PLAN

OMERS

Annual Report 2002

READY

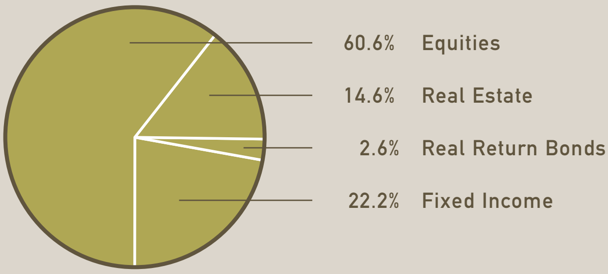
FOR THE FUTURE

OMERS will continue to provide its growing number of members with a secure financial foundation for their retirement.

We are committed to offering efficient service, delivering pension payments on time and providing guaranteed benefits to plan participants.

Although short-term returns are disappointing, our investments continue to provide the long-term results needed to pay secure pensions.

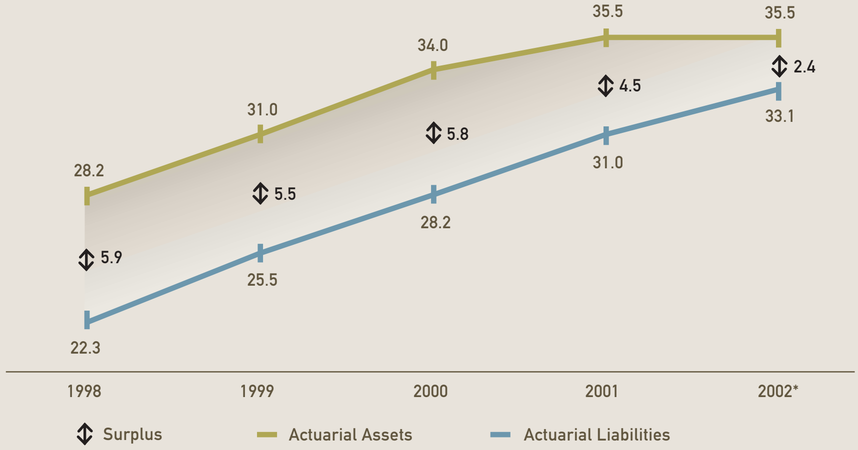
ASSET MIX (AS AT DECEMBER 31, 2002)



Net of investment liabilities

ACTUARIAL ASSETS AND LIABILITIES (AS AT DECEMBER 31)

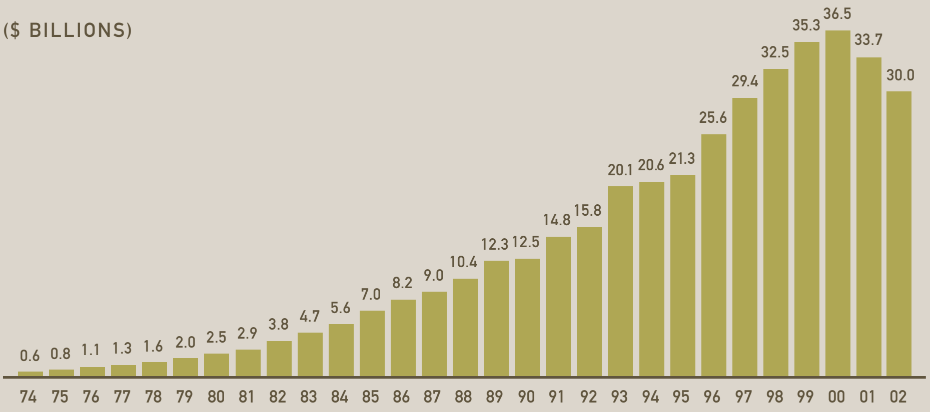
($ BILLIONS)



*Estimate based on 2001 actuarial valuation

INVESTMENT ASSET GROWTH FROM 1974

MARKET VALUE ($ BILLIONS)



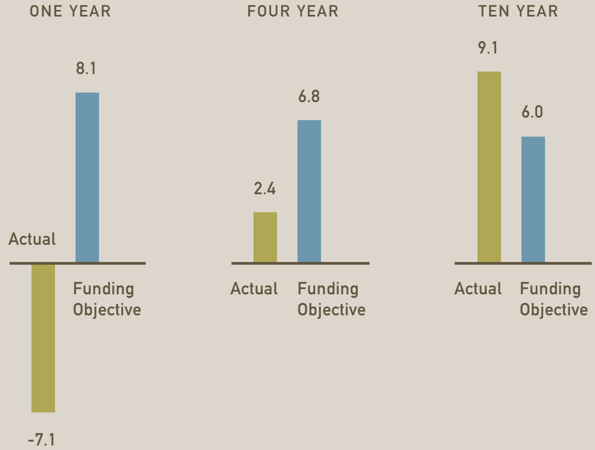
Net of investment liabilities

GROWTH IN PENSION PAYROLL

($ MILLIONS)

OMERS RATE OF RETURN VS. FUNDING OBJECTIVE

(%)



Long-term results continue to exceed our funding objective.

The benefits of a secure plan

The OMERS Plan remains secure following the most turbulent investment year in our 40-year history.

The continued collapse of equity markets in 2002 diminished our asset values and depleted much of the surplus accumulated in recent years. Despite the second (and consecutive) negative investment return since 1990, the 10-year return still exceeded the plan's funding requirement by a healthy margin and we ended the year with a small actuarial surplus. This was a remarkable accomplishment during a period in which pension benefits were enriched and employers and members enjoyed a contribution holiday.

MANAGING THE SURPLUS

The sharp decline in equity values in such a short period was a reminder of how fast a surplus can disappear, while pension costs continue to rise. Knowing the importance of having something for a rainy day, we did not spend every last dollar. In the future, we will have greater latitude to manage the surplus. The federal government has indicated that it will amend the *Income Tax Act* to allow pension contributions to

Rick Miller
CHAIR

phase out as surplus exceeds 110% of liabilities, rather than stop completely as is currently required. However, unless markets recover to increase the value of invested assets, maintaining a surplus will be a challenge over the next few years.

A MODERN, PROFESSIONAL ORGANIZATION

OMERS is a disciplined, highly efficient, and technology-based organization. Rigorous strategic planning enables the Board and management to see the future and its challenges with greater clarity. Enterprise-wide risk-management policies and procedures make it easier for us to handle the unexpected. Commitment to and investment in technology have produced impressive gains in delivering faster, more comprehensive pension services as we continue to expand our web-based services. Expanded market research programs have helped us to better understand our customers and position ourselves for the future. Our investment professionals have further enhanced our portfolio through diverse assets like real estate, real return bonds and infrastructure that promise greater stability and higher long-term returns.

A TRIPLE-A PLAN

Having a finely tuned and tightly focused organization helps to ensure the security of pension benefits. Our financial and operating strengths were recognized in late 2002 by two major credit rating agencies. Both assigned OMERS an AAA credit rating, the highest rating possible and a tribute to the plan sponsors, OMERS management and employees. Together, we have built a strong organization with solid benefits, a solid investment fund and a solid financial reputation.

"Our members know their pensions are secure, despite short-term fluctuations in the market."

WORKING TOWARD AUTONOMY

Following extensive consultation with our stakeholders, the Board submitted a proposal for a new governance model to the Ontario government in March 2002. Although we await further direction from the provincial government, our stakeholders' contributions to the process were invaluable in moving the debate forward. The Board's proposed model involved the creation of a sponsors' committee, with equal representation from employers and members, who would make all decisions on plan design. Employer and member groups would also appoint representatives to the Board, which would continue to have fiduciary responsibility for plan administration, investment policy and management. In brief, those who financially support OMERS would be fully responsible for its governance and accountable to members. Regardless of the government's decision, pensions will remain secure and we remain committed to strengthening our relationships with our stakeholders.

ACKNOWLEDGEMENTS

Thank you for the opportunity to serve you during this past year. I would like to thank my Board colleagues, management and employees for their hard work during a challenging year. I also want to thank Plan sponsors and stakeholders for their ongoing commitment to OMERS. I am confident that OMERS is well positioned to manage through any challenges that may arise in the future. On behalf of the Board, the staff and all OMERS members, a special thanks to Dale Richmond who will retire in 2003. Dale was appointed chief executive officer in August 1993. He has led OMERS as it has grown as both a first-rate pension plan and a responsible and successful institutional investor.

Rick Miller
Chair

Managing for the future

Our corporate signature – Plan for the Future – was put to the test in 2002. Because of our commitment to multi-year planning and long-term surplus management, we were able to use surplus to cushion short-term investment losses. The long-term return of the total fund continued to exceed the level required to pay future pensions. Furthermore, the investments we have made in recent years in rebuilding OMERS as a knowledge-based organization are paying off in much better service to members and employers. As a result, we have a firm foundation on which OMERS can sustain a tradition of success in all aspects of service.

AN EXPERIENCED INVESTMENT TEAM

Navigating the peaks and valleys of capital markets requires great skill and discipline. We are fortunate to have a proficient investment team of determined professionals with the ability to develop and put into action a prudent long-term investment strategy. These professionals understand that as much as 80% of the funds to pay future pensions must come from their efforts and they invest by focusing on long-term performance.

Dale E. Richmond
PRESIDENT AND CEO

We work hard to optimize long-term investment returns, recognizing that we will periodically encounter extremely difficult short-term markets, as we did in 2002. In recent years, we have increased fund exposure to foreign equity markets, private equities, real estate, infrastructure assets and fixed-income securities. These assets tend to soften the volatile returns from stock markets, although public equities at home and abroad remain our largest single asset class and will serve OMERS well over the long term. Still, in view of expected single-digit returns over the next few years, we are currently reviewing our asset mix to determine what adjustments make sense to ensure the level of long-term returns required to cover all current and future benefit costs.

A RESPONSIVE PENSION SERVICES TEAM

We also have a strong team of professionals devoted to member and employer services. OMERS is a customer-centric organization with a quick pulse and keen imagination. The improvements in service efficiency have been truly spectacular, thanks to technological improvements and staff retraining. We now process claims for new retirees within a few days of application, compared with 30 days just two years ago. All pensions are paid the first banking day of each month.

As we offer more on-line options, employers are increasingly accessing services electronically. It saves them time and the plan money. They want more access and more services. As we discuss in the Pension Services section, we are committed to delivering what they want.

We are pleased that active and retired members give our staff a high satisfaction rating for pension services. According to our most recent survey, they view OMERS as a secure, professional, reliable and trustworthy organization.

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COST-EFFECTIVE PROVIDER

We remain dedicated to guaranteeing the security of pensions by being a cost-effective provider. We reintroduced partial contribution rates in 2003 following the end of a four-and-a-half year contribution holiday on December 31, 2002. During the holiday, we saved active members and their employers about $4.5 billion and also enriched benefits for members. We have offered attractive unreduced early retirement incentives, our survivor benefits exceed many plans, and we offer guaranteed inflation protection. OMERS members receive exceptional value for the contributions they pay, at rates lower than other major Ontario public sector pension plans.

