction by 0.25% of the real rate of return from the rate assumed at December 31, 2006 of 3.25% to the current rate of 3.00%.

Changes in claim benefit liabilities

The table below is a reconciliation of the major changes in the claim benefit liabilities during the year:

($ thousands)	**2007**		2006
Claim benefit liabilities, beginning of year		$ 4,396,900	$ 4,165,900
Add (deduct) changes in liabilities:			
Provision for future costs of current year injuries		563,500	514,000
Interest accrued on the liabilities		242,500	229,400
Payments for prior years' injuries, excluding self-insured employers		(425,690)	(443,095)
		4,777,210	4,466,205
Add (deduct) changes in actuarial methodology and experience:			
Changes in actuarial methods and assumptions:			
Reduction in the real rate of return	114,800		
New incidence rates for outstanding Economic Loss Payments	(125,100)		
Other changes in methods and assumptions	(69,300)	(79,600)	16,726
Claims experience (gains) and losses:			
Difference between actual and expected long-term cost-of-living adjustments and inflation	77,100		40,800
Actual cost less than expected	(115,700)		(92,500)
Other experience gains	(52,710)	(91,310)	(34,331)
		(170,910)	(69,305)
Claim benefit liabilities, end of year		$ 4,606,300	$ 4,396,900

Sensitivity of actuarial assumptions

The most significant assumption in the determination of the claim benefit liabilities is the real rate of return. The real rate of return is the assumed rate of return in excess of the assumed inflation rate. A reduction in the assumed real rate of return would increase the actuarial present value of the claim benefit liabilities.

Health care benefits represent approximately 31% of the claim benefit liabilities. An increase in the assumed health care escalation rate (above the assumed inflation rate) would result in an increase in the claim benefit liability for health care.

The table below presents key assumptions used to determine the claim benefit liabilities and the sensitivity of the liabilities to an immediate 0.25% increase or decrease in the assumed rates:

($ thousands)	**2007**		2006	
+/- % change on assumed rates	**+0.25%**	**-0.25%**	+0.25%	-0.25%
Real rate of return	$ (126,000)	$ 133,000	$ (114,600)	$ 118,500
Health care escalation rate	$ 48,300	$ (45,800)	$ 40,000	$ (38,400)

12. EMPLOYEE FUTURE BENEFITS

Pension plans

Employee post-retirement benefits are provided through contributory multi-employer defined benefit pension plans sponsored by the Province of Alberta, namely the Management Employees Pension Plan (MEPP) and Public Service Pension Plan (PSPP). As a plan participant in these multi-employer pension plans, the WCB expense for PSPP and MEPP for the year ended December 31, 2007 is equivalent to the aggregate annual contributions of $7,312 (2006 – $6,184). The current employer contribution rates on pensionable earnings are as follows:

- MEPP: 18.00% (2006 – 18.00%)
- PSPP: 6.69% up to YMPE[2] (2006 – 6.17%), 9.95% above YMPE (2006 – 8.81%)

Supplemental executive retirement plan

WCB sponsors a non-contributory supplemental executive retirement plan (SERP), with the WCB Accident Fund covering the obligations of the plan. Earnings of senior management generally exceed the threshold earnings for the maximum pension benefit permitted under the federal Income Tax Act. Under the terms of the SERP, senior managers are entitled to receive supplemental retirement payments that bring their total pension benefits to a level consistent with their total earnings. Future pension benefits are based on the participants' years of service and earnings.

The cost of benefits is actuarially determined by the WCB's benefit consultants using the projected benefit method prorated on service, a market interest rate, management's best estimate of projected costs, and the expected years of service until retirement. Current benefit cost represents the actuarial present value of the benefits earned in the current period. Current benefit costs are not cash payments in the period, but are the period expense for rights to future compensation. Interest cost represents the amount required in each year to build up the liability over the projected service period to its future value. Actuarial gains and losses arise from assumption and/or methodology changes and claim experience related to the benefit obligation, and are recognized immediately in current expense.

See Note 17 for a detailed breakdown of SERP costs.

[2] *Year's Maximum Pensionable Earnings under the Canada Pension Plan ($43,700 in 2007; $44,900 in 2008)*

Long-term disability plan

WCB administers a non-contributory long-term disability (LTD) income continuance plan for its employees, with the WCB Accident Fund covering the obligations of the plan. LTD benefits are the sum of all liabilities related to claims that have occurred in the period.

