MOVING TO THE NEXT LEVEL

OMERS Annual Report 2003

Investments

↬ Net investment income of $3.8 billion versus loss of $2.2 billion in 2002 ↬ Total fund return of 12.7% after two years of negative returns, 14.2% before writedowns ↬ 10-year compounded annual rate of return: 8.0% ↬ Canadian and foreign equities led the recovery in investment performance ↬ Foreign currency management added income of $763 million ↬ $896 million of real estate sold, real estate portfolio reduced to $6.7 billion ↬ New investments included equity interests in Confederation Bridge, Bruce Power and oil pipelines ↬ New long-term asset mix policy to be implemented in 2004, reducing exposure to publicly traded stocks and bonds and increasing infrastructure and private equity assets

Member Services

↬ 75% of employers representing 97% of active members now using web-based services ↬ 6,300 new pensions were processed in 2003, bringing the pensioner population to 93,000 ↬ 64% of the new pensions were early retirements, many as a result of early retirement incentives that ended in 2003 ↬ Average new pension: $19,105 ↬ Contributions resumed at about one-third normal rates after more than four years of contribution holiday ↬ Surveys indicate employer and member customer satisfaction remain high ↬ Service turnaround times well ahead of targets

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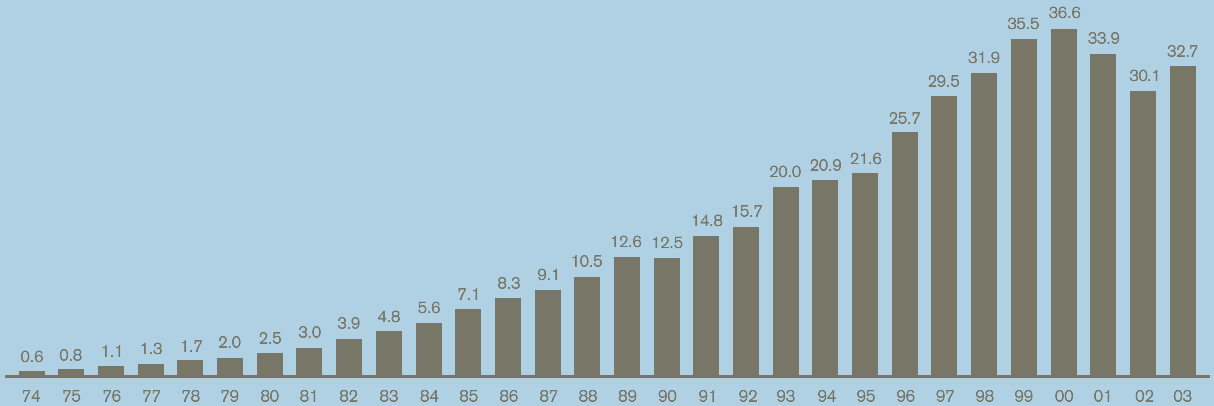
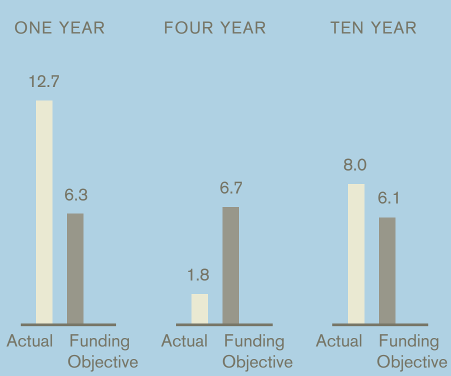
NET INVESTMENT ASSET GROWTH FROM 1974 ::
Market Value [$ Billions]



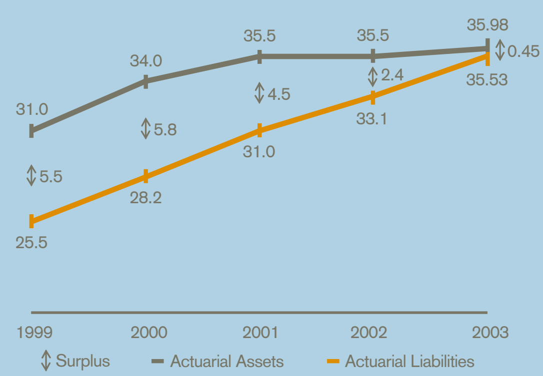
ASSET MIX ::
[as at December 31, 2003]
Net Investment Assets

GROWTH IN PENSION PAYROLL ::
[$ Millions]

RATE OF RETURN VS. FUNDING OBJECTIVE ::
[%]



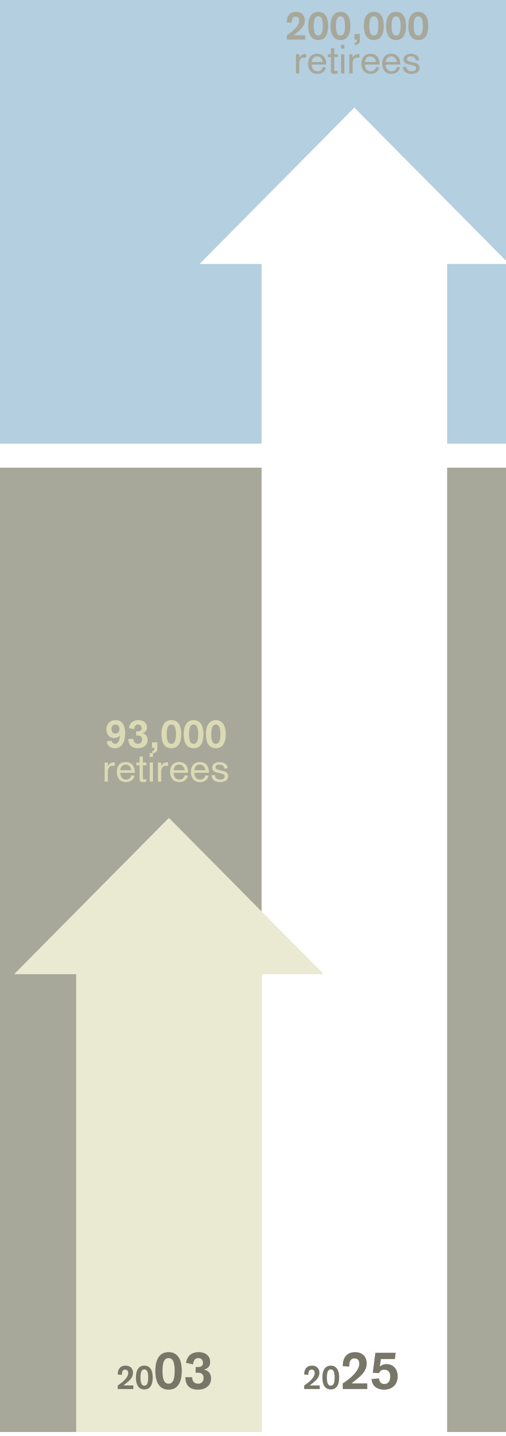
ACTUARIAL ASSETS AND LIABILITIES ::
[as at December 31]
[$ Billions]



Includes net liabilities of full earnings plan.

our challenge > no. 1:

Ensure the quality of our balance sheet – that OMERS assets match its liabilities. By 2025, the number of retired members could reach 200,000, with accrued liabilities of $100 billion.



our plan of action > no. 1:

Put a greater focus on alternative assets that will produce strong, consistent returns and regular cash flow to pay pensions. Manage more investments in-house and assume a direct role in managing the businesses we own.

BILL RAYBURN ::
CHAIR

message from the chair

Building on a Foundation of Success

Forty years ago, when the first members joined OMERS, there were about 8,000 employees, 160 employers and 19 retirees. The organization was investing approximately $5 million on their behalf. Our membership and our assets have grown exponentially since then and we now manage close to $33 billion on behalf of 340,000 members and almost 900 employers. Our current and retired members count on us to continue our tradition of success for the next 40 years and beyond.

Pension plans must always look forward in order to prepare to pay pensions to members who may have 70 or 80 years with the plan. In 2003, the OMERS Board undertook a number of initiatives to address the challenges and opportunities we see ahead of us. What has served us well in the past is not guaranteed to meet our future needs. It is for this reason that we made a number of strategic changes in 2003 to ensure that our track record of success continues into the future.

Looking forward, the Board identified a number of immediate challenges that require a new strategy. We face three main challenges: three years of underperforming capital markets that began in 2000 with corresponding lower returns; a concurrent drop in interest rates, which has increased the cost of future benefits; and an aging population that will result in more retirements and thus a rise in the pension payroll.

Planning for the Future

The Board has been monitoring performance closely with these issues in mind, to ensure the plan is well positioned for the future. In 2003, one year ahead of the regular review cycle, we initiated an assessment of OMERS assets and liabilities and subsequently approved a major shift in our asset mix policy. By reducing the fund's exposure to the more volatile publicly traded markets and concentrating more on alternative assets like real estate, infrastructure and private equity, we expect to see stronger, more stable returns and a steady income stream to pay pensions. This shift in asset mix policy will help address the prospect of sustained market weakness, while at the same time increasing OMERS control over our investments, and will be implemented over the next four to five years.