ACKNOWLEDGEMENTS

I thank the Board for its support during the past year and throughout my 10 years as President and CEO of OMERS. Plan members are fortunate to be governed by Board members who are committed to working hard to ensure plan participants can count on secure benefits and first-rate service. I especially appreciate the hard work of our employees. They are tremendously loyal to plan members and genuinely care about doing their best for all plan participants, no matter how difficult circumstances may be from time to time.

Dale E. Richmond
President and CEO

ready

WE ARE READY TO MEET THE NEEDS OF PLAN PARTICIPANTS.

Our expanding number of web-based services helps members in planning their own retirement and makes it easier for employers to process transactions quickly and more accurately.

OMERS members work for local governments in a variety of occupations, including clerks, police officers, firefighters, outdoor workers, librarians, children's aid workers and municipal politicians. What they share in common is a guaranteed pension when they retire.

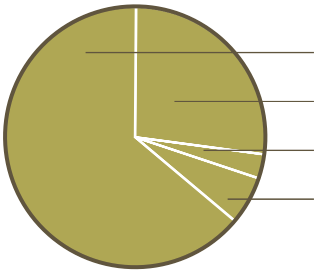
We are making excellent progress in providing more responsive and cost-efficient pension services based on advanced technology systems and a web-based infrastructure. In the past two years, we have reduced the time it takes to turn around claims and other essential services from weeks to days. The completion of each phase of our on-line services opens up new opportunities for innovation and expansion with the ultimate goal of providing members with the most accurate and efficient transactions. To ensure we do not become complacent, in 2003 we will establish long-term service standards so that OMERS remains a pension fund leader in doing the best we possibly can for our members.

Our ability to provide members and employers with fast, accurate and new services has received widespread applause. In the fall of 2002, we conducted our first service satisfaction survey of members, employers and retirees. The initial results were excellent, with most rating their satisfaction at 4 or 5 out of 5 for timeliness, print material and telephone contact. We will track client satisfaction on a regular basis as we search for areas where we can make improvements.

PRESERVING THE PERSONAL TOUCH

While technology increasingly drives our pension services, we have not lost the personal touch. In 2002, we created a call centre staffed by a team of trained specialists who provide front-line service to members. The call centre received more than 80,000 telephone calls in 2002, as well as a 92% client satisfaction rating. The call centre is fully integrated with the team responsible for client action and benefit processing. In addition, we received more than 6,000 e-mails last year, a 36% increase over the prior year, as member comfort with electronic communications continues to grow.

To preserve a personal relationship with plan participants, we launched in 2002 a series of OMERS-sponsored member meetings, in addition to attending meetings convened by employers or union and employee associations. All told, we met face-to-face with more than 9,000 members and employers. These meetings ensure that they have the opportunity to discuss their needs and concerns personally with OMERS at least once every two years.



64%	Active members	209,787
27%	Retired/survivor	89,157
3%	Deferred	9,250
6%	Inactive	18,940
	TOTAL	327,134

MEMBER PROFILE

ADVANCED WEB-BASED SERVICES

We continue to provide our members with advanced web-based services. For example, we have introduced an estimator that enables members to evaluate their "buy-back" options. Buy-backs are one of the most frequent enquiries as members consider ways to enrich their future benefits by buying back previous service, such as leaves of absence. The buy-back estimator is linked to our popular pension estimator so that the members can develop a fuller picture of their pension options. These estimators now attract more than 10,000 visitors per month. In 2003, we plan to launch a comprehensive retirement income estimator that will incorporate assumptions about Canada Pension Plan and Old Age Security benefits and allow the members to include estimates on personal savings, all anchored by the OMERS pension.

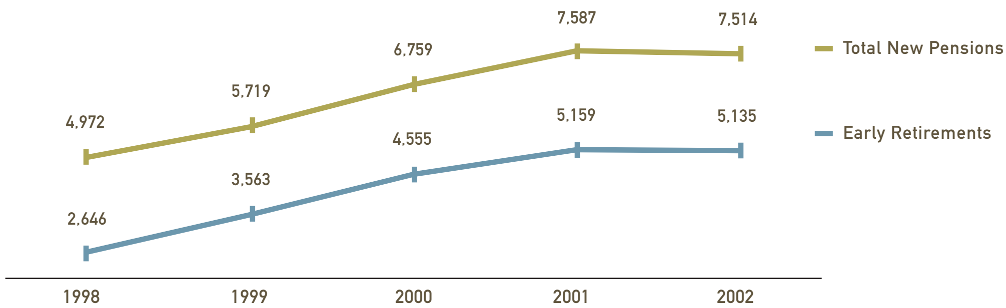
We are examining more interactive e-based relationships with active and retired members, including access to their own file information.

IMPROVED PARTNERSHIP WITH EMPLOYERS

We are a pension industry leader in providing e-access services to employers. E-access provides faster and more complete customer service through better information flow and document handling, as well as faster transfer and verification of data.

In 2002, approximately 64% of employers (representing 92% of our active members) registered for e-access. We trained their staff so that they can electronically access and view member files on our system, check the status of benefits, and submit interactive forms for member events such as retirement. As a result, they can inform members promptly of any changes.

We will continue to expand our e-business platform by making it easy for employers to electronically enroll new members, submit remittance information and get pension quotes.



NUMBER OF RETIREMENTS IN PAST FIVE YEARS

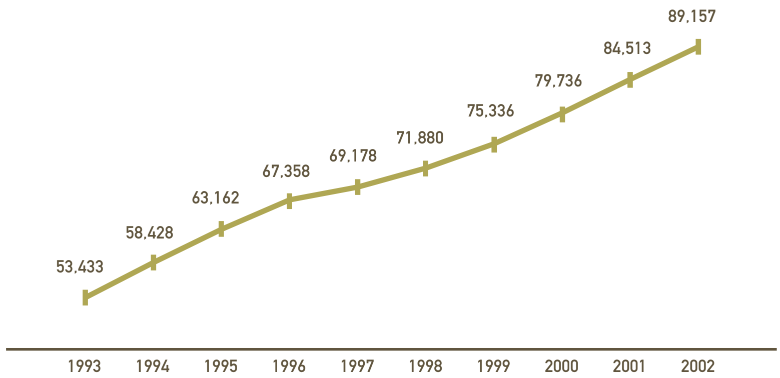
PENSION BENEFITS THAT DELIVER VALUE

OMERS guarantees retirement income for life based on the individual member's earnings and service. The pension is based on 2% of the average of the member's best consecutive five years of earnings, multiplied by the number of years of credited service to a maximum of 35 years. Those with 35 years of credited service no longer contribute. Included in the formula is a bridge benefit to members who retire early, roughly equal to the Canada Pension Plan (CPP) benefit they will receive at age 65. At age 65, the OMERS pension is integrated with the CPP. Each pension is protected against inflation, includes enhanced survivor benefits, provides disability benefits and offers early retirement options. Benefits are portable with many public sector plans.

During the four-and-a-half year contribution holiday, we permanently increased all pensions by lowering the formula used to integrate the OMERS benefits with the Canada Pension Plan when a member turns 65.

The pensions of individual members vary greatly, reflecting the inherent diversity of the OMERS plan. The latest average annual earnings for active members was about $46,100 and the average new pension for 2002 was $17,833. This reflects the average years of service of new pensioners since the majority of members retire with much less than the maximum years of service.

The pensioner payroll grew by $119 million to $1.2 billion in 2002 as the pensioner population expanded by 5.5% to 89,157, including members receiving disability pensions, surviving spouses and dependent children.



GROWTH IN NUMBER OF PENSIONERS

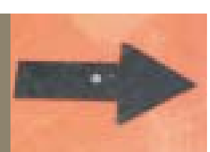
ATTRACTIVE EARLY RETIREMENT INCENTIVE

Of the 7,514 new pensions processed in 2002, 68% were early retirements. That compared with 7,587 new pensions in 2001, of which 68% were also early retirements. To date, 12,297 workers have taken advantage of our temporary early retirement incentives that will be available until the end of 2004. Members within 15 years of their retirement age can retire early up to December 31, 2003. In 2004, the normal requirement of being within 10 years of retirement will apply.

PHASED IN CONTRIBUTIONS

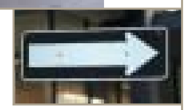
The contribution holiday for employers and active members introduced in August 1998 ended on December 31, 2002. Contributions are being phased in at roughly one-third of normal levels in 2003. For members whose normal retirement age is 65, rates will be 2.1% of salary up to $39,900 and 2.6% after that. For police and fire fighters, who have a normal retirement age of 60, rates will be 2.43% of salary up to $39,900, and 2.93% beyond that. As a result of a decline in the value of assets, the Board has decided that full contributions will begin in January 2004.

OMERS guarantees retirement income for life, based on a members' earnings and service. Our fully-indexed pensions grow each year to keep pace with inflation.



ready

WE ARE READY FOR THE EVENTUAL RECOVERY IN PUBLIC EQUITY VALUES. Meanwhile, we continue to diversify into alternative assets that offer the potential for higher long-term returns.



Our long-term investment horizon and diversified portfolio emphasize stability of returns to pay secure pensions.

The continued collapse of stock markets in 2002 was the toughest test of our investment policy since OMERS began to invest in capital markets. Since 1974, we have been through market booms and busts, hyperinflation and almost invisible inflation, and extremely high and low interest rates. Being prepared for all exigencies is the strength of a sound investment policy.

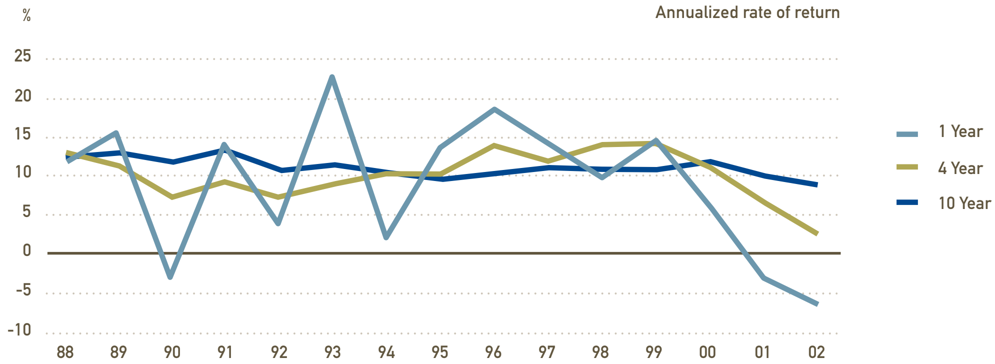
Cycles are the natural rhythm of markets. A correction or downturn normally appears every five to seven years. Following the unprecedented run-up in stock prices since 1995, we had been expecting a severe correction. The recent correction was sharper than generally anticipated. Equities declined for the third consecutive year following the burst of the technology stock bubble in 2000. In addition, corporate and accounting scandals drove many investors from the markets.

LONG-TERM RETURNS REFLECT PROFITABILITY

Markets can be highly volatile in the short term, as they were in 2002. But over the long term, share prices ultimately reflect the ability of companies to grow profits. Short-term market behaviour matters if it reveals weaknesses in our long-term policy. Our current investment policy positions OMERS to benefit when equities recover, although the timing is uncertain. Our strong holdings in fixed-income securities and other assets provide reliable income growth to offset the volatility of stock markets.