The cost of benefits is actuarially determined by the WCB's benefit consultants based on claims outstanding, a market interest rate, management's best estimate of projected costs, and the expected benefit period. Current benefit cost represents the actuarial present value of the expected future payments. Interest cost represents the amount required in each year to build up the liability over the projected benefit period to its future value. Actuarial gains and losses arise from assumption and/or methodology changes and claim experience related to the benefit obligation. Such gains and losses that exceed 10% of the benefit obligation are amortized over the expected average benefit period.

The table below is a summary of the costs and liability balances, as at December 31, 2007, of WCB's employee future benefit plans:

($ thousands)	**2007**		2006	
	LTD	**SERP**	LTD	SERP
Accrued benefit liability, beginning of year	$ 13,471	$ 666	$ 12,993	$ 329
Current benefit cost	434	212	1,449	150
Interest cost	451	47	535	25
Amortization of actuarial (gains) losses	(190)	-	(49)	-
Actuarial (gains) losses	n/a[1]	170	n/a[1]	162
Benefit payments	(1,444)	-	(1,457)	-
Accrued benefit liability, end of year [2]	$ 12,722	$ 1,095	$ 13,471	$ 666

[1] LTD plan has unrecognized net actuarial gains for 2007 of $1,829 (2006 – $3,006).

[2] Accrued benefit liabilities are included in "Accrued employee benefits" under "Payables and Accruals".

The table below presents key assumptions applicable to WCB-sponsored employee future benefit plans:

	2007		2006	
	LTD	**SERP**	LTD	SERP
Date of most recent actuarial valuation	**12/31/2007**	**12/31/2007**	12/31/2006	12/31/2006
Discount rate (nominal)	5.50%	5.50%	4.56%	5.30%
Inflation rate	n/a	3.00%	n/a	3.00%
Salary escalation rate	4.50%	5.00%	3.50%	5.00%

13. PREMIUM REVENUE

($ thousands)	2007	2006
Premiums		
Assessed premium revenue	$ 1,035,324	$ 1,060,662
Other premium related revenue	19,252	18,436
	1,054,576	1,079,098
Deduct: Partners in Injury Reduction rebates	76,851	75,806
	$ 977,725	$ 1,003,292

Assessed premium revenue includes an estimate of $22,259 (2006 – $58,885) for premiums yet to be assessed related to unreported insurable earnings. Historically, year-end premium revenue accruals have ranged from 2% to 6% of total processed premiums.

14. INVESTMENT REVENUE

($ thousands)	2007	2006
Investment revenue[1]- net		
Fixed income		
Nominal bonds:		
Canada	$ 121,635	$ 127,943
Other markets	1,022	-
Mortgages	287	-
Cash and cash equivalents	5,148	3,680
	128,092	131,623
Equities		
Domestic:		
Canada	109,554	266,163
Foreign:		
Global[2]	242,195	138,090
Emerging markets	48,130	146,350
	399,879	550,603
Inflation-sensitive investments		
Real estate	36,627	21,734
Real-return bonds	11,307	18,283
	47,934	40,017
	575,905	722,243
Deduct:		
Other investment expense		
Provision for impairment writedown	6,435	2,740
Investment-related administration expense[3]	1,495	1,330
	$ 567,975	$ 718,173

[1] *Investment revenue is net of transaction costs as well as external management fees and expenses (i.e., custodial, audit, etc.) ($12,708; 2006 – $12,180) that are netted against the respective revenue source.*

[2] *Global equity income includes a gain of $118,336 (2006 – $35,881 loss) from the currency overlay.*

[3] *WCB internal expenses such as investment administration and accounting are netted against investment income, but not attributed to specific revenue sources.*

15. OTHER REVENUE

($ thousands)	**2007**	2006
Other	$ 217	$ 236
Millard Health[1]	733	1,897
	$ 950	$ 2,133

[1] Millard Health revenue is net of operating expenses of $23,754 (2006 – $23,728).

16. ADMINISTRATION EXPENSES

($ thousands)	**2007**	2006
Salaries and employee benefits	$ 107,425	$ 97,809
Office and technology	22,698	22,066
Amortization of property, plant and equipment	8,462	8,325
Building operations	5,679	4,655
Consulting fees	2,863	2,423
Travel and vehicle operation	1,087	989
Other	226	261
	148,440	136,528
Deduct:		
Claim administration costs	70,769	65,407
Investment management expenses charged to investment revenue	1,495	1,330
Recovery of costs	3,415	3,364
	$ 72,761	$ 66,427

17. SALARIES AND BENEFITS

The table below presents total compensation of the directors and senior management of WCB following the recommendations of the Salary and Benefits Disclosure Directive issued by the Treasury Board of Alberta:

	Base Salary[1]	Other Cash Benefits[2]	Other Non-Cash Benefits[3]	2007	2006[4]
Chair, Board of Directors [5]	$ -	$ 78,650	$ 3,502	$ 82,152	$ 80,532
Board Members [5]	-	146,328	11,490	157,818	149,279
President and Chief Executive Officer	300,000	162,000	123,679	585,679	501,611
Vice President, Customer Service & Disability Management	200,000	76,180	109,311	385,491	319,914
Vice President, Customer Service & Risk Management	200,000	76,000	94,191	370,191	304,432
Vice President, Communications & Information Management	185,000	66,500	72,853	324,353	286,754
Vice President, Employee & Corporate Services	175,000	58,500	75,938	309,438	263,874
Chief Financial Officer	200,000	71,500	78,795	350,295	271,948
Secretary & General Counsel	175,000	58,500	79,844	313,344	265,897

[1] *Base salary includes pensionable base pay.*

[2] *Other cash benefits include performance awards, special incentive pay, lump sum payments, honoraria, vacation pay and car allowances.*

[3] *Other non-cash benefits include:*

- *employer's share of all employee benefits and contributions or payments made to or on behalf of employees including statutory contributions, pension plan, health care, dental coverage, vision coverage, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, long-term disability plan, travel allowances, educational costs, and professional and other memberships. No amounts are included for the value of parking and interest-free computer purchase loans.*
- *employer's net expense for the supplemental executive retirement plan (SERP). See note 12 for details of the plan, and the following table for the costs related to each named executive officer.*

[4] *Under the new Treasury Board Directive effective June 2007, certain actuarial adjustments relating to SERP have been included in other non-cash benefits. Accordingly, the 2006 numbers have been restated to reflect the current presentation.*

[5] *The Chair of the Board of Directors and the nine Board Members are part-time positions. There was one Board member vacancy for a period during 2007.*

The current service cost for each executive under the SERP is presented in the table below:

	2007			2006
	Current Service Cost[1]	Other Costs[2]	Net Expense	Net Expense
President and Chief Executive Officer	$ 58,100	$ 34,900	$ 93,000	$ 116,100
Vice President, Customer Service & Disability Management	33,100	48,800	81,900	57,300
Vice President, Customer Service & Risk Management	30,000	35,700	65,700	40,800
Vice President, Communications & Information Management	22,600	18,300	40,900	35,700
Vice President, Employee & Corporate Services	19,400	29,400	48,800	30,300
Chief Financial Officer	28,100	21,100	49,200	26,500
Secretary & General Counsel	21,000	28,400	49,400	30,200
	$ 212,300	$ 216,600	$ 428,900	$ 336,900

[1] *Current service cost represents the actuarial present value of future benefit obligations arising from employee service in the current period.*

[2] *Other costs include interest on the liability and actuarial gains and losses arising from assumption changes and/or experience.*

The accrued benefit obligation for each executive under the SERP is presented in the table below:

	Accrued Obligation Dec. 31 2006	Change in Accrued Obligation	**Accrued Obligation Dec. 31 2007**
President and Chief Executive Officer	$ 261,200	$ 93,000	$ 354,200
Vice President, Customer Service & Disability Management	99,300	81,900	181,200
Vice President, Customer Service & Risk Management	90,100	65,700	155,800
Vice President, Communications & Information Management	67,900	40,900	108,800
Vice President, Employee & Corporate Services	58,100	48,800	106,900
Chief Financial Officer	26,500	49,200	75,700
Secretary & General Counsel	63,000	49,400	112,400
	$ 666,100	$ 428,900	$ 1,095,000

18. SELF-INSURED EMPLOYERS

The financial statements include the effects of transactions on behalf of self-insured employers who directly bear the cost of their workers' claims and an appropriate share of administration expenses. Currently, the Federal Government is the only self-insured employer. This is a contractual relationship in accordance with the Government Employees Compensation Act. Certain government-related entities and railways are responsible for the cost of injuries to their workers that occurred when they were self-insured in prior years.

Included in the balance sheet is $1,071 (2006 – $1,545) for receivables. Presented below are the aggregate amounts of premiums and offsetting expenses included in the statement of operations:

($ thousands)	**2007**	2006
Other premium related revenue (Note 13)	$ 10,111	$ 9,706
Claim costs	$ 8,247	$ 8,195
Administration	1,864	1,511
	$ 10,111	$ 9,706

19. INJURY REDUCTION

WCB has a statutory obligation to reimburse the Alberta Minister of Finance a portion of the costs associated with administration of the Occupational Health and Safety Act. Funding is also provided to industry-sponsored safety associations to promote improved workplace safety practices. The following table shows the amounts paid during 2007 under these programs:

($ thousands)	**2007**	2006
Occupational Health and Safety	$ 20,900	$ 14,100
Safety associations	10,176	8,126
	$ 31,076	$ 22,226

20. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Alberta crown corporations, departments, agencies, boards, and commissions related to WCB by virtue of common influence by the Government of Alberta. Routine operating transactions in the ordinary course of business with related parties are settled at prevailing market prices under normal trade terms.