We also brought in a new President and CEO, Paul Haggis, whose solid business background and leadership skills have prepared him for the task of taking OMERS to the next level of performance. In conjunction with his arrival our Board began a review of a number of other important issues, such as the costs and value of retaining outside investment firms versus building staff expertise to better manage OMERS assets.

To implement the new asset mix policy and to ensure the organization runs as effectively as possible, with clear lines of accountability, the OMERS Board announced in early 2004 that it will restructure part of the investment organization by creating distinct companies to implement our strategies in private equity, infrastructure and real estate assets.

All infrastructure assets will now be managed by Borealis Infrastructure, all real estate operations will be consolidated under Oxford Properties Group, and all private equity investments will be managed by OMERS private equity group. Publicly traded equities and fixed income assets will continue to be managed in-house by our investment staff.

These groups will report directly to the President and CEO and are accountable to the Board. We will continue to oversee a review of the plan's organizational structure, clarifying mandates and ensuring that is it configured in the most effective way to deliver the results we seek to achieve our long-term goals.

Focus on Plan Governance

To complement our focus on investment issues, the Board and management continue to be pro-active in identifying and managing risk. Concerns about corporate governance and fiduciary responsibility have engaged shareholders and regulators in the past few years and that in turn has encouraged the OMERS Board to examine our own governance practices more closely.

In 2002, the Board adopted what is still a rare practice – separating audit and non-audit functions so that the firm that provides financial statement audit services is prohibited from performing other audit-related work, including tax advice. More recently, we upgraded the audit mandate of the Board to ensure we are in line with best practices. OMERS exceeds current guidelines that state at least one financial expert sit on the audit committee, since we have two such experts on the Board committee. In 2004, we will go one step further by appointing an internal auditor who will report directly to that committee.

Regulatory Reform

In addition to focusing on stronger, more consistent returns, accountability and good governance practices, we must also ensure that the legislative environment in which we operate is conducive to achieving our goals. To that end, we regularly communicate with the provincial and federal governments, often in concert with other public sector plans, to seek amendments to legislation that we believe is negatively impacting the fund.

We have already been instrumental in bringing about a change in federal income tax regulations that will result in more effective management fund management in the future, since pension plans will not be required to suspend contributions when they are in a substantial surplus position. We are currently seeking relief from provincial regulations on solvency valuations and investment regulations that we believe may have a harmful effect on the plan's funding position and its ability to effectively manage its investments.

Monitoring Contribution Levels

Members and employers resumed pension contributions in 2003, for the first time in more than four years. They restarted in January at one-third normal rates after the contribution holiday introduced in August 1998 came to an end. Full contribution rates returned in 2004 with slight increases to better reflect the cost of benefits owed to members. These changes are discussed in more detail on page 16. While net assets increased in 2003, pension obligations have risen even more rapidly. All large public sector pension plans, regardless of their success, face the spectre of funding shortfalls, which could lead to increased contribution rates. In this regard, OMERS is no different. We will continue to closely monitor OMERS performance and to focus on ways to maintain stable contribution rates.

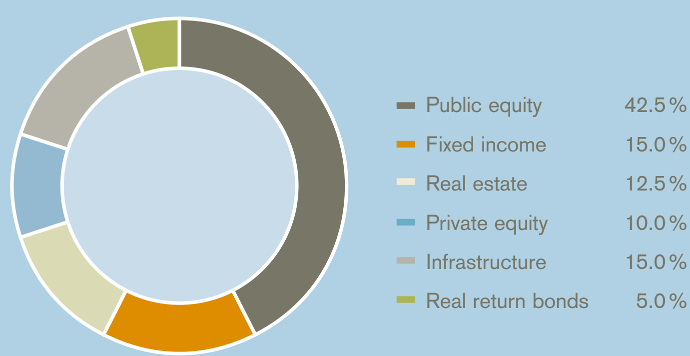
All of these actions are intended to ensure that OMERS next 40 years are as successful as our first 40. Our duty is first and foremost to those who look to OMERS for a secure pension and we are committed to ensuring we earn the funds necessary to pay benefits, that plan participants receive value for money and get the high quality service they deserve.

Acknowledgements

On behalf of the Board, I want to thank all of the sponsors, members, advisors and staff who have contributed to OMERS success in 2003. Your advice, guidance and support were key to the effective and efficient implementation of our reorganizational strategies in 2003. It was an honour to serve the OMERS family in 2003 as I had the opportunity to celebrate 40 years of OMERS success while at the same time charting the course for OMERS as the "plan for the future".

Bill Rayburn
Chair

Future Asset Mix Policy



our challenge > no. 2:
Ensure the right structure is in place to meet OMERS investment and pension objectives.

our plan of action > no. 2:
Review OMERS organizational structure to ensure it is set up to support our goals. That means stronger centralized controls in risk management and internal auditing, and clearer lines of accountability to the Board and senior management team.

PAUL G. HAGGIS ::
PRESIDENT AND CEO

letter from the president

When I started at OMERS in September 2003, I felt very fortunate to be asked to lead such a respected organization. OMERS plays a significant role in the lives of 340,000 members across Ontario and their families, who count on us to provide them with secure pension benefits. And we consistently deliver on that trust by providing guaranteed, inflation-protected payments each month to 93,000 retired members, survivors and dependent children. My goal at OMERS is to build on our first 40 years of success, making sure members receive value for their money and are confident that their retirement income will be there for them in the decades to come.

Strong Recovery, but Challenges Remain

OMERS posted a return of 12.7 per cent in 2003, a recovery after two years of negative returns. Our net investment assets grew by $2.6 billion to total $32.7 billion by year-end. Due to writedowns and valuation adjustments relating to private equity, real estate and infrastructure, and fund underperformance in Canadian equities, we fell short of our overall benchmark. However, our one-year and 10-year returns continue to exceed our funding objective – the amount needed to pay pensions.

Despite these positive results, like other pension plans we're facing some major challenges in the years to come. OMERS concluded 2003 with a modest actuarial surplus of $446 million (including the regular pension plan and the full earnings plan) and liabilities of $35.5 billion. Our actuary estimates we could face a funding shortfall of about $1 billion by the end of 2004.

Three main factors contributed to the decrease in OMERS surplus. After consultation with our stakeholder groups and members, OMERS introduced enhanced benefits in 1998 and 1999, including 100 per cent inflation indexing and temporary early retirement incentives. More than $5.3 billion did not flow into the plan during the five years ending in 2002, when OMERS was required by federal law to reduce and then cease collecting contributions. The collapse of the equity markets that began in 2000 eroded the assets, while at the same time, a decline in interest rates increased the cost of future benefits.

OMERS is prepared to meet its obligations. In 2004 and beyond, we will take decisive action to ensure that we sustain a fully funded plan over the long term. But we need to do things differently to take the plan to the next level. We need to focus on the quality of our balance sheet; structure ourselves with clear lines of accountability; ensure we have the right people with the right skills and attitudes; focus on the right things; and renew our efforts to understand and meet our customers' needs.

Balancing our Assets and Liabilities

Our membership is aging. By 2025, when the last Baby Boomers begin to draw their benefits, our pensioner population will exceed 200,000, a sharp increase from the 93,000 who receive benefits today. Accrued pension obligations could exceed $100 billion, compared with $35.5 billion in 2003. Our job is to make sure that we have sufficient assets to match projected liabilities, and that these assets continue to generate enough annual cash flow to meet the pension payroll.

The new asset mix policy that we announced early in 2004 was one of the first steps in taking OMERS to the next level of performance. By reducing investments in the more volatile publicly traded stock and bond markets we believe we can achieve higher and more stable returns to keep pace with our growing liabilities. Alternative assets include some of the more tangible assets in our portfolio, like shopping centres, office buildings, energy companies and bridges, and they have the potential to deliver predictable, double-digit returns over the long haul and generate steady cash flow to meet our pension payroll.

Structured for Accountability

As we implement the shift in our asset mix, we will also be adjusting our investment strategy, applying three important new principles. First, we are committed to actively managing our assets, in order to add value wherever possible. Second, we will assume a direct role in managing the businesses we own to ensure our members' interests are protected. Third, we are focusing on achieving stronger, more consistent absolute returns – the amount we earn over and above the rate of inflation – since that is the amount we need to earn to pay pensions.

In early 2004, we announced the creation of three companies to manage real estate, private equities and infrastructure assets, respectively. Adopting a holding company business model will have a profound impact on OMERS organizational design. It will require a greater focus on centralized financial controls and management reporting, and demand clear lines of accountability with explicitly defined roles and responsibilities. We plan to have the new organization in place by the end of 2004.