A 7.25% INVESTMENT OBJECTIVE

Every year, an independent actuary calculates the plan's funding requirement to ensure that the value of invested assets exceeds the present value of all pension benefits promised to members. The funding requirement is 4.25% above the rate of inflation. Assuming long-term inflation at 3% annually, the nominal investment target for the next several years is 7.25%. While it may be difficult to achieve that target every year in the near future, our investment policy is designed to earn more than the funding requirement over the long term so that the plan maintains a surplus as a cushion against short-term declines in investment values and demographic variables.



COMPARISON OF 1-YEAR, 4-YEAR, AND 10-YEAR RETURNS

MANAGING RISK

Our investment professionals pay close attention to the risks we assume to achieve stability and reliability of long-term income. To reduce volatility, we disperse risk among different asset classes and geographic markets. Each asset class has a different risk/reward profile and time frame to produce optimum returns. We also use derivatives to neutralize risk exposure to foreign currency and interest rate changes.

Our investment professionals manage each asset class to create value above the returns that the markets or asset classes generate passively. Value added is measured as the difference between our performance and the performance of market and asset class benchmarks.

SETTING THE ASSET MIX POLICY

Our asset mix policy selects assets that are most likely to grow in value to cover all the projected costs of current and future benefit claims. Our goal is to construct a policy that mitigates the risk of an increase in the normal level of payroll contributions by members and employers. Over the long term, we expect that investment income will pay close to 80 cents of every pension dollar, with 10 cents coming from member contributions and 10 cents from employers. In view of the investment returns reported in 2002, and lingering uncertainties surrounding the global economic climate, we will review our asset mix policy in 2003 to determine what changes would likely improve long-term returns.

ASSET MIX: POLICY VERSUS ACTUAL

	Policy	Actual Year-End
Canadian equity	25%	25.7%
Foreign equity	35%	34.9%
Canadian debt	25%	22.2%
Real return bonds	2.5%	2.6%
Real estate	12.5%	14.6%

We look for every opportunity to add value to the fund. As a result, OMERS continues to do better than the markets in which we invest.

EQUITIES: SUPERIOR RESULTS OVER THE LONG TERM

We have maintained a target allocation for equities of 60% since 1997. Despite wide positive and negative swings in short-term performance, equities produce long-term returns superior to virtually all other asset classes. We ended 2002 with $13.6 billion invested in publicly traded and privately owned equities.

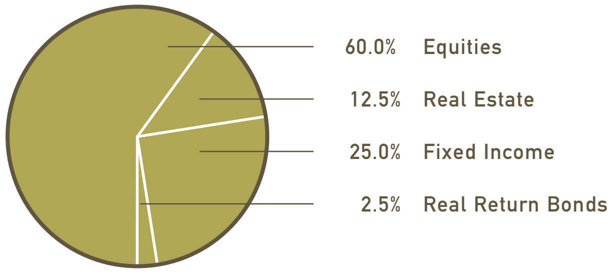
Publicly traded equities are the backbone of our investment strategy and represent about 40% of net investment assets. In committing to these assets, we do not attempt to time the market. We would incur large costs without improving long-term results if we were to liquidate assets every time we expected the market to decline and then rebuilt our position when we expected markets to recover. Our current strategy is to maintain our public equity positions in readiness for recovery. Experience shows that most of the gains occur early in the recovery cycle. It is prudent, therefore, for OMERS to be fully invested at all times.

Two years ago, we reduced Canadian equities from 35% of total assets to 25% and increased foreign equities from 25% to 35%. This shift reduced our risk exposure to the small Canadian market, which has limited diversification by economic sector compared with the United States and Europe and a limited choice of companies within many sectors compared with other markets.

An active Canadian equity manager

Our actively managed Canadian stock portfolios are 95% managed by internal staff and 5% by external managers with expertise in particular market niches. These portfolios totaled $4.6 billion in 2002 and contained the shares of 179 publicly traded and privately owned companies. We are primarily a value investor focused on buying and holding the shares of established and profitable companies that can produce reliable long-term returns. However, our investment professionals have the discretion within approved asset allocation guidelines to take advantage of short-term trading opportunities to generate added portfolio value.

While OMERS is primarily an actively managed fund, buying shares to replicate a recognized stock index is a cost-efficient way to invest in the markets. In Canada, we had $1.2 billion invested in portfolios that replicate the TSX Composite Index.



ASSET MIX POLICY

Participating in global economies

Outside Canada, we had $6.5 billion invested in the equities of companies principally in the United States, Britain, and Europe with much smaller investments in the Far East and emerging markets. This diversity enables us to participate in different economies around the world.

Our actively managed foreign stock portfolios are managed by investment specialists knowledgeable about regional and national markets. In 2002, these portfolios held $5.0 billion in 1,178 stocks. We select individual companies based on value.

Our staff also managed $1.5 billion of investments in U.S. equity indexes, notably the Russell 1000 Index, which provides diversified exposure to large and small companies.

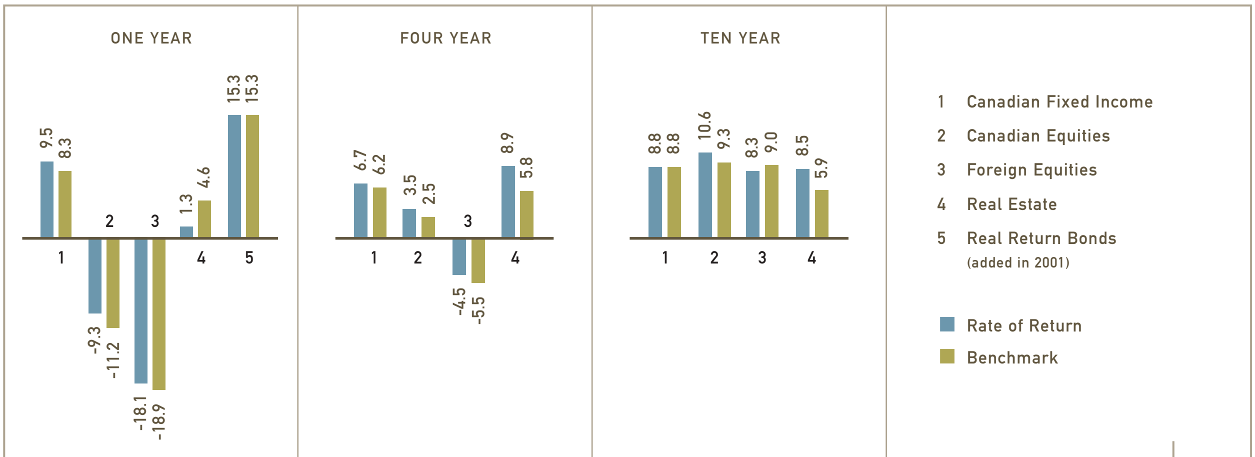
A major constraint on our ability to optimize overall returns is the foreign property limit imposed by the *Income Tax Act* on all pension plans. The Act restricts foreign investments to 30% of total assets at cost. We were in full compliance with the requirement. On a market value (versus cost) basis, approximately 35.8% of total assets were invested outside Canada through direct investments and derivative contracts.

Developing alternative equity holdings

In recent years, we have steadily shifted a portion of our equity allocation from publicly traded equities to alternative assets offering the prospect of higher long-term returns.

We began to invest in Canadian and foreign private equities in 1981 and by 1998 had built a diversified portfolio valued at close to half-a-billion dollars. In the past four years, the private equity portfolio has more than doubled to $1.3 billion, or close to 4.5% of net investment assets.

Another important alternative asset is infrastructure investments, where we are an industry leader. Being stable and long term, infrastructure returns are ideal for a pension fund. We made our first infrastructure investment in 1997 and today own $0.3 billion of assets, including schools, retirement facilities, municipal utilities and energy companies.



RATES OF RETURN VS. BENCHMARK
IN EACH ASSET CLASS

A further important alternative to public equities is ownership of income-producing real estate assets, discussed below. We will continue to expand our holdings of alternative assets to further improve returns.

REAL ESTATE: CASH FLOW THAT PAYS PENSIONS

To secure greater stability and reliability of income, we have created one of Canada's largest real estate portfolios. Our asset mix target for real estate has been 12.5% of the total fund since 1996. Currently it exceeds that target with $7.7 billion invested, of which $3.0 billion is financed by subordinated debentures, mortgages and other debt.

Real estate is one of the best assets available to match pension liabilities. It generates superior returns over the long run, acts as a hedge against inflation, produces regular cash flow from the rental income stream, and generally has lower volatility than stocks and bonds.

Our portfolio contains 107 directly-owned properties, including major shopping centres, office buildings, multi-residential apartment complexes and industrial properties. The portfolio was strengthened by the acquisition of Oxford Properties Group late in 2001. In November 2002, we sold a $500 million debenture issue to institutional investors and used the net proceeds to repay other real estate indebtedness. This was our first securities issue since receiving a triple A credit rating from Standard & Poor's and Dominion Bond Rating Service.

FIXED-INCOME INVESTMENTS: STEADY LONG-TERM INCOME

We manage a $11.6 billion fixed-income portfolio of Canadian government and corporate bonds, mortgages, and short-term instruments. Bonds are generally less risky and less volatile than stocks and generate steady income as well as the return of the original capital at maturity. Our investments in corporate bonds, which pay higher returns than government bonds, have expanded in recent years and totalled $1.7 billion at year end.

Though the capital markets continue to underperform, we are acting decisively to add value to the Fund.

REAL RETURN BONDS: AN ALMOST PERFECT ASSET

Two years ago, we entered the real return bond market with a policy target of 2.5% of total assets. These securities earn inflation-adjusted returns and are the closest match with indexed pension payments, particularly with most issues maturing over 20 years. At year end we were overweight in real return bonds with $796 million in our portfolio. These securities have performed extremely well.

DERIVATIVES: STRATEGIC PORTFOLIO MANAGEMENT

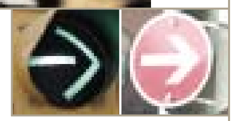
We use derivatives to optimize exposure to both domestic and foreign markets. Derivatives can provide greater liquidity than owning the underlying assets and are a cost-effective form of deploying investment strategies and enhancing overall returns. They also facilitate efficient risk management among different types of assets and global economies. Our derivative contracts are discussed in Note 3 to the financial statements.

The notional value of derivatives in 2002 was $16.9 billion, compared with $20.6 billion a year earlier. Net credit risk exposure at year end was $199 million, or 0.7% of the net assets of the fund. Extensive monitoring and control processes are in place to manage risk.

CORPORATE GOVERNANCE: CREATING WELL-RUN COMPANIES

OMERS owns shares in approximately 400 publicly traded companies in Canada and more than 1,000 companies outside Canada. We encourage these companies to generate shareholder value by practicing enlightened corporate governance. Well-managed public companies, with strong governance processes, generally produce better long-term returns. The most basic governance principles that we support include:

1. Options expensed on the income statement.
2. A majority of directors unrelated to the company.
3. Outside directors as chairs of audit, compensation, nominating and corporate governance committees.