WCB has statutory funding obligations relating to Occupational Health and Safety, Appeals Commission, and Medical Panel Office that are in accordance with the applicable legislation and regulations. These funding costs are recovered as a component of the assessed premium rate charged to employers.

Effective January 1, 2007, statutory funding costs related to the Appeals Commission and the Medical Panel Office have been reclassified to claim administration as part of claim costs. This change in presentation is consistent with the 2006 change in actuarial methodology to include external tribunals in the liability for claim administration.

The amounts outstanding at December 31, 2007 and transactions throughout the year related to statutory funding obligations are as follows:

($ thousands)	**2007**	2006
Receivables	$ 3	$ 3
Payables and accruals	$ 2,031	$ 5,529
Expenses	$ 29,879	$ 22,365

21. COMMITMENTS

WCB has obligations under long-term non-cancellable contracts for land, office space, leased equipment, and commitments for purchases of goods and services. The following is a schedule of future expenditure commitments:

($ thousands)	**2007**	2006
2007	$ -	$ 17,698
2008	16,417	10,412
2009	5,648	2,910
2010	2,061	1,252
2011	424	144
Beyond	3,056	2,891
	$ 27,606	$ 35,307

22. CONTINGENCIES AND INDEMNIFICATION

Legal proceedings

WCB is party to various claims and lawsuits related to the normal course of business that are currently being contested. In the opinion of management, the outcomes of such claims and lawsuits are not determinable. However, based on the total amount of all such actions, WCB has concluded that their outcomes, either individually or in aggregate, will not have a material effect on the results of operations or financial position.

Indemnification agreements

In the normal course of business, WCB enters into contractual agreements that contain standard contract terms to indemnify certain parties against loss. The terms of these indemnification clauses will vary based upon the contract, and/or the occurrence of contingent or future events, the nature of which prevents WCB from making a reasonable estimate of the potential amount that may be payable to those contractual parties. Such indemnifications are not significant, nor has WCB made any payments or accrued any amounts in the financial statements in respect of these indemnifications.

23. BUDGET

The Board of Directors approved the 2007 budget in October 2006. The budget may be viewed by visiting the WCB-Alberta website at www.wcb.ab.ca.

24. COMPARATIVE FIGURES

Certain comparative figures for 2006 have been reclassified where required to conform to the current year’s presentation and disclosure.

Appendix: **Glossary**

Actuarial required real rate of return: The real rate of return (nominal rate less inflation) on actuarially matched investment assets that will generate sufficient income to cover the interest requirement on the liability. Actuarially matched assets represent the sum that must be invested to earn a real rate of return (identical to the real discount rate) to fully discharge the actuarial liability at maturity. See also ***real discount rate***.

Asset - liability management: A risk management approach to ensure sufficiency of resources to fully discharge specified obligations by managing the risk characteristics of invested assets relative to liabilities for such factors as yields, duration and credit rating.

Asset - Liability Study: A financial model for determining the appropriate amount and mix of investment assets, given a specified level of risk, to generate a return that is sufficient to fund the interest requirement of matched claim-benefit liabilities.

Asset overlay: A portfolio management technique designed to replicate an asset or portfolio position without actually holding securities directly. The desired position is achieved by entering into a futures contract or option on the future price movement of a security or an index.

Average premium rate: Calculated as total revenue requirements (see ***fully funded claim costs***) divided by the projected insurable earnings for the premium year.

Comprehensive income: The change in equity (or ***net assets***) of an enterprise during a period from all transactions and events other than investments by and distributions to owners. Comprehensive income is composed of operating income and other comprehensive income, which includes those revenues, expenses, gains and losses that, in accordance with the primary sources of GAAP, are recognized in comprehensive income but excluded from operating income.

Currency overlay: A foreign-currency risk management strategy used in international investment portfolios to separate the management of currency risk from the asset allocation and security selection decisions of the fund managers.

Derivative: A ***financial instrument*** whose characteristics and value depend upon the characteristics and value of an underlying security, typically a commodity, bond, equity, or currency. Examples of derivatives include futures and options. Derivatives are used to manage the risk associated with the underlying security, to protect against fluctuations in value, or to profit from periods of inactivity or decline.

Fair value: The amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. In the context of investments, fair value is generally synonymous with market value.