Putting the right people in place

To carry out these changes, our structures, processes and operations must be organized to support the people who make the decisions. We need to ensure OMERS staff has the right combination of knowledge and skills to achieve the returns necessary, and provide the high quality service our members expect. Our people will have access to the training, tools and information they need, and will be rewarded through a compensation plan that is linked to clearly defined performance targets.

New Focus on our Membership

As a pension plan, our number one priority is to provide guaranteed pensions to members at the lowest cost possible. We also aim to provide the best service possible and so we regularly survey plan participants. As a result of what they've told us, we've made tremendous strides in the quality and responsiveness of our service. We've dramatically reduced turnaround times for key services like new pensions.

We've improved access through our dedicated call centre, where additional training and technology mean that staff are able to resolve more than 90 per cent of issues on the first phone call, and through a range of web-based services. As we move forward, we'll focus more resources on understanding our customers' expectations and working to deliver the products and services they value. We want them to be glad their money is with OMERS.

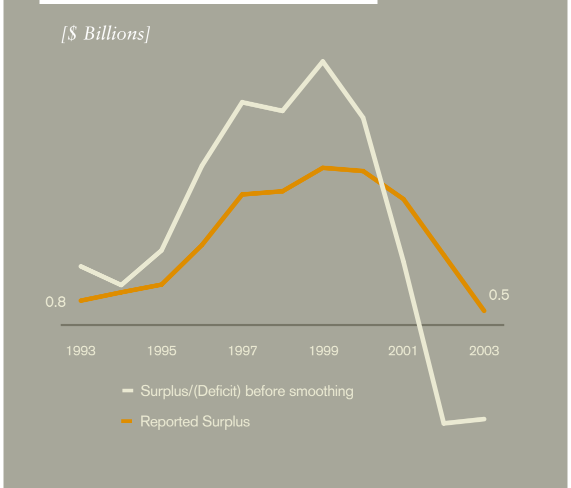
All of these initiatives will foster positive change at OMERS. As we enter into this period of transition, one thing that will not change is our commitment to our members. They can continue to count on us, confident in the knowledge that they and their families have a guaranteed source of retirement income in the decades to come.

Acknowledgements

I want to thank the Board and my fellow OMERS associates for their warm welcome in this, my first year at OMERS. We've already started a number of initiatives with more to come. In the end we seek to create an organization and culture that attracts the best so we can give the best to our current and future pensioners who depend on us. I feel that every day.

Paul G. Haggis
President and Chief Executive Officer

Smoothing Effect on Surplus



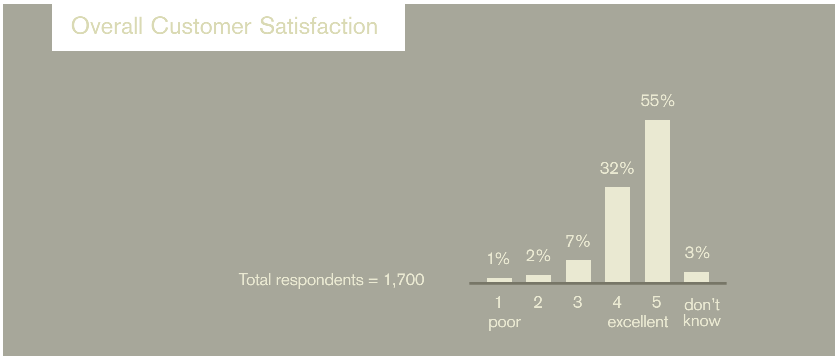
Active Members by Age

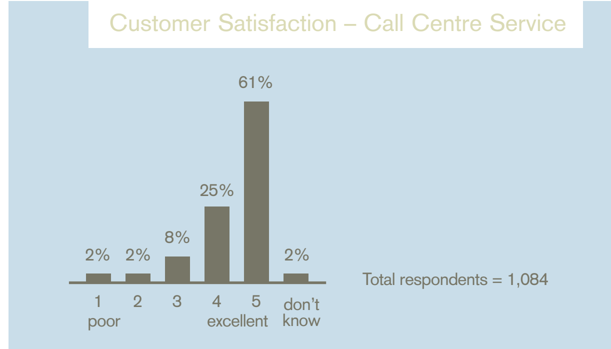
Age Group	Total
19 and below	140
20 – 24	3,996
25 – 29	15,270
30 – 34	22,052
35 – 39	31,298
40 – 44	40,453
45 – 49	39,951
50 – 54	33,630
55 – 59	21,818
60 – 64	8,672
65 and above	313
Total Members	**217,593**

The largest concentration of members is in the 40 to 49 age range.

our challenge > no. 3:
Ensure that our customers' needs are understood and met.

our plan of action > no. 3:
Listen to what they tell us, then deliver the services and products they value. As a result of what they've said, we've already dramatically improved turnaround times for key transactions and improved access through web-based offerings. We'll continue to look for ways to serve our customers better.





member services

OMERS delivers a full spectrum of pension services to employers and plan members, active and retired. These services are increasingly web-based.

Employers embrace OMERS web-based services

In the past two years, excellent progress has been made with our web-based services for employers. They can now submit a greater amount of member information efficiently and conveniently, while maintaining greater data integrity. By year-end, 75 per cent of employers representing 97 per cent of active members had signed on to our new e-business forms and processes. We are currently investigating how we can take the business relationship to a new level of responsiveness through a renewed partnership.

Faster, more complete member services

Our call centre recently introduced technological improvements that enable staff to analyze and respond better to the specific issues raised by active and retired members. Members contacting the call centre are getting faster and more complete service following the integration in 2003 of our retired member database with the active member information system to create a single pension administration system.

COMPARISON TRANSACTION TIME FOR PENSION CLAIMS AND PENSION QUOTES

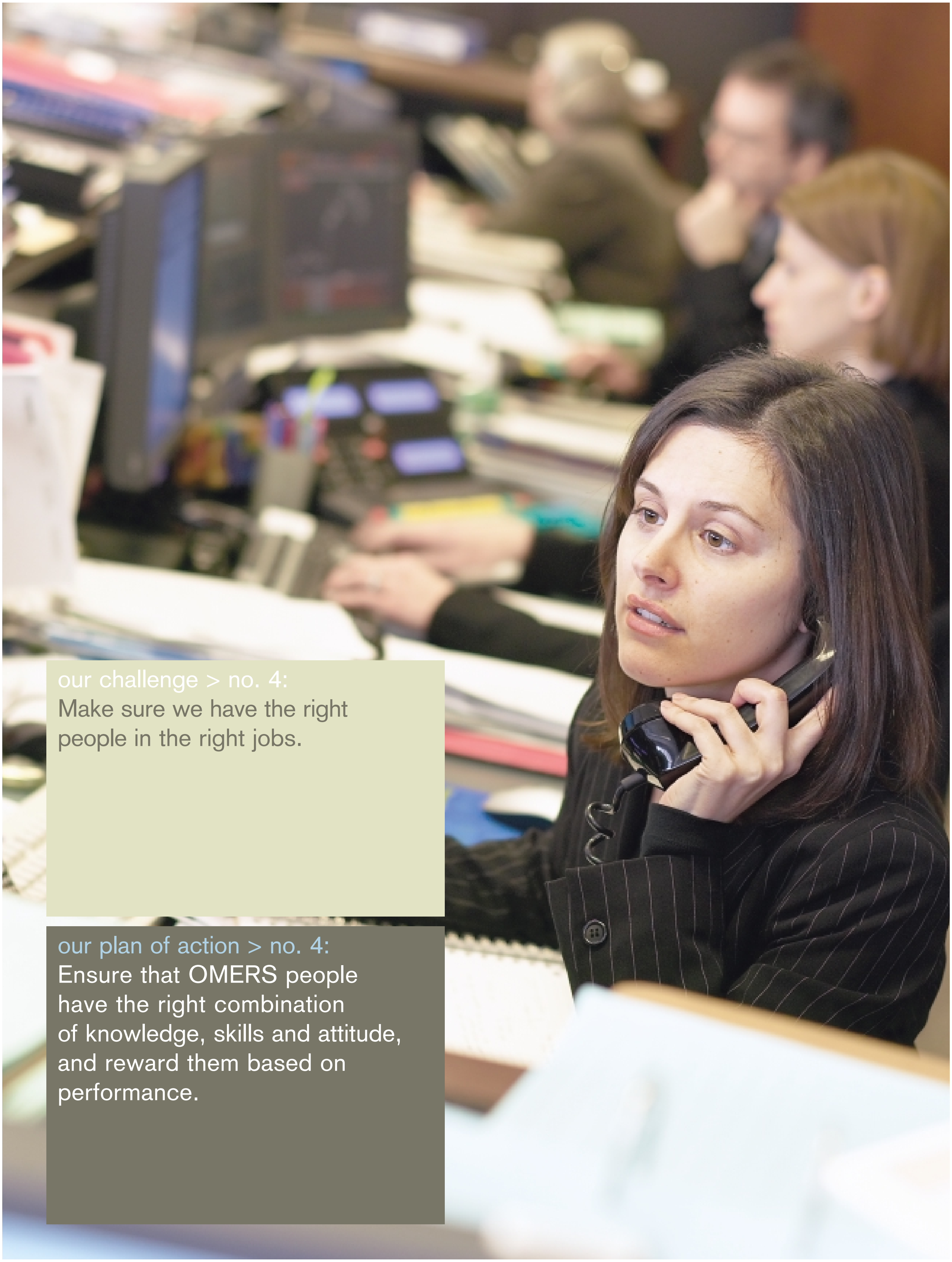
	Pension Claims Processed	Pension Quotes Processed
2001	10 days	17 days
2002	3 days	2 days
2003	2 days	2 days

Number of days reflects OMERS processing time only

While technology and secure web channels drive our services and efficiencies, we have not forgotten the importance of face-to-face contact with stakeholders. In 2003, we held 17 information sessions with hundreds of retired members to discuss their questions and concerns, such as inflation protection and survivor benefits. We also met with more than 10,000 active members and employers at hundreds of meetings.