Investments provide about 80% of the amount needed to pay pensions. Typically, a retiree gets back the value of his/her lifetime contributions, plus interest, within five years of retiring.

4 The audit committee being solely responsible for retaining audit firms and for the audit function.

5 Directors owning shares in the companies they govern so that their financial interests are aligned with those of the shareholders.

6 Options granted to management based on performance tied to measurable financial targets.

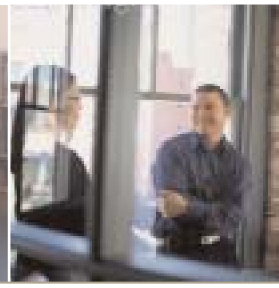
7 Separation of the Chair of the board and the Chief Executive Officer.

To advance these principles, we join other institutional investors in support of good governance in Canada and elsewhere.

Proxy Voting to Add Further Value

We vote the shares we beneficially own on behalf of plan members on the basis of their best financial interests. All shares are voted either directly by senior OMERS staff or through a specialized external agency.

Our *Proxy Voting Guidelines* set out our policy on various corporate governance matters and indicate how we will likely vote on individual issues. We take into consideration the quality of a company's overall governance in deciding whether to vote for or against specific proposals. The guidelines are intended to be a flexible response to proposals by management and shareholders. Our guidelines and voting record on major proposals for Canadian companies are posted on our web site at **www.omers.com**.



Well-managed companies with strong governance practices generate better long-term returns for our members. We encourage good governance by voting our share proxies.

Votes AGAINST Management 2002 vs. 2001 (North American companies)

	2001		2002	
	Total	Against	Total	Against
Insider directors on committees	161	161	199	199
Audit issues	n/a	n/a	17	12
Options programs including repricings	318	216	329	242
Takeover protection motions	n/a	n/a	62	57
Social, ethical, environmental	71	38	92	39
Other issues	692	176	764	145
Total	1,242	591	1,463	694

We continue to be concerned about the presence of some non-independent directors on audit, compensation and nominating committees. The objectivity of these committees is crucial to modern corporate governance principles. As a result we once again voted against all management proposals that failed to respond to basic governance principles.

The independence and integrity of audit firms are under challenge in the wake of recent scandals regarding the credibility of corporate financial statements. We believe that an audit firm should be retained solely to audit the financial statements and other suppliers should handle other consulting. As a result, we voted against management in all cases where consulting business constituted a potential conflict of interest with audit work.

We enhanced our own governance in 2002 by separating the audit and non-audit functions. From now on, the accounting firm that provides financial statement audit services to OMERS and our subsidiaries will not be able to provide other services, including tax services, to these entities.

Executive compensation continues to be a cause of great concern. Executive compensation must be linked to financial targets that improve corporate governance and achieve pre-determined performance targets. We oppose all repricing of existing options

OMERS believes that well-managed companies demonstrate respect for their employees, the environment, human rights and the communities in which they do business.

and defacto repricings such as extensions. Repricing makes a mockery of linking executive leadership to share value. While we voted for 87 option proposals that were within our guidelines, we voted against management on 242 occasions in 2002.

A basic principle embedded in our proxy voting guidelines is that corporate boards should always act in the best financial interests of shareholders even when faced with takeover offers that management does not like. Hostile takeover bids can release shareholder value that might not otherwise be realized. In 2002, we voted against 57 takeover protection proposals by management and voted for 5 resolutions that complied with our guidelines.

Supporting socially responsible investing

As an active equity investor, we consider the potential impact of non-financial factors on future returns. Our *Investment Practices* booklet articulates our position on socially responsible investing. OMERS believes that well-managed companies are those that demonstrate respect for their employees, the environment, human rights, and the communities in which they do business. As a result, we believe that companies should account for their behaviour and its implications for the creation of value. Companies should also publish and update in their annual reports their policies and procedures with respect to social, ethical and environmental issues that materially affect performance.

We believe that generating acceptable rates of return for our plan members and the creation of general economic value are not mutually exclusive. For example, we participate in various infrastructure projects and venture capital initiatives that provide broader benefits to our economy while generating the returns necessary to meet our fiduciary duty to members.

In 2002, we voted against management on 39 occasions and for management on 53 occasions on socially responsible investing issues. Principally we supported motions calling on companies to improve their human rights and labour standards.

OMERS Board

[Governance Practices]

OMERS provides pension services to almost 330,000 members and more than 900 employers who have the right to know how their plan is governed and managed.

Board Mandate

As a fiduciary, the OMERS Board acts in good faith, taking into account the best interests of the plan as a whole, as required by law.

The Board's authority is set out in the *OMERS Act* and *Regulation*. Responsibilities include:

- Setting OMERS strategic direction
- Allocating financial resources
- Recommending plan design changes (subject to provincial government approval)
- Determining investment asset mix
- Approving contribution rates
- Appointing CEO and monitoring organizational effectiveness
- Establishing executive compensation policy

Board Membership

Board members are appointed by the provincial government for a maximum of two three-year terms. OMERS is governed by a thirteen-member board composed of:

- Six employee representatives
- Six employer representatives
- One provincial government representative

Accountability and Disclosure

The Board is accountable for its actions and results, and reports to plan members and employers on how their contributions are managed and invested. The Board holds two regional meetings a year with plan members. It maintains contact with plan participants through consultation with stakeholder groups on key issues, its annual report, website, regular newsletters, benefit statements, presentations and correspondence.

CONTINUED ON PAGE 26

Marianne Love BELOW

Bill Rayburn BELOW LEFT
Rick Miller BELOW RIGHT

Dennis Neethling ABOVE LEFT
Susan O'Gorman ABOVE RIGHT

Dick McIntosh LEFT

David Carrington RIGHT

BOARD MEMBERS

Employer Representatives

➪ **Walter Borthwick, Past Chair**
Town of Wasaga Beach

➪ **Bill Rayburn**
County of Middlesex

Marianne Love
Association of Municipalities of Ontario

➪ **Frederick Biro**
Peel Police Services Board

John Sabo
York Catholic District School Board

Dennis Neethling
Township of East Ferris

Employee Representatives

➪ **Rick Miller, Chair**
Ontario Professional Fire Fighters Association

Peter Leiss
Canadian Union of Public Employees

David Carrington
Canadian Union of Public Employees

Susan O'Gorman
Ontario Nurses' Association

Dick McIntosh
Retired Member

David Kingston
York Regional Police

Government of Ontario Representative

Nancy Bardecki

➪ Members of Executive Committee

Frederick Biro BELOW

Nancy Bardecki BELOW

Peter Leiss ABOVE LEFT
Walter Borthwick ABOVE RIGHT

John Sabo LEFT

David Kingston RIGHT

SENIOR OFFICERS

Dale E. Richmond
President and CEO

Michael Beswick
Senior Vice President
Pensions

Wayne Gladstone
Senior Vice President
Finance and Administration

Tom Gunn
Senior Vice President
Investments

Debbie Oakley
Senior Vice President
Corporate Affairs

ADVISORS TO THE BOARD

Actuary
Watson Wyatt Worldwide

Auditors
KPMG LLP

Legal Advisor
Osler, Hoskin & Harcourt LLP

Master Custodian
State Street Canada Inc.

Medical Advisor
Dr. D. Lewis

Governance Practices CONTINUED FROM PAGE 23

Board Committees

The Board has four standing committees (listed below) and four sub-committees: governance, audit, compensation and appeals.

Executive Committee
Responsible for Board affairs, government relations, organizational changes. Serves as compensation sub-committee to handle executive compensation and performance.

Investment Committee
Approves asset mix policy, reviews investment policy and goals, reviews major investment decisions.

Pension Committee
Oversees pension administration policy, reviews actuarial valuations, ensures stability of contribution rates, reviews plan benefit changes.

Management Committee
Responsible for human resource policies, annual budget, overseeing OMERS strategic plan and major purchases.

Board Self-Evaluation

Independent consultants conduct a Board Effectiveness Survey biannually, examining key dimensions of pension plan governance. The Governance Sub-Committee has stewardship for implementing the recommendations from the survey.

Board Independence

The Board appoints the CEO, who is not a member of the Board, and reviews his performance annually. Day-to day management of OMERS is delegated to the CEO.

The Board appoints the auditor, custodian, and actuary, and regularly solicits legal advice. The Board holds regular in camera meetings without management present. The Board holds two strategic planning sessions each year and requires management to develop a multi-year plan that they are then held accountable for.

The Board seeks advice from outside experts in plan administration and fund investment to assist Board members in undertaking their oversight responsibilities.

There is a mandatory orientation program for new Board members, and an ongoing continuing education program for members at each regular Board meeting. In addition, each Board member attends relevant seminars and conferences.

Audit Sub-Committee

The Audit Sub-Committee meets with the external auditor and reviews the audited financial statements and the effectiveness of OMERS system of internal controls.

In 2002, OMERS separated audit and non-audit functions. Beginning in 2003, the accounting firm that provides financial statement audit services will be prohibited from providing other audit-related work, including tax services.

plan's financial position

Net assets available to pay benefits declined in 2002 as the cost of current and future benefits increased, the value of invested assets decreased, and the last year of a contribution holiday continued to reduce cash inflow.

With equity markets in the most severe downturn in three decades, OMERS had two consecutive years of investment loss, although our investment professionals did better than the markets in which they invest in virtually all asset classes. Nevertheless, we are seeing a depletion of surplus that will worsen if markets continue to decline.

We are confident that investment returns will improve over the long term, although the next few years could prove difficult, putting pressure on future contribution rates.

Growth in liabilities

Over the past five years, the actuarial present value of accrued pension benefits has increased by $11.9 billion, or 57%, intensifying the pressure on investment performance. In 2002, benefit costs continued to increase in response to the expanded pensioner payroll, recently enhanced benefits, and the pensions of newly retired members being calculated on higher salary levels than members who retired many years ago. Inflation, as measured by the Consumer Price Index, also increases annual costs. Based on the December 31, 2001 actuarial valuation, the actuarial present value of accrued pension benefits is projected to increase by approximately $2 billion, or 6.8%, in 2002, to total $33.1 billion.

Investment performance

The role of our investment professionals is to manage a sufficiently large asset base to generate a level of annual investment returns over the long term to cover the costs of all current and future benefits. The market value of gross investment assets totaled $33.0 billion at the end of 2002, a $4.3 billion decline from the prior year end. Our long-term goal is to exceed the funding requirement of 4.25% plus the rate of inflation as measured by the Consumer Price Index.

Within this long-term performance perspective, OMERS continues to do well. Since being empowered to pursue an active investment policy in 1974, the fund has achieved a compounded annual rate of return of 10.1%. Over the past 10 years, the return was 9.1%. These returns are well above the level required to keep the plan fully funded.

Returns are also measured in the short term so that we can determine the impact of current markets and our investment decisions on future returns. If short-term results deviate unusually from market results, we can refine our investment policy and assets mix to better balance fluctuations over the long term.