Financial instrument: Any contract that gives rise to a financial asset (e.g., cash equivalent, accounts or note receivable, share security) of one party and a financial liability (e.g., accounts or note payable, bond) or equity instrument (e.g., stock option, warrant) of another party.

Financial risk: The possibility or chance that an investment's return will be other than expected, positively or negatively. In general, financial risk has a negative meaning, as in the possibility of losing some or all of the original investment, or adverse changes in its cash flows. For a specific investment, risk is usually measured by calculating the standard deviation of its historical or average returns. See also ***risk***.

Fully funded claim costs: The aggregate of costs of claims arising in the current year, administration costs related to those claims, a provision for future costs of current-year claims, general administration expenses for WCB operations, transfer levies for workplace safety programs and the Appeals Commission, and ongoing funding of the Occupational Disease Reserve. Fully funded claim costs form the basis for the revenue requirements for rate-setting purposes.

Funded Position: The excess of total assets less total liabilities, expressed either in dollar terms (see ***net assets***) or as a ratio of total assets to total liabilities. The Funded Position is the measure of financial solvency or the sufficiency of assets to meet all obligations. It is the aggregate amount of accumulated equity generated by operating surplus, reserves and other comprehensive income.

Funded ratio: The Funded Position expressed as a percentage of total assets to total liabilities, indicating the amount of accumulated surplus, investment holding gains or losses, and reserves available to fund unexpected increases in liabilities.

Hedging: A portfolio management activity designed to modify an entity's exposure to one or more financial risks by creating an offset between changes in the fair value of or the cash flows attributable to the hedged item and the hedging item (or the changes resulting from a particular risk exposure relating to those items).

Meredith Principle: In his report on workers' compensation in 1913, then–Chief Justice of Ontario Sir William Meredith outlined a framework that is now commonly referred to as the Meredith Principle:

- Workers receive compensation benefits regardless of fault for work-related injuries.
- Employers share collective liability for the costs of work-related injuries, and, in return, employees waive the right to sue.
- Injured workers are entitled to prompt payment of benefits, and future payments are guaranteed.
- The workers' compensation agency has exclusive jurisdiction over all legal matters arising out of the enabling legislation.
- The agency is financially independent of the government and enjoys full autonomy over all administrative and adjudicative matters.

Net assets: The excess of total assets less total liabilities; another expression of ***Funded Position*** in dollar terms. When total liabilities exceed total assets, the deficit is known as unfunded liability.

Real discount rate: The rate used to discount the actuarial projections of all future claim benefit payments back to present value. The rate is based on the real rate of return that the investment portfolio is expected to generate over the long term. The real discount rate is also called the net discount rate or the ***actuarial required real rate of return*** when applied in a portfolio context.

Real rate of return: The annual percentage return realized on an investment, adjusted for changes in prices due to inflation or deflation.

Return: The return consists of interest and dividend income and the capital gains or losses associated with an investment. The return is usually quoted as a percentage of the investment's market value (market return) or its book value (book return). Performance of an investment or a pool of investments is the actual rate of return over a given evaluation period.

Risk: In general usage, risk is the possibility or chance that a future event or outcome will be different than expected, either positively or negatively. See also ***financial risk***.

2007 Year at a Glance

	2007	2006
Number of workers covered	1,744,522	1,649,736
Time-lost claim rate (per 100 workers)[1]	2.1	2.3
Disabling-injury rate (per 100 workers)[1]	3.6	4.0
Number of new claims reported	175,297	181,159
Number of time-lost claims[1]	35,900	38,500
Number of recurrent claims[2]	14,182	15,589
New non-economic loss and permanent disability awards	2,835	2,827
Fatality claims accepted	154	124
Ineligible time-lost claims (percentage of all time-lost claims)	6.8%	6.5%
Number of new requests for review to the DRDRB	2,442	2,865
Return-to-work percentage	91.6%	92.4%
Claim costs (thousands)	$855,264	$885,538
Registered employers	135,185	127,701
Premium revenue (thousands)	$977,725	$1,003,292
Average collected premium rate (per $100 of insurable earnings)	$1.46	$1.63
Investment revenue (thousands)	$567,975	$718,173
Funded position (thousands)	$1,673,269	$1,812,671
Funded ratio (per cent funded)	133.0%	136.5%

[1] *Time-lost claims and the time-lost claim and disabling-injury rates are projected. This approach is taken to ensure claims for accidents occurring in 2007 but not reported by year-end are considered.*

[2] *Previously inactive claims reopened for a number of reasons including payments for medical aid or requests for further compensation benefits.*

WCB-Alberta **2007 Annual Report**

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