Higher Customer Satisfaction Reported

We regularly survey active and retired members to determine their level of satisfaction with our services, especially with respect to critical pension events such as retirement, a leave of absence or a death. We are pleased that overall customer satisfaction remains high. For example, 86 per cent of active and retired members contacting our call centre gave OMERS a four-out-of–five or better satisfaction rating.



our challenge > no. 4:
Make sure we have the right people in the right jobs.

our plan of action > no. 4:
Ensure that OMERS people have the right combination of knowledge, skills and attitude, and reward them based on performance.

management's discussion and analysis

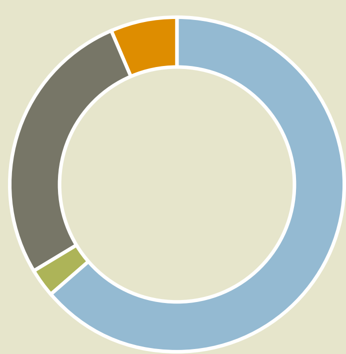
This section contains management's analysis of the plan's financial condition and operational results and the environment in which it operates. It is intended as a plain-language comprehensive stand-alone discussion in compliance with the best disclosure practices recommended by accounting organizations, auditors and regulators and expected by plan members and those who do business with OMERS. Assumptions are made about economic, demographic and investment trends that are subject to risks and uncertainties and may vary from those anticipated.

OUR BUSINESS

Our core business is to deliver guaranteed pension benefits to more than 340,000 active members, former members and retired members of OMERS. This guarantee extends throughout the member's retirement and benefits increase annually with inflation.

Benefits are based on a simple formula – two per cent of the member's average earnings for the best five consecutive years multiplied by years of credited service, to a maximum of 35 years. The OMERS pension is integrated with the Canada Pension Plan and the OMERS formula includes a bridge benefit paid to age 65. Excellent survivor benefits and early retirement options are key features of the plan.

Member Profile



Active	217,593
Deferred	9,426
Retired/survivor	93,072
Inactive	22,014
Total	**342,105**

THE PLAN'S FUNDING STATUS

Each year, an independent actuary determines the plan's funding status by comparing the estimated value of invested assets to the present value of all pension benefits that members have earned to date. On December 31, 2003, the estimated accrued pension obligation for current members (including the net liabilities of the full earnings plan) was $35.5 billion.

Actuarially adjusted (discussed below) OMERS had an estimated funding surplus of $446 million as at December 31, 2003 (including the net liability of the full earnings pension). This was a sharp decline from the $4.5 billion surplus estimated as at December 31, 2001, the date of the last full valuation.

STATEMENT OF CHANGES IN SURPLUS

(Millions)	2003	2002
Surplus, beginning of year	$ 2,514	$ 4,520
Increase in net assets available for benefits	2,587	(3,736)
Change in actuarial asset value adjustment (smoothing reserve)	(2,160)	3,809
Increase in actuarial value of:		
net assets available for benefits	427	73
Less: net increase in accrued pension benefits	2,402	2,052
Less: change in contribution liability	30	27
Surplus, end of year (Basic plan)	$ 509	$ 2,514
Net liability of full earnings pension	(63)	(58)
Excess of actuarial value of net assets over actuarial liabilities	$ 446	$ 2,456

Causes of Reduced Surplus

Putting pressure on the surplus were increased pension benefits and the contribution holiday triggered by the large surplus that existed in 1998. Under federal law at that time, a contribution holiday was mandatory when actuarial assets exceeded 110 per cent of liabilities. Actuarial asset values peaked at 127 per cent of liabilities, triggering reduced contributions, followed by a contribution holiday for employers and plan members that began in 1998 and lasted until December 2002. As a result, more than $5.3 billion in contributions did not flow into the plan. In November 2003, the federal government amended the *Income Tax Act* in response to requests by OMERS and other plans. Only a partial contribution holiday is now triggered when assets reach 110 per cent of liabilities and a full contribution

holiday is not required until the 125 per cent level. The change will allow OMERS to better manage contribution rates and should improve funding stability for a future generation of members.

The 2003 funding surplus was also reduced due to recognition of losses carried in the smoothing reserve as a result of the 2000, 2001 and 2002 stock market collapse. Asset values recovered in 2003 as stock markets regained lost ground. Smoothing helps manage the impact of short-term market volatility, is in keeping with the long-term nature of the plan and is designed to reduce the volatility of a single year's investment returns. Changes for the current year plus the four preceding years are smoothed to produce an adjusted market value. On December 31, 2003 the actuarially adjusted value of net assets was $36.0 billion, compared with $35.5 billion a year earlier. This included $3.9 billion for the actuarial smoothing reserve. The December 31, 2003 market value of net assets of the fund was $32.1 billion.

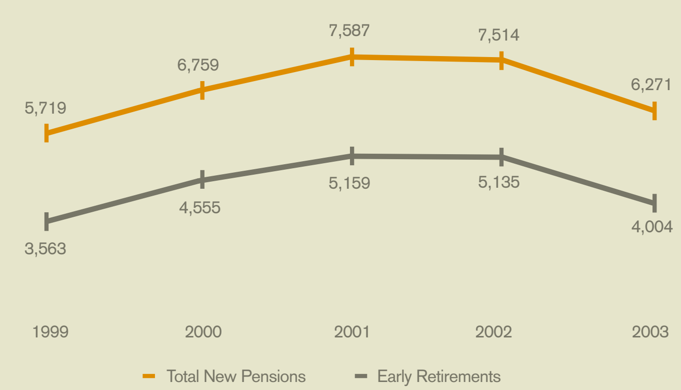
To value the liabilities, the actuary examines the plan's demographics – the age, length of service, annual earnings, full-time versus part-time employment status and other factors of OMERS diverse membership. Information is processed on active and retired members, former members who still have entitlements 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. The estimated present value of accrued liabilities before net liabilities of the full earnings pension for 2003 was $35.5 billion, a 7.6 per cent increase from $33.0 billion in 2002. OMERS ended 2003 with more than 93,000 retired members and survivors receiving benefits of $1.2 billion, an increase of $93 million over 2002. The increase reflected new retirements and the adjustment of benefits for inflation. (The inflation adjustment in 2004 will be 2.16 per cent.)

Of the approximately 6,300 new pensions processed in 2003, 64 per cent were early retirements, many taking advantage of two incentives that expired at year-end. One allowed early retirement for members within 15 years of their retirement age. The other allowed members short of unreduced early retirement to retire early with a pension reduced by 2.5 per cent rather than the normal reduced pension rate of five per cent, which applied in 2004.

Managing Funding Risk

The Board normally allocates a portion of the valuation surplus equal to five per cent of the actuarial liability to a Funding Stabilization Reserve as a cushion against volatile investment returns or a surprise change in liabilities. The Board may also allocate a portion of the surplus to a Contribution Deficiency Reserve to assist in the management of future contribution shortfalls. The funding surplus was insufficient to warrant these allocations in 2003.

Number of Retirements in Past Five Years



Funding Outlook

The actuary estimates that the funding surplus will deteriorate to a deficiency of about $1 billion at the end of 2004. This estimate takes into account changes in contribution rates effective January 1, 2004. For most members, the base rate remains at 6.0 per cent of salary up to $40,500, increasing from 7.5 per cent to 8.8 per cent for earnings above that level. For police officers and firefighters, who retire at age 60 and represent about 12 per cent of OMERS members, the rate for salary up to $40,500 increased from 7.0 per cent to 7.3 per cent and from 8.5 per cent to 9.8 per cent for earnings above that level. Over the long term, contributions will provide approximately 30 cents of every dollar paid in benefits with the other 70 cents coming from investment income.