In 2002, the annualized four-year return (a standard measure in the pension fund industry) was 2.4%, compared with 6.8% for the four-year funding requirement. The one-year return for 2002 was negative 7.1%, the worst single-year performance in our history, compared with 8.1% for the one-year funding requirement.

We are reviewing our asset mix policy in 2003, one year ahead of the normal review cycle, to determine what adjustments may be warranted to improve returns.

The plan's financial position

The cost of all current and future pensions is estimated on a regular basis to ensure the plan continues to meet its commitment to pay secure pensions.

An independent actuary estimates the actuarial value of assets and liabilities, as well as the cost of accruing benefits, based on various economic and demographic assumptions. Three key factors include investment returns, which affect the value of assets, and inflation and salary increases, which affect the value of future benefits. (Current assumptions for these factors are discussed in note 8 to the financial statements). These estimates are prepared every year and are extrapolated long into the future. They assist the Board in making decisions about the plan's financial strategy, including the management of surplus funds.

Valuing the assets

The market determines the value of assets. These values can be highly volatile, with a single year's results being unusually high or unusually low, as occurred in 2002. The actuary performs a calculation to smooth changes in the market value of assets for the current year plus the four preceding years to produce an adjusted market value. This smoothing of asset values provides a more stable picture of the long-term relationship of assets to liabilities.

Valuing the liabilities

To value the liabilities, the actuary examines the plan's demographics – the age, length of service, annual earnings, full-time versus part-time employment, and other factors of the diversified membership. Information is processed on active and retired members, former members who still have entitlements in the plan, and surviving spouses and children who receive benefits. In addition, expected rates of mortality, disability and termination of employment data are factored in.

Calculating the surplus

The estimated $33.1 billion present value of accrued liabilities is deducted from the $35.5 billion actuarial value of assets to calculate the estimated actuarial surplus of $2.4 billion as at December 31, 2002.

The Board has allocated approximately $1.4 billion of the valuation surplus to a Funding Stabilization Reserve as a cushion against volatile investment returns, or a surprise change in the liabilities through demographic variations, such as accelerated early retirements. The Board has also allocated $990 million to a Contribution Deficiency Reserve to assist in the management of potential future contribution shortfalls.

The current $35.5 billion in actuarial value of net assets includes $6 billion in smoothing, in accordance with standard actuarial practice. As the recent investment losses become recognized over the next few years, the amount of the smoothing adjustment will decline. If new investment gains do not arise in the future to offset the past losses, a funding deficiency could occur.

(Millions)	2002 *	2001
Surplus, beginning of year	$ 4,456	$ 5,804
Increase in net assets available for benefits	(3,736)	(2,631)
Change in actuarial fair value adjustment	3,809	4,152
Increase in actuarial value of:		
net assets available for benefits	73	1,521
Less: net increase in accrued pension benefits **	2,074	2,880
Less: change in contribution liability	27	(11)
Surplus, end of year	$ 2,428	$ 4,456

* Projection based on 2001 valuation and changes in assets and benefits during 2002.

** Includes the change in net liability of full earnings pension.

Asset class performance vs. benchmarks

A short-term goal is to consistently add value above the returns of the markets in which we invest, on a risk-adjusted basis. We measure the performance of each portfolio against an objective benchmark that acts as the proxy for each market. When we exceed the benchmark, we add value to the portfolio over and above the return that comes from the markets. This concept of value added is important even when we have negative returns. The benchmarks are aggregated and weighted to conform with our asset mix policy to provide a benchmark for the total fund.

Our $11.6 billion Canadian fixed income portfolios include $4.3 billion in assets (primarily short-term deposits and bonds) that support our derivative programs. Value-added from these backing assets are attributed to the particular backing asset category. A total of $6.5 billion was invested with exposure to bonds, mortgages, private debt and short-term investments and had a return of 9.5% in 2002 versus 8.3% for the benchmark (the Scotia Capital Bond Universe Index and the Scotia Capital 30-Day T-Bill Index). The gain of 120 basis points over the benchmark primarily reflected the exceptional performance of our core active bond portfolio and mortgage portfolio, both of which had gains from changes in interest rates. Our external managers also contributed to the superior results.

Fixed income assets also include $796 million of real return bonds, our best performing asset class with a 15.3% return.

In the equity category, our $5.7 billion Canadian stock portfolio returned minus 9.3%, a significant improvement over the prior year and ahead of the negative 11.2% for the benchmark (a blend of the S&P/TSX Composite Index, the Nesbitt Burns Small Cap Index, the S&P/TSX 60 Index and a custom private placement index). The value added was, therefore, 197 basis points. Our internally managed active and indexed portfolios did better than externally managed equities.

The private equity portfolio reported a minus 5.2% return, substantially outperforming the minus 11.4% benchmark return (the S&P/TSX Composite Index, FTSE All World, excluding Canada and the U.S, and the Russell 3000 Index). This was the first negative return in many years. Over the past four years, private equities have earned an average annual rate of return of 7.1%, versus 2.1% for the benchmark.

In dollar terms, our worst performing assets were the $6.5 billion of foreign equities with a total return of minus 18.1%. This performance exceeded the minus 18.9% for the benchmark (based on the Russell 3000 Index, the FTSE All World, excluding Canada and the U.S., and a custom derivative and custom private placement index). The U.S. portfolios, which make up about half of foreign equities, recorded the lowest results in this asset class at minus 22.2%, only 18 basis points above the U.S. benchmark.

The $7.7 billion real estate portfolio (funded by $3.0 billion in mortgages and other debt) registered a positive 1.3% return in 2002, a large reduction from the 13% to 14% returns of the previous two years and below our expectations. The 2002 performance compared with a 4.6% return for the benchmark (85% of the five-year smoothed CPI + 4.75%, and 15% of the TSX real estate sub-index). The shopping centre assets generally did well, while lower occupancy rates eroded office returns.

Cash flow

We received $1.4 billion in cash flow during 2002, compared with $1.5 billion the prior year, from interest, dividend, and rental property income. The cash flow was more than sufficient to meet the $1.3 billion in pension obligations during the year.

Cash flow in 2003 and subsequent years will improve now that the contribution holiday has expired and employer and member contributions will return to normal by 2004. In addition, our real estate portfolio is expected to generate reliable cash flow from rental income.

Change in net assets

The plan's net assets decreased by $3.7 billion in 2002 to end the year at $29.5 billion.

Before allocation to administered pension funds we experienced a $2.3 billion loss in net investment income. Foreign equities lost $2.7 billion and Canadian equities lost $717 million, offset by gains of $868 million on fixed-income and $245 million on real estate.

The decrease in net assets was the result of several factors, including a three-year decline in equity markets, one of the worst market declines in a century. In addition, there was a rise in pension costs because of benefit improvements and an increase in the number of retirees, with $1.2 billion paid out in member pension benefits, an increase of $119 million from the previous year. We did not collect normal contributions in 2002, the final year of the contribution holiday.

We also deducted $85 million in administrative costs (the same as the prior year) from net assets to operate OMERS. (Administrative expenses are tabulated in note 12 to the financial statements). Effective in 2002, we expense all management fees associated with private equity funds. While the treatment of these expenses varies within the industry, our new policy ensures these charges are treated in the same way as fees for other investment services. The change contributed to the rise in investment operating expenses from $32 million in 2001 to $68 million in 2002.

Credit Rating

Toward year-end, OMERS gained an AAA credit rating from both Standard & Poor's and Dominion Bond Rating Service. This is the highest rating possible and will provide tremendous flexibility in managing the fund. We will be able to negotiate lower borrowing costs in our real estate operations and expand our business opportunities.

actuarial cost certificate

AS AT DECEMBER 31, 2002 FOR THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 2001 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purposes of the valuation were to determine the funded status of OMERS as at December 31, 2001 and to examine the adequacy of the ongoing contribution structure to maintain OMERS in a satisfactory actuarial and financial position.

The results of the actuarial valuation of the registered pension plan benefits disclosed total going concern Actuarial Liabilities of $30,954.665 million in respect of benefits accrued for service to December 31, 2001. The Actuarial Assets at that date were $35,474.522 million indicating a going concern Actuarial Surplus of $4,519.857 million, of which the Board has allocated $1,547.708 million to a Funding Stabilization Reserve and $924.777 million to a Contribution Deficiency Reserve. The net actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 2001 (determined using assumptions selected by the Board for purposes of the Consolidated Financial Statements) was $63.898 million, leaving an overall Actuarial Surplus of $4,455.959 million.

The results of the actuarial valuation also indicated that the levels of member and employer contributions prescribed in the OMERS Regulations, in conjunction with the Actuarial Surplus, are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the funded position of the Plan assuming it had been wound up on December 31, 2001. In our opinion, the value of the Plan assets would have been equal to 96.6% of the actuarial liabilities if the Plan had been wound up on that date.

We have considered the likely development of the Actuarial Liabilities during 2002. Further, we have calculated the Actuarial Assets at December 31, 2002. In our opinion, the assets of the Fund at December 31, 2002 are sufficient to meet all the liabilities of the Plan in respect of benefits accrued for service to that date on a going concern basis and a solvency basis and approximately 81% of the corresponding liabilities on a wind up basis.

The actuarial valuation of OMERS as at December 31, 2001 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

- the data are sufficient and reliable for the purposes of the valuation,
- the assumptions adopted are, in aggregate, appropriate for the purposes of the valuation, and
- the methods employed in the valuation are appropriate for the purposes of the valuation.

Nonetheless, the future experience of OMERS may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.

The valuation was prepared and our opinions given in accordance with accepted actuarial practice.

Respectfully submitted
WATSON WYATT & COMPANY

Martin Brown

Martin J.K. Brown, F.I.A.
Fellow, Canadian Institute of Actuaries
February 21, 2003

Daniel J. Morrison, F.S.A.
Fellow, Canadian Institute of Actuaries

responsibilities of management, the actuary and external auditors

The consolidated financial statements of the Ontario Municipal Employees Retirement System (OMERS or the System) have been prepared by management and approved by the Board. Management is responsible for the contents of the consolidated financial statements and the financial information contained within the annual report.

OMERS maintains systems of internal control and supporting procedures to ensure the integrity and fairness of the data presented, that transactions are duly authorized and that assets are adequately safeguarded. These controls include clear divisions of responsibilities, accountability for performance, timely communication of policies and procedures throughout the organization and high standards in the hiring and training of employees.

The Audit Sub-Committee assists the Board in discharging its responsibility to approve the annual consolidated financial statements. The Sub-Committee meets regularly with both management and the external auditors to review the scope and timing of the audit as well as to review any internal control or financial reporting issues and their resolution. The Sub-Committee reviews and approves the annual consolidated financial statements and recommends them to the Board for approval.