In calculating the surplus, the actuary makes various long-term economic and demographic assumptions. Assumptions about investment returns affect the projected value of assets. Assumptions about inflation and salary increases affect the projected value of future benefits. The Board reviewed the actuary's latest estimates in December 2003 and agreed to maintain the current assumptions, including an annual 4.25 per cent real rate of return with inflation at 3.0 per cent over the long term and an assumed 4.5 per cent annual increase in member earnings. The assumptions will be reviewed in 2004.

SETTING THE ASSET MIX POLICY

The objective of our investment policy is to earn more than a 4.25 per cent real return so that the plan builds a surplus to cushion short-term declines in asset values. We develop an asset mix policy that identifies the asset classes that collectively are most likely to produce the best results. We weigh the risk/reward profile of each asset class to make sure we are reasonably compensated for risk, and we invest in different asset classes and geographic markets to disperse portfolio risk and reduce the volatility of total returns.

Over the next 10 years, stocks and bonds are not likely to generate sufficient returns to meet the funding requirement. Consequently, we are reducing exposure to public stock and bond markets, maintaining a large real estate portfolio, and shifting capital to private equity and infrastructure assets, which should generate strong returns over the long term. The new asset mix policy is supported by sophisticated investment strategies such as absolute return strategies, foreign currency management and derivatives.

Asset Mix Policy

	2003 Policy Target	2004 Policy Target	Long-Term Policy Target
Public Markets			
Public equity	60%*	58.5%	42.5%
Fixed income	25%	15%	15%
Real return bonds	2.5%	5%	5%
Alternative Assets			
Private equity	—	9%	10%
Infrastructure	—		15%
Real estate	12.5%	12.5%	12.5%

The shift of more than one-third of total assets from stocks and bonds to alternatives such as infrastructure and private equity, will take four or five years to accomplish.
*Total equities, including private equity and infrastructure.

Managing the Asset Mix

Our investment specialists meet regularly to review the actual asset mix against the approved policy. They determine, for example, whether we have assumed uncompensated risk by being inadvertently overweight or underweight in key asset classes. Their recommendations are reviewed by the Investment Management Committee, consisting of the Chief Executive Officer/Chief Investment Officer and investment vice-presidents. Usually, fixed income or equity-based derivative contracts are purchased or sold to adjust the asset mix in the short term. Regular rebalancing can improve performance and risk management by eliminating uncompensated tracking error. Rebalancing also ensures sufficient liquidity to meet pension and operating obligations.

PUBLICLY TRADED STOCKS AND BONDS

Historically, OMERS has invested more than 80 per cent of total investment assets in publicly traded stocks and bonds. Over the next five years, we will reduce exposure to public markets to about 63 per cent of total investments. We will actively manage all portfolios and expand the use of staff expertise. In the case of fixed income, staff will continue to actively manage portfolios of government and corporate bonds, mortgages and real return bonds.

Actively Managed Stock Portfolios

The Canadian stock portfolio that is actively managed by staff totalled $5.1 billion in 2003 and contained approximately 181 publicly traded companies. We select companies with strong management and a clear business plan, avoiding low-quality opportunities that may do well in the short term but lack staying power.

Our investment professionals are value investors who buy the shares of profitable companies that can produce reliable long-term returns. They select, for example, companies that should gain value from synergistic acquisitions or have a competitive advantage in their industry. Within approved asset allocation guidelines, staff can take advantage of short-term trading opportunities to generate added value. On average, we trade as much as 20 per cent of the portfolio annually.

Up to 10 per cent of our core actively managed portfolio can include U.S. stocks to enable us to add companies in economic sectors underrepresented in Canada, such as pharmaceuticals, or regional banks that have different valuation multiples and performance profiles than Canadian banks.

Outside Canada, we had $5.6 billion invested in the equities of approximately 1,250 companies in the United States, United Kingdom, Europe, the Far East and emerging markets. This diversity enables us to participate in different economies around the world.

Our foreign stock portfolios are actively managed by 14 investment firms specializing in regional and national markets. We are shifting to global mandates so that managers can make bigger allocations by country, sector or capitalization where they believe higher returns are possible. In 2003, we retained three global managers and expect that half our international equity will be more aggressively managed under flexible mandates to achieve absolute returns rather than simply beat market benchmarks.

Quantitative Managed Stock Portfolios

In the past two years we have attempted to earn enhanced and less volatile returns from market indexes by employing actively managed low-risk strategies that include index-based swaps, arbitrage and the anticipation of changes in index composition. Using technical analysis and computer modeling, these strategies, referred to as quantitative management, are applied to:

> A $0.7 billion portfolio that targets the S&P/TSX Composite Index on the Toronto Stock Exchange and provides broad exposure to Canadian firms.

> A $180 million S&P/TSX 60 portfolio of Canada's 60 most liquid stocks, representing 75 per cent of the Toronto Stock Exchange capitalization.

- A $1.2 billion Russell 1000 portfolio of U.S. companies diversified by capitalization value and economic sector.
- A $355 million S&P 500 portfolio of the largest and most liquid U.S. stocks.

Actively Managed Fixed Income Portfolios

Fixed income securities are a natural fit for a pension plan seeking reliable low-risk returns that offset the more volatile nature of publicly traded stocks. We concluded 2003 with $13.0 billion, or 37 per cent of total investment assets, invested in fixed income opportunities. Approximately $6.8 billion were invested with exposure to bonds, mortgages, private debt and short-term investments, $0.9 billion in real return bonds and $5.3 billion were backing assets for equity programs.

As of December 31, the fixed income portfolio consisted of federal bonds, provincial bonds with an overweight in Ontario due to $120 million of illiquid Ontario debentures remaining from OMERS early days, mortgages with a mix of commercial, industrial and multi-residential loans, real return bonds issued by governments, corporate bonds of institutional investment grade, private placements, loans guaranteed by such government agencies as Canada Mortgage and Housing Corporation and the Export Development Corporation, and short-term cash equivalent securities.

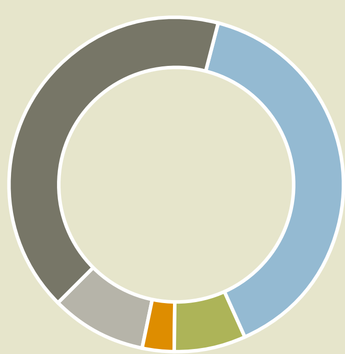
In the past 10 years, the fixed income portfolio has earned an annualized return of 7.8 per cent, including capital gains in a declining interest rate environment. We are now in a more modest yield environment where these assets will not earn enough to cover the costs of pension benefits. Compared with our total fund target of 4.25 per cent plus inflation, long-term government bonds were yielding about 3.0 per cent above inflation and mid-term 10-year bonds between 2.0 and 2.5 per cent at the end of 2003.

In actively managing fixed income assets we are acquiring higher yield corporate bonds and increasing our participation in private placements. Our higher yield $445 million private placement portfolio is expected to double in size over the next few years. We will also move into the U.S. market by following debt issued south of the border by Canadian corporations seeking more competitively priced capital.

Recently, we issued private debt to other institutional investors through OMERS Realty Corporation to refinance $1.3 billion in real estate debt. Based on our triple A credit ratings from leading credit rating agencies, we issued two private placement tranches ($500 million in November 2002 and $500 million in April 2003) as well as a $285 million commercial paper program that commenced in October 2003. The net effect was stable, predictable financing costs.

Fixed Income Assets by Security Type

[$ Billions]



Cash and short term	$ 5.4
Canadian bonds	5.1
Real return	.9
Private debt	.4
Mortgages	1.2
Total	**$13.0**

ALTERNATIVE ASSET CLASSES

Attractive alternatives to public stocks and bonds include private equity, real estate, where we own a large portfolio, and infrastructure assets, a growth area for OMERS.

In early 2004, OMERS announced that it would increase its exposure to alternative assets and that it would restructure parts of its investment organization to realize our strategies in private equity, infrastructure and real estate assets. These assets were managed by Borealis Capital Corporation, in which OMERS had a minority interest. To implement the new asset mix policy and to begin the process of adopting a new holding company model, it made sense to bring the management of these assets under OMERS control, where they could conduct business as separate entities with clear lines of accountability and enhanced governance.

OMERS purchased the remaining Borealis shares for $49.9 million. OMERS expects to recoup the net cost of the purchase in approximately one year through the elimination of third party asset management fees, overhead cost synergies and increased revenue.

In February 2004, Oxford Properties Group took over all real estate operations, leaving Borealis to focus on its original mission as Canada's leading infrastructure asset manager. Private equity will be managed by OMERS private equity group.

Investing in Private Equity Growth

Private equity is the ownership of equity or equity-like securities in companies that do not trade publicly. These investments appeal to OMERS because history shows that over time they generate higher long-term returns than public equity portfolios to compensate for their illiquid nature. Generally, private equity investments are held for five to seven years and so patient capital is required. Our ten-year return on private equity (excluding infrastructure) was 8.3 per cent.

Currently $0.9 billion, or about 2.8 per cent of the total net investment assets, is invested in private equity (excluding infrastructure), with 50 per cent managed by approximately 40 external fund managers in Canada, the United States and Western Europe. The remaining 50 per cent is directly invested in companies. Our new strategy will build private equity to approximately 10 per cent of total fund assets over the next four to five years.

We will continue to invest up to half our funding in limited partnerships managed by external specialists, who have demonstrated the ability to consistently outperform their peers over time in selecting investee companies. The partnerships that we establish will form the cornerstone of our co-investment strategy.

Our strategy will include co-investing alongside funds managed by external specialists as well as other like-minded institutions. These investments will range from $15 million to $100 million and will exclude early stage venture capital. A successful program would result in OMERS being viewed as a preferred partner to top-tier fund managers, resulting in increased returns to OMERS.

We will make direct investments with like-minded investors, with OMERS staff identifying the opportunities, conducting the due diligence, structuring the deal and leading or co-leading the investor consortium. These investments will range from $20 million to $100 million and, like our co-investments, will be exclusively late stage expansion, buyout or mezzanine opportunities.

Building Canada's Infrastructure

Infrastructure assets, especially in sectors regulated by government, can generate reliable investment returns exceeding our total fund target. Individual assets require large amounts of capital committed for up to 30 years. They can generate substantive cash flows year-after-year, a perfect fit in meeting our long-term pension obligations.

Through Borealis Infrastructure Corporation, OMERS is a Canadian leader in the infrastructure sector. These assets include majority or minority equity positions alongside other pension, corporate and government investors. At year-end, we had committed approximately $2.3 billion to infrastructure projects, of which $1.2 billion had been invested.

The largest investment was a one-third interest in the Bruce Power nuclear facilities that supply about 15 per cent of Ontario's electricity. We also invested in a pipeline system that exports crude oil from Alberta to the United States and serves refineries in six western and midwestern states.

Other investments in 2003 included an interest in Confederation Bridge linking Prince Edward Island and New Brunswick under a concession agreement with the federal government until 2032 and funding for the Detroit River Tunnel in the expectation of redeveloping it as a high-speed Canada/U.S. train and truck trade-way corridor.

Among other OMERS infrastructure investments are 16 elementary and secondary schools in Nova Scotia and 11 long-term care facilities in Ontario with more than 1,500 beds.

Generating Cash Flow from Real Estate

High quality and larger scale assets generate reliable cash flows, facilitating our ability to meet current benefit claims. Furthermore, properly maintained real estate appreciates in value over time in step with inflation, offsetting the inflation exposure of pension liabilities.

In Canada, our portfolio contains 66 predominantly Class A office properties, such as BCE Place in Toronto, Shell Centre in Calgary and Oceanic Plaza in Vancouver; 13 super-regional, regional and community shopping centres, including Yorkdale Shopping Centre in Toronto and Oakridge Centre in Vancouver; 7 industrial properties in business parks, 2,384 rental units in multi-residential apartment buildings, and other assets such as developable land. In total, the real estate portfolio had 50.0 million square feet of gross leasable area that generated $548 million in operating income in 2003. We also own units in Canadian and U.S. real estate investment trusts and an international real estate fund.

Oxford Properties Group, which OMERS fully acquired in 2001, will be the primary vehicle for executing our strategy of developing a global enterprise in the real estate sector. The strategy will emphasize the ownership and management of high-quality and large-scale assets diversified by property type and geographic market.

We sold $896 million of real estate in 2003, principally office buildings and shopping centres that did not fit with our long-term core strategy, and wrote down $431 million in goodwill, appraisal losses and adjustments to reflect more conservative valuations. At year end, OMERS owned a $6.7 billion real estate portfolio, trimmed by approximately 13 per cent from $7.7 billion a year earlier. Our goal is to invest about 12.5 per cent of total assets in real estate.

OTHER INVESTMENT STRATEGIES

To better manage risk and enhance returns for the total fund, we employ a number of investment strategies. These include absolute return investments, managing exposure to foreign exchange fluctuations, and extensive use of derivatives. All are designed to improve returns by mitigating uncompensated risks.

Absolute Return Investments

We began to invest in absolute return investments in March 2003 by placing US$200 million with two external fund-of-funds that have 59 underlying fund managers.

Absolute return investing is intended to generate stable and positive returns even in falling equity markets.

Foreign Currency Management

We apply absolute return strategies to foreign currency. Decisions are made about trends in specific currencies so that we can earn additional returns and reduce hedging costs. Our absolute return strategy is implemented through three foreign exchange managers and by our own staff. Together, these programs produced income of $763 million in 2003.

Approximately 37 per cent of OMERS assets before hedging were exposed to foreign exchange risk.

Our largest foreign currency management strategy hedges 50 per cent of 13 major currencies, narrowing their volatility relative to the Canadian dollar. At year end, $12.2 billion of assets in foreign currency were hedged on this basis.

Active Derivative Programs

As part of our total derivative program, we manage a $3.3 billion dedicated core portfolio, nominally representing about 10 per cent of the total fund, that uses financial contracts to replicate returns based on an optimized exposure to the Fund's international equity benchmark – 50 per cent exposure to the Russell 3000 Index in the United States and 50 per cent exposure to the FTSE All World Composite Index excluding Canada and the U.S., over the balance of the world. This exposure to international equities complements the global stock portfolios managed by external specialists. We also buy and sell equity options to improve the returns and mitigate the risk of our actively managed Canadian stock portfolio.

In the search for higher returns, we enter into financial contracts, such as swaps, that provide the return from a bond, equity or other reference index in place of cash investments, when it is deemed appropriate. The money required to support the contract is invested in a debt instrument that earns income in excess of the amount paid on the swap obligation.

Derivatives are cost-effective and risk-efficient in putting to work money allocated for eventual investment in major assets, such as commercial properties, infrastructure projects or private equities. At the end of 2003, approximately $1.4 billion was invested on this basis. As discussed earlier, derivatives also enable us to rebalance the total fund asset mix, or the asset mix within a class, on short notice if the allocation of capital has inadvertently drifted from the approved asset mix policy.

The credit risk exposure for derivatives is the unpaid amount receivable from counter-parties. We follow extremely prudent risk management policies with credit risk exposure limited to five per cent of total fund net assets. In 2003, the credit risk exposure was 1.1 per cent, or $339 million.

INVESTMENT PERFORMANCE

OMERS earned a 12.7 per cent total fund rate of return in 2003 following two consecutive years of losses. After allowing for inflation of 2.0 per cent, the real rate of return was 10.7 per cent, more than double the real return funding requirement of 4.25 per cent. Investment income before interest expense totalled $3.8 billion in 2003, versus a loss of $2.2 billion a year earlier.

While pleased with the turnaround in total fund returns, we fell short of the 2003 total fund benchmark of 15.5 per cent by 275 basis points.

Net investment assets grew by $2.6 billion, or 8.6 per cent to $32.7 billion. Driving the increase was the recovery in public equity values. Significant rebalancing occurred through major investments in infrastructure assets, offset by a 13 per cent decrease in real estate assets following planned sales and the reduction in real estate debt associated with the sold assets.

Asset Revaluations

Asset values were adversely affected by one time write offs and valuation adjustments in 2003. When OMERS acquired Hammerson Canada in 1999 and Oxford Properties Group in 2001, goodwill values were assigned to the companies and specific properties based on independent appraisals, consistent with normal real estate industry practice. (Goodwill refers to any premium paid above the value of net assets to gain control of a corporate entity.) Each year, the independent appraisers suggest a valuation range for real estate assets. Due to softer real estate markets, we recognized that certain office and retail properties were overvalued. Consequently, our investment assets have been reduced by a total of $232 million in write offs in goodwill allocated to real estate and other real estate provisions.

Independent appraisers also value our private equity and infrastructure assets annually. As there is no public trading market for these assets, it is difficult to value them until they have established a proven financial track record. OMERS has taken a prudent position by accepting the valuations at the low end of the appraisal range. As a result, we wrote down $183 million on private equity and infrastructure assets in 2003.

Performance Overview

Equities contributed most to OMERS performance recovery, generating $1.3 billion from the Canadian market and $1.8 billion from global markets. The $3.1 billion generated was a dramatic turnaround from the $3.4 billion loss a year earlier. The Canadian equity return was 19.4 per cent, versus a negative 9.2 per cent in 2002. The total foreign equity return was 17.8 per cent in 2003, versus a negative 19.9 per cent the prior year. Foreign equities did well in their local market currencies. Though the return was reduced after conversion into Canadian dollars, our hedging program mitigated the losses.

Canadian fixed income securities, not including real return bonds, produced reduced though reliable income of $560 million, a $178 million reduction from 2002. The return of 7.0 per cent compared with 9.6 per cent a year earlier. Real return bonds had solid returns of 13.4 per cent compared with 15.3 per cent in 2002. These bonds produced $108 million in income.