The actuary is appointed by the OMERS Board. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and to report thereon to the OMERS Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality, turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are also appointed by the OMERS Board. Their responsibility is to report to the OMERS Board whether the consolidated financial statements present fairly, in all material respects, the net assets of the Fund and the changes in its net assets for the financial year, in accordance with Canadian generally accepted accounting principles. The external auditors have full and unrestricted access to management and the Audit Sub-Committee to discuss any findings related to the integrity of the financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The external auditors rely on the work of the actuary for the actuarial liabilities disclosed in the notes to the consolidated financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

Dale E. Richmond
President and Chief Executive Officer

Wayne Gladstone
Senior Vice President
Finance and Administration

Toronto, Canada
February 21, 2003

auditors' report

TO THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

We have audited the Consolidated Statement of Net Assets of the Ontario Municipal Employees Retirement Fund (the Fund) as at December 31, 2002 and the Consolidated Statement of Changes in Net Assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 2002 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
February 21, 2003

consolidated financial statements and notes

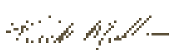
Consolidated Statement of Net Assets

(Millions)

As at December 31,	2002	2001
ASSETS		
Investments (note 2)	**$ 32,951**	$ 37,246
Accrued income	**114**	120
Amounts due from pending trades	**229**	176
Goodwill from corporate acquisitions (note 1)	**390**	460
Other assets (note 6)	**286**	256
Total Assets	**33,970**	38,258
LIABILITIES		
Investment liabilities (notes 2 and 4)	**2,999**	3,565
Due to administered pension funds (note 5)	**440**	487
Future income taxes	**284**	346
Amounts payable from pending trades	**215**	128
Other investment liabilities (note 7)	**326**	284
Other pension liabilities	**201**	205
Total Liabilities	**4,465**	5,015
NET ASSETS (note 8)	**$ 29,505**	$ 33,243

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

Signed on Behalf of the Board



Member

Member

Consolidated Statement of Changes in Net Assets

(Millions)

For the year ended December 31,	2002	2001
INCREASE IN NET ASSETS		
Contributions (note 10)	**$ 47**	$ 36
Total Increase	**47**	36
DECREASES IN NET ASSETS		
Net investment loss (note 9)	**2,245**	1,335
Benefits (note 11)	**1,302**	1,193
Administrative expenditures (note 12)	**85**	85
Interest on investment liabilities	**153**	55
Total Decrease	**3,785**	2,668
DECREASE IN NET ASSETS	**(3,738)**	(2,632)
Net assets at beginning of year	**33,243**	35,875
NET ASSETS AT END OF YEAR	**$ 29,505**	$ 33,243

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

notes to consolidated financial statements

YEAR ENDED DECEMBER 31, 2002

Description of the Plan

The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan set up under the *Ontario Municipal Employees Retirement System Act* (OMERS Act) *and Regulation*. The Ontario Municipal Employees Retirement Fund (the Fund) is established in Section 5 of the OMERS Act. The System provides pensions for various groups including, but not limited to, employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Plan is registered with the Financial Services Commission of Ontario and the Canada Customs and Revenue Agency. The Plan is registered under the *Pension Benefits Act* (PBA) of Ontario, Registration #0345983.

a) Funding The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. Contributions are determined in accordance with the *OMERS Act and Regulation*, the *Income Tax Act (Canada)* and the PBA.

b) Pensions The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who generally have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest sixty months of consecutive earnings. The OMERS pension is integrated with the Canada Pension Plan.

c) Death Benefits Death benefits are available to a surviving spouse or designated beneficiary upon the death of a member or in some cases a pensioner. Depending upon eligibility requirements, the benefit may be paid in the form of a survivor pension, lump sum payment or both.

d) Withdrawals from the Plan Subject to lock-in provisions, a member that has terminated employment prior to retirement age has the option to withdraw his/her benefit from OMERS.

e) Escalation of Pensions Pensions benefits are protected from inflation through an annual adjustment equal to 100 per cent of the Consumer Price Index (CPI) of the prior year. This is subject to a limit of six per cent in any one year. If the CPI exceeds the six per cent limit, any excess is carried forward to future years.

f) Income Taxes OMERS is a Registered Pension Plan as defined in the *Income Tax Act (Canada)* and as such is not subject to income taxes for contributions or investment income received. The sale of assets in certain subsidiaries may be taxable where OMERS has taken over control of a previously taxable entity.

g) Retirement Compensation Arrangement The Retirement Compensation Arrangement (RCA) was established by OMERS to provide supplementary pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act (Canada)*.

In accordance with the PBA, the determination of the value of these benefits is made on the basis of a periodic actuarial valuation. The net assets available for benefits and the accrued liabilities of the RCA are valued separately from the OMERS actuarial valuation.

NOTE 1 : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund as a separate financial reporting entity independent of the sponsors and plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated statement of net assets and the consolidated statement of changes in net assets. Actual results could differ from these estimates.

Certain comparative data has been restated to conform with the current year presentation.

Consolidation

OMERS holds certain investments through subsidiaries and various other corporate structures. Subsidiaries are entities controlled by OMERS through ownership of a majority of the voting shares or through control of the Board of Directors. Other corporate structures where there is co-ownership in the economic activities of the entity are jointly controlled by OMERS together with various partners through a proportionate ownership of the voting shares.

The consolidated financial statements include the financial statements of OMERS, its subsidiaries holding real estate, private equity and resource investments, and the proportionate share belonging to OMERS of the assets, liabilities, and operating income of entities where there is co-ownership. Intercompany transactions and balances are eliminated in arriving at the consolidated financial statements.

Investments

Investment transactions are recorded at the point when the risks and rewards of ownership are transferred. As such, publicly traded securities are recorded as of the trade date of the transaction.

Investments are stated at fair value. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since original acquisition. The change in the difference between fair value and cost of investments at the beginning and end of each year is the unrealized appreciation/depreciation in the fair value of investments and is reflected in net investment income/loss in the statement of changes in net assets.

Fair values of investments are determined as follows:

i) Short-term deposits are recorded at cost, which together with accrued interest income approximates fair value.

ii) Bonds, debentures, equities and resource properties are valued at year-end quoted market prices where available. Where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, independent asset appraisals, and financial analysis.

NOTE 1 : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

iii) Real estate, composed primarily of income producing properties, is generally valued annually, by independent appraisers in accordance with generally accepted appraisal practices and procedures. This process utilizes discounted future cash flows. In estimating future cash flows certain assumptions are made with respect to future economic conditions and rates of return.

The fair value of any real estate which has been recently acquired is based on the purchase price.

Real estate values may also include amounts representing the value of controlling specific assets or groups of assets. Such values are recognized only on acquisition of control of a corporate entity and are reassessed annually with impairment, if any, reflected in investment income.

iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk and term to maturity.

v) Derivatives, including swap, futures, option and forward contracts, are valued at year-end market prices determined by quoted market values where available, or discounted cash flows using current market yields, where quoted market values are not available.

Investment income/loss includes interest, dividends and operating income/loss from real estate and other subsidiaries, which is recorded on the accrual basis, gains and losses that have been realized on disposal of investments, as well as the unrealized appreciation and depreciation in the fair value of investments.

Investment Liabilities

Investment liabilities include debentures, mortgages and other debt obligations, primarily related to investments in real estate. The fair value of liabilities is estimated using discounted cash flows based on current market yields.

Non-Investment Assets and Liabilities

The fair value of accrued income, amounts due from pending trades, other assets, amounts due to administered pension funds, amounts payable from pending trades, other investment liabilities and other pension liabilities approximate their carrying amounts due to their short-term nature.

Foreign Currency Translation

Certain OMERS investments are denominated in various foreign currencies. The fair values of such investments are included in the statement of net assets and are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in net gain/loss on investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss is recognized in realized gains/losses on disposal of investments.

Future Income Taxes

Future income taxes which arise in taxable subsidiaries are calculated based on the difference between the fair value of assets and liabilities acquired and the related tax basis expected to exist when the asset is realized or the liability is settled.

Goodwill from Corporate Acquisitions

Goodwill arises on the acquisition of control of a corporate entity. It is calculated as the difference between the cost of an investment and the fair value of tangible and intangible net assets acquired and represents the cost of assuming control of those net assets. Goodwill is not amortized, but in each year subsequent to the acquisition, the value is reassessed and impairment, if any, is reflected in investment income/loss.

NOTE 2 : INVESTMENTS

	2002		2001	
(Millions)	**Fair Value**	**Cost**	Fair Value	Cost
INTEREST BEARING INVESTMENTS				
Cash and short-term deposits	**$ 4,264**	**$ 4,264**	$ 4,374	$ 4,374
Canadian bonds and debentures	**5,018**	**4,802**	6,905	6,730
Real return bonds	**796**	**736**	875	898
Private debt	**382**	**364**	307	300
Mortgages	**1,119**	**1,063**	1,225	1,186
	$ 11, 579	**$ 11,229**	$ 13,686	$ 13,488
EQUITY				
Canadian equities	**5,750**	**4,870**	6,642	5,046
Non-Canadian equities	**6,530**	**6,977**	7,452	6,777
Resource properties	**148**	**108**	116	105
Canadian private equities	**687**	**686**	641	635
Non-Canadian private equities	**510**	**514**	528	442
	$ 13,625	**$ 13,155**	$ 15,379	$ 13,005
REAL ESTATE	**7,747**	**7,689**	8,181	7,889
Gross Investments	**$ 32,951**	**$ 32,073**	$ 37,246	$ 34,382
less: Investment liabilities (note 4)	**(2,999)**	**(2,932)**	(3,565)	(3,554)
Net Investments	**$ 29,952**	**$ 29,141**	$ 33,681	$ 30,828

At December 31, 2002, the Fund held the following investments, each having a fair value or cost exceeding one per cent of the fair value or cost of net investments:

	2002 Aggregate			2001 Aggregate		
($ Millions)	**Number of Investments**	**Fair Value**	**Cost**	Number of Investments	Fair Value	Cost
Canadian interest bearing investments	**1**	**$ 481**	**$ 479**	2	$ 788	$ 782
Canadian equities	**2**	**479**	**535**	2	675	670
Real estate properties	**2**	**917**	**720**	3	1,258	1,086
	5	**$ 1,877**	**$ 1,734**	7	$ 2,721	$ 2,538

Canadian securities where the individual issue has a cost or fair value exceeding one per cent of the fair value or cost of total investments are comprised of interest bearing securities issued by the Government of Canada and equity securities issued by Nortel Networks Corporation and the Royal Bank of Canada. Real estate investments above include ownership interest in the Royal Bank Plaza and Yorkdale Shopping Centre properties, both of which are located in Ontario.

OMERS holds a number of investments through entities involving joint venture and co-ownership arrangements. The fair value of OMERS proportionate share in these assets was $3,741 million at December 31, 2002 (2001 - $4,245 million). OMERS share of the net income earned by these entities was $268 million for the year ended December 31, 2002 (2001 - $165 million) and is included in net investment income/loss.

OMERS has guaranteed certain of the obligations of the entities where it is involved on a co-ownership basis and, in certain cases, is contingently liable for the obligations of its associates. The assets of these entities are available and are sufficient for the purpose of satisfying such obligations.

OMERS participates in a securities lending program whereby it lends securities it owns to others. For securities lent, OMERS receives a fee as well as receiving securities of equal or superior credit quality as collateral. As at December 31, 2002, securities with an estimated fair value of $2,856 million (2001 - $2,223 million) were loaned out, while securities received and contractually receivable as collateral had an estimated fair value of $2,935 million (2001 - $2,292 million).