Our real estate assets generated $56 million, compared with $245 million a year earlier. After accounting for interest expense, the 2003 return was negative 3.7 per cent, compared with a 1.3 per cent return in 2002. Real estate generated $548 million in operating income, offset by the write downs discussed earlier and losses on asset sales.

OMERS annualized four-year return (a standard measure in the pension fund industry) was 1.8 per cent, well below the 6.7 per cent four-year funding requirement. The four-year period included losses during the worst stock market collapse since 1929. The 10-year return was 8.0 per cent versus 6.1 per cent for the funding requirement. Since first implementing an active investment policy in 1974, the fund has a 10.1 per cent compounded annual return, compared to a funding requirement of 8.8 per cent.

Asset class Performance vs. Benchmarks

A short-term goal is to consistently add value on a risk-adjusted basis above the returns of the markets in which we invest. 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 to our asset mix policy to provide a benchmark for the total fund.

The $13.0 billion Canadian fixed income portfolios included $5.3 billion in assets (primarily short-term deposits and bonds) that support our derivative programs and $0.9 billion in real return bonds. A total of $6.8 billion was invested with exposure to bonds, mortgages, private debt and short-term investments and had a return of 7.0 per cent in 2003, versus 6.5 per cent for the benchmark. The gain

of 50 basis points over the benchmark primarily reflected the performance of our core active bond portfolio and mortgage portfolio, both of which had gains from changes in interest rates.

Fixed income assets included $872 million of real return bonds, that as expected, met the benchmark with a 13.4 per cent return versus 13.3 per cent for the benchmark.

In the equity category, the 19.4 per cent return on the $7.6 billion Canadian public and private equity portfolios plus the Canadian equity derivative exposure portfolios, under performed the benchmark return of 25.6 per cent. Public and private foreign equities valued at $7.6 billion, and foreign equity derivative exposure reversed the disappointing performance in 2002 to earn 17.8 per cent in 2003, in line with the 17.9 per cent benchmark return. The U.S. portfolios make up about half of foreign equities.

The $2 billion private equity and infrastructure portfolio reported a negative 10.3 per cent return, compared to the 4.6 per cent benchmark return. Over the past 10 years, private equities have earned an average annual rate of return of 10.7 per cent versus 6.5 per cent for the benchmark.

As discussed earlier, the $6.7 billion real estate portfolio (partially funded by $2.5 billion in mortgages and other debt) performed poorly with a negative 3.7 per cent return in 2003 versus a 7.1 per cent return for the benchmark.

Cash Flow

Including contributions, the total fund generated $1.9 billion in cash flow in 2003, compared with $1.5 billion the prior year. The largest sources of cash were:

> Fixed income assets at $547 million. This income is expected to diminish in the next few years as we reduce the size of the asset class and as maturing higher yield bonds are replaced with lower yielding securities due to the current low-interest rate environment.

> Real estate at $548 million. This may diminish in the short term following property sales in 2003 and projected higher office vacancy levels in the near term.

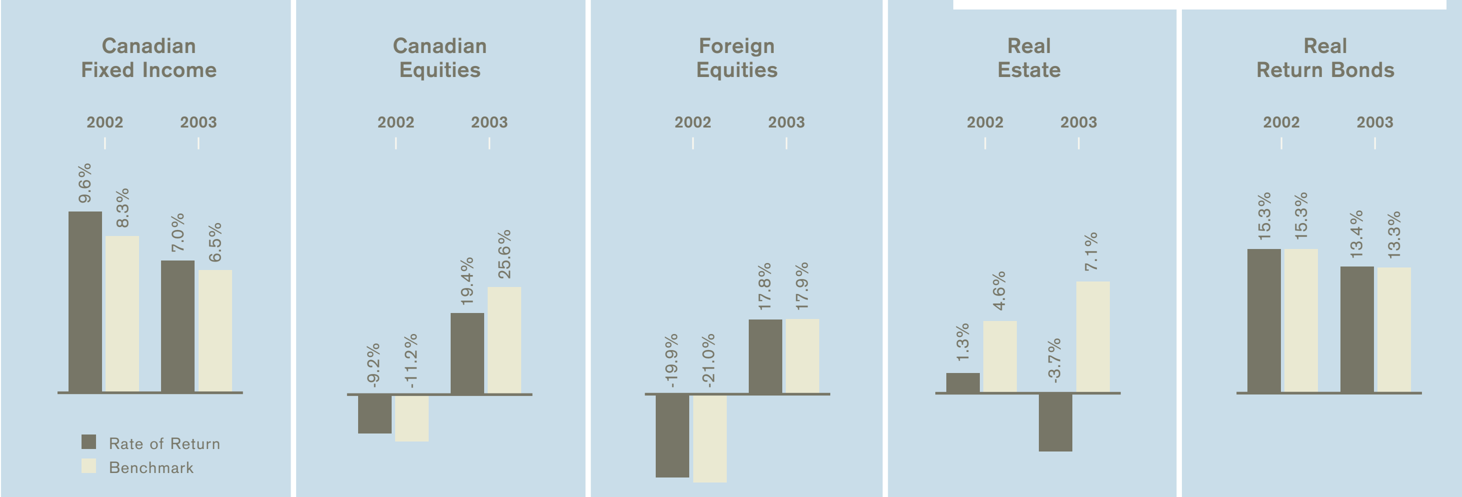
> Employer and member contributions at $446 million. The increased contribution rates effective in 2004 will generate greater cash flow, making contributions the largest source of cash.

> $127 million from private equity and infrastructure assets, which should increase markedly in the next few years.

> $275 million from dividend payments on public equities. This income will moderate as we reduce our holdings of public stocks.

Cash flow was used principally to pay pension benefits that increased by $93 million to $1.2 billion in 2003.

Returns of Asset Classes vs Benchmarks



governance practices

OMERS strives for best governance practices in its own operations, consistent with the expectations it has of companies in which it invests.

Corporate Governance: Our Expectations of Others

OMERS owns shares in approximately 300 publicly traded companies in Canada and more than 1,900 companies outside Canada. We encourage them to generate shareholder value by practicing enlightened governance. Well-managed companies, with strong governance processes, generally produce better long-term returns, as confirmed by a recent study by a leading corporate governance rating agency.

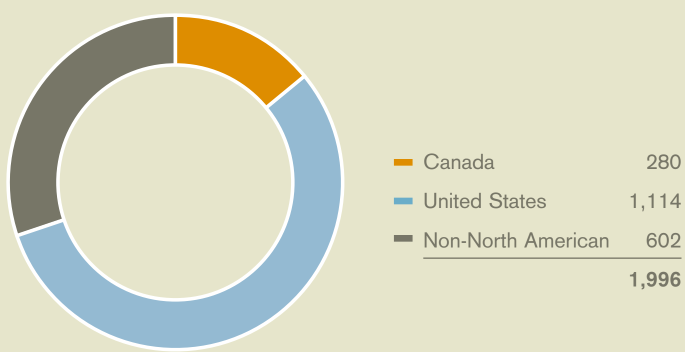
The study analyzed the stock returns of 1,600 major global firms over the three years ended August 2003. The average annualized return for firms with well above average governance ratings was 5.37 per cent, compared with negative 13.27 per cent for the well below average group.

OMERS will continue to pursue improvements in governance practices by the boards and managements of its holdings because good governance matters to our total fund performance. We are pleased to note that five TSX companies recently eliminated or announced plans to eliminate their dual-class structure, accepting instead one vote per common share for all shareholders. All five companies experienced immediate share price appreciation. We also support enhanced corporate governance through our membership in the Canadian Coalition for Good Governance and the Global Institutional Governance Network.

Our *Proxy Voting Guidelines* set out our policy on corporate governance matters and indicate how we will likely vote on individual issues. We consider the quality of a company's overall governance in deciding whether to vote for or against specific proposals. The guidelines and our voting record on major proposals for Canadian companies can be found at www.omers.com.

In 2003, we voted a total of 1,996 proxies, casting "no" votes over 50 per cent of the time. "No" votes are cast for all issues that we feel would dilute shareholder value.

2003 Proxy Voting Record



Governance Concerns

We are troubled by several corporate practices that are not in the best interests of shareholders. The most prevalent are attempts by corporate managers to expand their stock option plans, to re-price existing options where the strike price is too high for them to make money in the short term, and the granting of options to directors. Excessive stock options dilute the value of our holdings, are prone to enrichment abuse by executives, and in the case of directors, align their interests with those of management, not with shareholders. We support resolutions requiring the expensing of stock options as we see them as a deterrent to excesses in granting further options and necessary to ensuring that the financial statements are complete and accurate.

We object to attempts by boards and management to install anti-takeover devices that can prevent shareholders from realizing full value in the event of an acquisition offer. Consequently, we support resolutions opposing old-style shareholder rights plans known as "poison pills", supermajority voting, and staggered boards.

We are concerned about the lack of fully independent directors on audit, compensation and nominating committees and withheld our votes in elections where nominees were not independent of management. In the United States we are usually able to vote for directors individually. In Canada too many boards continue to nominate a slate of directors, forcing us to withhold our vote for all directors.