NOTE 2 : INVESTMENTS CONTINUED

Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility, market and credit risk. OMERS has set formal policies and procedures that establish an asset mix among equity, fixed income and real estate investments, requires diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks (note 3).

Foreign Currency Risk

Foreign currency exposure arises from the Fund holding investments denominated in currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian Dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. OMERS has put in place a currency overlay program whereby a portion of OMERS foreign currency exposure is hedged back into Canadian Dollar exposure through the use of foreign exchange forward contracts. The Fund's net investments by geographical location of the issuer and by net currency exposure as at December 31 are as follows:

	Geographical Location		Net Currency Exposure	
(Millions – Canadian dollar equivalent)	**2002**	2001	**2002**	2001
Canada	**$ 19,201**	$ 21,601	**$ 24,129**	$ 27,238
United States of America	**5,543**	6,101	**3,112**	3,480
Euro zone [1]	**1,578**	1,873	**730**	946
United Kingdom	**1,267**	1,514	**627**	756
Japan	**930**	1,031	**476**	493
Other Western Europe	**695**	741	**437**	452
Other Pacific	**400**	420	**231**	185
Emerging Markets	**338**	400	**210**	131
	$ 29,952	$ 33,681	**$ 29,952**	$ 33,681

The above table allocates the market and net currency exposure of Canadian assets backing derivatives to the geographical location / currency of the underlying asset or index from which the derivative contract derives its value.

[1] Euro zone includes the eleven member countries using the Euro currency.

Interest Rate Risk

Interest rate risk refers to the effect on the market value of the Fund's investments due to fluctuation of interest rates. The risk arises from the potential variation in the timing and amount of cash flows related to the Plan's assets and liabilities. Due to the indexing of benefit entitlements and the relatively long duration of pension benefits, OMERS liabilities are influenced by inflation and long-term rates of return. Alternatively, asset values are affected more by equity markets and short-term changes in interest rates. The fixed income portfolio has guidelines on duration and distribution, which are designed to mitigate the risk of interest rate volatility.

Term to maturity classifications of interest-bearing investments, based upon the contractual maturity of the securities, are as follows:

NOTE 2 : INVESTMENTS CONTINUED

	2002					2001	
	Term to Maturity						
(Millions)	Within 1 Year ($)	1 to 5 Years ($)	Over 5 Years ($)	Total ($)	Average Effective Yield	Total ($)	Average Effective Yield
Cash and short-term deposits	4,264	–	–	4,264	2.84%	4,374	2.21%
Canadian bonds and debentures	861	1,568	2,589	5,018	4.35%	6,905	5.34%
Real return bonds	–	–	796	796	3.30%	875	3.79%
Private debt	–	129	253	382	8.10%	307	6.76%
Mortgages	104	343	672	1,119	5.42%	1,225	5.96%
Total	5,229	2,040	4,310	11,579	3.63%	13,686	4.10%

Average effective yield represents the weighted average rate required to discount future cash flows to current market value.

Canadian bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt comprises 29.5 per cent (2001 - 33.7 per cent) of the fair market value of Canadian bonds and debentures (including real return bonds).

Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. OMERS policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Procedures, and to utilize derivative financial instruments which are designed to mitigate the impact of market risk.

Credit Risk

The Fund is exposed to credit-related risk in the event a security counterparty defaults or becomes insolvent. OMERS has established investment criteria which are designed to manage the Fund's credit risk by establishing limits to credit exposure from individual corporate entities. Credit risk arising from derivative financial instruments is discussed in note 3.

NOTE 3 : DERIVATIVE FINANCIAL INSTRUMENTS

The Fund uses derivative financial instruments, when appropriate, in the administration of its asset mix management and to assist in the management of financial risks, including interest rate volatility and foreign exchange risks. In certain circumstances derivatives are used to increase returns or to replicate investments synthetically.

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or interest or exchange rates. OMERS enters into derivative investment activities in combination with the cash and fixed income securities portfolios. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets. Types of contracts currently entered into by OMERS include:

- **Swaps**, which are contractual agreements between two parties to exchange fixed and/or floating rate payments based on a notional value.
- **Forwards and futures**, which are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

NOTE 3 : DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

- **Options**, which are contractual agreements by which the seller gives the right but not the obligation to a buyer to purchase (or sell) a financial instrument on or before a specified date at a predetermined price. Options may be exchange traded or transacted in the over-the-counter market.

Futures and exchange traded options are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;
- enters into derivatives only on an unlevered basis; and
- arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or quarterly prepayments of the fair value of the contract on all derivative transactions.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

The following table summarizes OMERS derivative portfolio and related credit exposure:

- **Notional value:** represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.
- **Replacement cost:** represents the cost of replacing, at current market rates, all contracts which have a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

NOTE 3 : DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

(Millions)	2002 Notional Value	2002 Fair Value Assets	2002 Fair Value Liabilities	2002 Credit Risk Replacement Cost	2001 Notional Value	2001 Fair Value Assets	2001 Fair Value Liabilities
INTEREST RATE CONTRACTS							
Interest rate swap contracts	$ 923	$ 3	$ (10)	$ 3	$ 954	$ 6	$ (15)
Bond index swap contracts	578	7	–	7	304	1	–
Bond options – written	–	–	–	–	100	–	–
Bond options – purchased	–	–	–	–	200	–	–
	1,501	10	(10)	10	1,558	7	(15)
EQUITY CONTRACTS							
Equity index swap contracts	982	44	–	44	848	47	–
Equity swap contracts	70	2	–	2	15	–	(1)
Equity index futures contracts	3,777	11	–	11	4,168	–	(23)
Equity options – written	22	–	(1)	–	105	–	(4)
	4,851	57	(1)	57	5,136	47	(28)
FOREIGN EXCHANGE FORWARD CONTRACTS	10,530	132	(148)	132	13,943	93	(96)
Total	$ 16,882	$ 199	$ (159)	$ 199	$ 20,637	$ 147	$ (139)

The term to maturity based on notional value is as follows:

(Millions)	2002	2001
Under 1 year	$ 16,751	$ 20,078
1 to 5 years	35	463
Over 5 years	96	96
	$ 16,882	$ 20,637

NOTE 4 : INVESTMENT LIABILITIES

Investment liabilities are comprised of secured and unsecured debt and debentures. Mortgages are secured by charges on specific real estate properties and other debt is secured by Canadian bonds.

Subordinated debt represents any direct unsecured obligations to debt holders. OMERS subordinated debt consists of a single issue of OMERS Realty Corporation series A debentures issued in 2002. The maturity date of the debentures is December 31, 2012. The rights of the debenture holders are subordinate to the claims of the Plan pension liabilities.

NOTE 4 : INVESTMENT LIABILITIES CONTINUED

Debt relating to Real Estate operations comprises:

	2002		2002 Weighted Average Interest	2001		2001 Weighted Average Interest
(Millions)	Fair Value	Cost	Rate	Fair Value	Cost	Rate
Mortgages	**$ 1,656**	**$ 1,598**	**7.45%**	$ 1,898	$ 1,889	7.63%
OMERS Realty Corporation Series A debentures	**509**	**500**	**5.48%**	–	–	–
Other secured debt	**827**	**827**	**1.60%**	1,300	1,300	2.28%
Unsecured debt	**7**	**7**	**6.95%**	367	365	7.05%
Total	**$ 2,999**	**$ 2,932**	**5.50%**	$ 3,565	$ 3,554	5.61%

Scheduled principal repayments for each of the five years subsequent to December 31, 2002 and thereafter are as follows:

(Millions)	
2003	$ 1,041
2004	98
2005	103
2006	135
2007	129
Thereafter	1,355
Total	$ 2,861

Excludes net premium/(discount) on debt of $71 million assumed on acquisition of properties.

NOTE 5 : DUE TO ADMINISTERED PENSION FUNDS

The managed pension plans which form part of the Fund are administered on behalf of The Board of Trustees of the Ryerson Polytechnic University and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and are credited with income/loss based upon their proportionate share of the investments of the Fund, at fair value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

NOTE 6 : OTHER ASSETS

Other assets are comprised of real estate operational accounts receivable, deferred assets (including prepaid property taxes and insurance, and tenant recoveries for deferred charges relating to real estate), fixed assets and miscellaneous receivables.

(Millions)	2002	2001
Real estate receivables	**$ 87**	$ 111
Real estate deferred assets	**186**	131
Other	**13**	14
	$ 286	$ 256

NOTE 7 : OTHER INVESTMENT LIABILITIES

Other liabilities are comprised of real estate operational accounts payable and deferred revenue (including prepaid rents and security deposits).

(Millions)	2002	2001
Real estate payables	$ 219	$ 184
Real estate deferred revenue	107	100
	$ 326	$ 284

NOTE 8 : NET ASSETS

The actuarial present value of accrued benefits is a calculation of the value of pension and other benefit obligations of OMERS in respect of benefits accrued to date for all active and inactive members of OMERS. This obligation is measured using actuarial assumptions and methods adopted by management as long-term best estimates of OMERS future experience. Since there is no intention of extinguishing the obligations in the near term, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial present value of accrued benefits.

The following actuarial assumptions have been used in the actuarial valuations of OMERS:

	2002	2001
Assumed rate of inflation	3.0%	3.0%
Assumed rate of pensionable earnings increases	4.5%	4.5%
Assumed actuarial rate of return on plan assets	7.25%	7.25%

The extrapolation of the actuarial valuation to December 31, 2002, which follows, takes account of amendments made to the plan and approved by the Provincial Government up to December 31, 2002. The most recent amendments to the plan were approved in December 2001. The 2001 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 2001.

The valuation includes a Contribution Liability, which was developed in accordance with accepted actuarial practice to stabilize contributions. It is determined as the present value of the temporary increase in the annual normal actuarial cost over the next 24 years, and is subtracted from the excess of the actuarial value of net assets over the actuarial present value of accrued pension benefits before the allocation of reserves.

NOTE 8 : NET ASSETS CONTINUED

(Millions)	2002	2001
Fair value of net assets at end of year*	$ 29,500	$ 33,236
Adjustment to the fair value for actuarial purposes	6,048	2,239
Actuarial value of net assets at end of year	35,548	35,475
Actuarial present value of accrued pension benefits at beginning of year	30,572	27,710
Interest accrued on benefits	2,212	2,028
Benefits accrued	1,175	1,081
Benefits paid	(1,302)	(1,193)
Plan amendments	–	325
Experience losses	(20)	621
Actuarial present value of accrued pension benefits at end of year	32,637	30,572
Actuarial contribution liability	410	383
Total actuarial liabilities	33,047	30,955
Full earnings pension assets	5	7
Full earnings pension liability	78	71
Net liability of full earnings pension	73	64
	33,120	31,019
Excess of actuarial value of net assets over actuarial liabilities	$ 2,428	$ 4,456

* Excludes full earnings pension assets

A portion of the excess of actuarial value of net assets over the benefit and contribution liabilities has been allocated by the Board to a Funding Stabilization Reserve. The amount of this reserve for 2002 is $1,438 million (2001 - $1,548 million). A further allocation of the excess of assets over liabilities has been made to a Contribution Deficiency Reserve, for the present value of the difference between the long-term normal actuarial cost and expected future contributions, in the amount of $990 million for 2002 (2001 - $925 million).

The full earnings pension benefit was set up within the *OMERS Act and Regulation* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act (Canada)*.

The plan as amended in December 2001 includes an extended early retirement window under which the benefits change each year through 2005. The earliest retirement eligibility age will be 15 years prior to the normal retirement age (NRA) in 2002 and 2003, reverting to 10 years prior to the normal retirement age in 2004. Similarly, the early retirement reduction factor of 2.5% per year for members not eligible for an unreduced early retirement pension will be maintained for 2002 and 2003, reverting to 5.0% per year in 2004. The years of age plus service required for an unreduced early retirement pension will be as follows:

Year	NRA 60	NRA 65
2002	77	82
2003	79	84
2004	80	85
2005	85	90

NOTE 8 : NET ASSETS CONTINUED

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits is presented above on the going concern basis, consistent with other areas of the financial statements. Under the *Pension Benefits Act*, a solvency (hypothetical windup) valuation must be performed on the plan, even though the risk of it being wound up is remote. This special valuation excludes the full earnings pension benefits and assumes a liquidation scenario. In 2001, the solvency valuation was performed using the actuarial value of assets and a liability discount rate based on 5-year average real return bond yields, which implicitly includes an allowance for the costs associated with future cost of living increases. Starting in 2002, as permitted by the *Pension Benefits Act*, the solvency valuation uses the fair value of assets and a liability discount rate based on long-term nominal bond yields at the valuation date. Under this method, no allowance is made for the costs associated with future cost of living increases. The prior year's figures are presented on the current year basis, restated to reflect the actuarial valuation conducted as of December 31, 2001.

The actuarial present value of accrued pension benefits under the solvency valuation, excluding the full earnings pension benefits, was estimated to be $28,281 million as at December 31, 2002 (2001 - $26,608 million). As at December 31, 2002, the fair value of net assets, excluding the full earnings assets, was $29,500 million (2001 - $33,236 million). If the solvency valuation method had not been changed, the restated actuarial present value of accrued pension benefits under the solvency valuation for 2001 would have been $34,418 million, and the actuarial value of net assets would have been $35,475 million. A reasonable allowance for the expenses of winding up the plan would not significantly reduce the assets available for benefits.

NOTE 9 : NET INVESTMENT INCOME/(LOSS)

a) **Net Investment Income/(Loss) Before Allocating the Effect of Derivative Contracts**
Investment income/(loss), before giving effect to derivative contracts and before allocating the realized and unrealized gains/(losses) for the period ended December 31, is presented below. Income from assets backing derivative financial instruments is reported in the particular backing asset category. Investment operating expenses of $68 million (2001 - $32 million) are netted against the particular portfolio where the costs were incurred. Realized and unrealized income/(loss) from derivative financial instruments is $(1,120) million (2001 - $(939) million).

(Millions)	**2002**	2001
INCOME		
Interest Bearing Investments		
Short-term deposits	**$ 87**	$ 151
Canadian bonds & debentures	**388**	485
Real return bonds	**34**	34
Private debt	**25**	32
Mortgages	**85**	107
	619	809
Equity Investments		
Canadian equities	**104**	122
Non-Canadian equities	**148**	195
Resource properties	**14**	42
Canadian private equities	**19**	(20)
Non-Canadian private equities	**(22)**	5
	263	344
Real Estate Investments	**560**	381
NET GAIN/(LOSS) ON INVESTMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS [1]	**(3,715)**	(2,873)
	(2,273)	(1,339)
Less income/(loss) credited to:		
Administered pension funds	**(35)**	(21)
Supplementary retirement benefits	**7**	17
	$ (2,245)	$ (1,335)

[1] Includes net realized loss of $1,705 million (2001- loss of $212 million)

NOTE 9 : NET INVESTMENT INCOME/(LOSS) CONTINUED

b) Investment Income/(Loss) by Major Asset Class

Investment income/(loss) by major asset class, after allocating the realized and unrealized gains and losses on investments including derivative contracts, is as follows:

(Millions)	2002	2001
Interest Bearing Investments	$ 868	$ 888
Equity Investments		
Canadian	(717)	(1,239)
Non-Canadian	(2,669)	(1,576)
Real estate Investments	245	588
	$ (2,273)	$ (1,339)

NOTE 10 : CONTRIBUTIONS

(Millions)	2002	2001
Employers, long-term receivables and interest thereon	$ –	$ 4
Transfers from other pension plans	20	18
Other contributions	27	14
	$ 47	$ 36

The contribution holiday that began in August 1998 for both members and employers ended December 31, 2002.

NOTE 11 : BENEFITS

(Millions)	2002	2001
Members' pensions	$ 1,153	$ 1,034
Commuted value payments and Members' contributions plus interest refunded	102	125
Transfers to other pension plans	47	34
	$ 1,302	$ 1,193

NOTE 12 : ADMINISTRATIVE EXPENDITURES

a) Operating Expenses

(Millions)	2002	2001
Personnel services	$ 43	$ 42
System development and other purchased services	26	26
Premises and equipment	11	12
Professional services [1]	3	3
Transport & communication	2	2
	$ 85	$ 85

[1] OMERS corporate professional services includes actuarial costs of $ 0.9 million (2001 - $0.5 million), audit costs of $0.4 million (2001 - $0.4 million) and legal costs of $1.0 million (2001 - $1.0 million).

NOTE 12 : ADMINISTRATIVE EXPENDITURES CONTINUED

b) Executive Compensation

The compensation table represents disclosure of base salary, annual bonus and other compensation earned in 2000, 2001 and 2002 by the Chief Executive Officer and the four other members of the senior executive team.

Name and Principal Position	Year	Base Salary	Bonus [1]	Other Compensation [2]	Taxable Benefits
Dale E. Richmond	2002	$ 328,503	$ 113,567	$ –	$ 30,695
President and C.E.O.	2001	319,729	99,359	15,380	29,254
	2000	310,473	–	23,892	22,048
Michael Beswick	2002	$ 211,730	$ 158,853	$ 10,577	$ 16,768
Senior Vice President	2001	174,904	55,078	8,510	17,738
Pensions	2000	164,187	19,982	7,964	9,814
Wayne Gladstone	2002	$ 217,846	$ 67,600	$ 10,577	$ 13,511
Senior Vice President	2001	193,658	56,320	9,615	13,281
Finance and Administration	2000	165,148	18,982	12,836	11,662
Tom Gunn	2002	$ 295,761	$ 228,575	$ 23,893	$ 1,381
Senior Vice President	2001	284,864	197,186	30,744	1,332
Investments	2000	274,569	92,000	22,840	1,232
Debbie Oakley [3]	2002	$ 189,385	$ 50,685	$ 9,600	$ 837
Senior Vice President	2001	157,318	8,313	7,212	11,680
Corporate Affairs					

[1] Based on prior year's performance

[2] Includes vacation cash-in and car allowance

[3] Promoted to the position October 2000

NOTE 13 : COMMITMENTS

As part of normal business operations, OMERS enters into commitments to fund investments in the future. These commitments may include but are not limited to investments in mortgages, real estate and limited partnership agreements. As at December 31, 2002, these commitments totalled $3.2 billion (2001 - $1.5 billion).

NOTE 14 : RELATED PARTY TRANSACTIONS

OMERS has entered into an asset management services agreement with an investee (the “Asset Manager”) in the asset management business, in which OMERS owns 29 % of the voting shares. Effective June 2002, OMERS sold the asset management business of OMERS Realty Corporation to the investee for cash consideration of $11 million.

The Asset Manager provides management services for assets that total $7,490 million as at December 31, 2002. Payments to the Asset Manager during the period were $12 million and, as at December 31, 2002, $4 million was due to the Asset Manager and has been included in other investment liabilities.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

($ Millions)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
NET INVESTMENTS AT MARKET*										
Debt	**11,579**	13,686	13,525	11,566	12,947	10,625	8,554	6,737	6,560	6,673
Equity	**13,625**	15,379	18,544	19,586	15,587	16,022	14,612	12,149	11,935	11,570
Real Estate **	**4,748**	4,616	4,437	4,126	3,995	2,729	2,450	2,391	2,151	1,846
	29,952	33,681	36,506	35,278	32,529	29,376	25,616	21,277	20,646	20,089
ASSETS AT MARKET VALUE*										
Total Fund	**29,505**	33,243	35,875	34,930	31,380	29,108	25,378	21,213	18,389	17,778
Liability for:										
Supplementary agreements	**172**	165	148	131	116	110	121	120	134	139
Administered pension plans	**440**	487	528	502	437	395	341	345	2,463	2,362
	30,117	33,895	36,551	35,563	31,933	29,613	25,840	21,678	20,986	20,279
INVESTMENT INCOME/(LOSS) EARNED (INCLUDING REALIZED & UNREALIZED GAINS)										
Basic Plan	**(2,245)**	(1,335)	2,053	4,598	2,867	3,692	4,074	2,625	310	3,363
Supplementary benefit agreements	**7**	17	16	16	13	11	9	11	13	8
Administered pension plans	**(35)**	(21)	31	69	39	51	55	381	44	448
	(2,273)	(1,339)	2,100	4,683	2,919	3,754	4,138	3,017	367	3,819
CONTRIBUTIONS RECEIVED FOR										
Basic plan	**–**	–	–	–	364	869	874	869	870	890
Basic plan unfunded liabilities	**47**	36	30	27	8	21	8	6	9	11
Supplementary benefit agreements	**–**	–	–	–	–	–	–	1	–	1
	47	36	30	27	372	890	882	876	879	902
PAYMENTS TO MEMBERS										
Pensions paid	**1,153**	1,034	916	817	761	699	661	570	491	414
Contributions and interest refunded	**102**	125	121	178	149	104	89	67	51	43
Transfers to other plans	**47**	34	8	10	10	9	6	6	4	6
	1,302	1,193	1,045	1,005	920	812	756	643	546	463
EXPENDITURES										
Administration	**85**	85	73	70	47	40	35	33	33	31
Investment operating	**68**	32	34	28	30	24	25	22	18	16
	153	117	107	98	77	64	60	55	51	47
TOTAL FUND ANNUAL RATE OF RETURN										
Time weighted return on market value	**-7.1%**	-3.4%	6.2%	15.2%	10.1%	14.8%	19.3%	14.2%	1.8%	23.7%
Benchmark	**-7.4%**	-4.2%	4.1%	14.7%	10.7%	15.1%	18.0%	16.1%	1.1%	20.5%
Funding Requirement	**8.1%**	5.0%	7.5%	6.8%	5.3%	5.0%	6.4%	6.0%	4.5%	6.0%

* Market Value as at December 31.

** Net of Investment Liabilities.

OMERS
One University Avenue, Suite 700
Toronto, Ontario M5J 2P1

Telephone 416.369.2400
Toll-free 1.800.387.0813
E-mail client@omers.com
www.omers.com

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