We continue to see too many situations in which the accounting firm retained to audit the financial statements receives a high ratio of fees from consulting work. This is an unacceptable practice and we withheld votes from many audit committees and the ratification of the external auditor proposed by the company.

Well-managed companies demonstrate respect for their employees, the environment, human rights, and the communities in which they do business. As a result, we generally support shareholder resolutions that enhance environmental, human rights and ethical issues in the best interests of shareholders and oppose similar resolutions that are frivolous, politically motivated or likely to harm shareholder interests.

Another concern in the past year was the introduction of proposals by companies to reduce the quorum requirements for shareholders meetings. In one case, the resolution reduced the quorum from 40 per cent of outstanding shares to 10 per cent. We view this as an attempt by management to seize control of shareholder meetings by aligning with two or three friendly shareholders.

OMERS Board

PLAN GOVERNANCE: OUR EXPECTATIONS OF OURSELVES

OMERS provides pension services to more than 340,000 members and about 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. 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 the CEO, monitoring organizational effectiveness, and establishing executive compensation policy. The CEO is not a member of the Board, and the Board reviews his performance annually. Day-to-day management of OMERS is delegated to the CEO.

Board Independence

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.

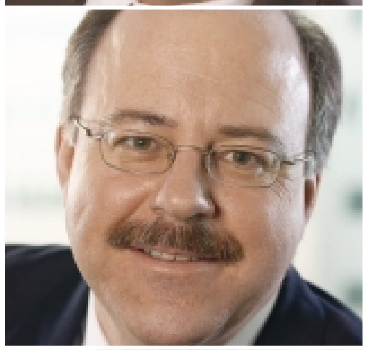
There is a mandatory orientation program for new Board members, and an ongoing continuing education program for members at each regular Board meeting. In 2004, Board members will undertake a director certification program. In addition, each Board member attends relevant seminars and conferences.

Board Membership

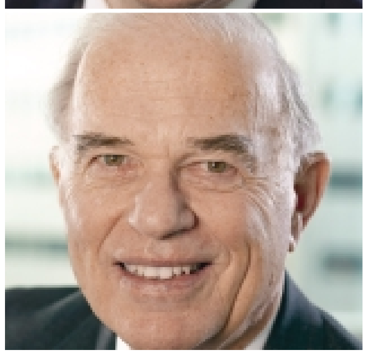
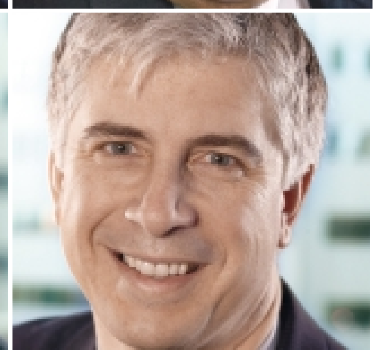
Board members are appointed by the provincial government, normally for a maximum of two, three-year terms. OMERS is governed by 13 directors – six employee representatives, including one retired member, six employer representatives and one provincial government representative.

Rick Miller RIGHT
Bill Rayburn FAR RIGHT


Peter Routliff RIGHT
Dennis Neethling FAR RIGHT




Dick McIntosh RIGHT
John Sabo FAR RIGHT

Senior Officers

Paul G. Haggis
President and CEO
Acting CIO

Michael Beswick
Senior Vice President
Pensions

Wayne Gladstone
Senior Vice President
Finance and Administration

Debbie Oakley
Senior Vice President
Corporate Affairs

Advisors to the Board

Actuary
Watson Wyatt Worldwide

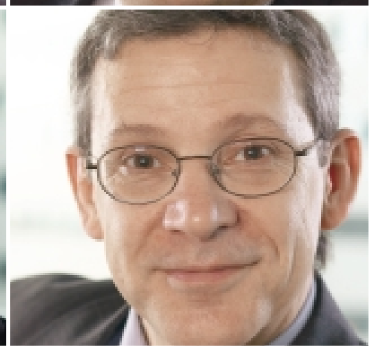
Auditors
PricewaterhouseCoopers llp

Legal Advisor
Osler, Hoskin & Harcourt llp

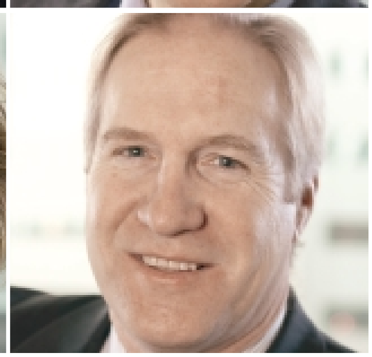
Master Custodian
State Street Canada Inc.

Medical Advisor
Dr. D. Lewis


David Carrington FAR LEFT
David Kingston LEFT

Nancy Bardecki FAR LEFT
Frederick Biro LEFT

Marianne Love FAR LEFT
Peter Leiss LEFT

Employer Representatives 2003

Bill Rayburn, Chair
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

Walter Borthwick (until Dec. 2003)
Town of Wasaga Beach

Employee Representatives 2003

Rick Miller, Past Chair
Ontario Professional Firefighters Association

Peter Leiss
Canadian Union of Public Employees

David Carrington
Canadian Union of Public Employees

Susan O'Gorman (until July 2003)
Ontario Nurses' Association

Dick McIntosh
Retired Member

David Kingston
York Regional Police

Peter Routliff (from July 2003)
International Brotherhood of Electrical Workers

Government of Ontario Representative

Nancy Bardecki

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 participants. It maintains contact through consultation with stakeholder groups on key issues, its annual report, its website, regular newsletters, benefit statements, presentations and correspondence.

Board Committees

The Board has five standing committees:

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.
Audit Committee: Monitors integrity of financial reporting and effectiveness of internal control systems. Meets with external auditor and reviews audited financial statements and annual operating budget.
Pension Committee: Oversees pension administration policy, reviews actuarial valuations, ensures stability of contribution rates, reviews plan benefit changes and sets service standards.
Management Committee: Responsible for human resource policies, overseeing OMERS strategic plan and major purchases.

Board Self-Evaluation

In 2003, the Board completed its third bi-annual board effectiveness survey as part of the process of examining and enhancing pension plan governance. The governance sub-committee has stewardship for implementing the recommendations from the survey. As a result of this survey, a number of improvements were made to OMERS governance practices including adoption of a new code of ethics and professional conduct and creation of an internal audit function.

ACTUARIAL COST CERTIFICATE AS AT DECEMBER 31, 2003
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 (the "Basic Plan") was conducted as at December 31, 2003 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purposes of the valuation were to determine the funded status of the Basic Plan as at December 31, 2003 and to examine the adequacy of the ongoing contribution structure to maintain the Basic Plan in a satisfactory actuarial and financial position.

The results of the actuarial valuation of the Basic Plan disclosed total going concern Actuarial Liabilities of $35,465.855 million in respect of benefits accrued for service to December 31, 2003. The Actuarial Assets at that date were $35,975.160 million indicating a going concern Actuarial Surplus of $509.305 million which the Board allocated entirely as a Contribution Deficiency Reserve.

In our opinion, based on the current benefit provisions, the anticipated rates of contributions as prescribed in the OMERS Regulations, together with existing assets and the assumed future investment earnings, will likely fall short of what is needed to provide for all future benefits under the Basic Plan. If actuarial surplus is not available to subsidize future contributions, increases in the contributions may be required in the future.

We have considered the funded position of the Basic Plan, assuming it had been wound up on December 31, 2003. In our opinion, the value of the Plan assets would have been equal to 79% of the actuarial liabilities if the Plan had been wound up on that date.

The net actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 2003 (determined using assumptions selected by the Board for purposes of the Consolidated Financial Statements) was $62.956 million. The full earnings pension benefits are benefits provided in excess of the maximum pension benefits under the Basic Plan and are not fully pre-funded. Contributions, based on the top-tier Basic Plan contribution rates, are payable to the Retirement Compensation Arrangement ("RCA") on the excess of earnings over the maximum contributory earnings recognized under the Basic Plan. It is expected that if contributions to the RCA continue, the annual cash inflow will be sufficient to cover the annual benefit payments for the foreseeable future.

The actuarial valuation of OMERS as at December 31, 2003 was conducted using membership data as at December 31, 2002 and financial information as at December 31, 2003 supplied by the Board. The December 31, 2002 membership was adjusted for the following:

- membership movements to November 30, 2003,
- actual inflationary increases to pensions in payment for 2003, and
- the estimated increase in earnings for 2003.

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

Ian Markham
Fellow, Canadian Institute of Actuaries
February 19, 2004

Andrew K. Fung, 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 Committee assists the Board in discharging its responsibility to approve the annual consolidated financial statements. The Audit 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 Audit 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 and actuarial value of net assets over actuarial liabilities 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 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.

Based on my knowledge, the annual report does not contain any untrue statement of a material fact, or omit to state a material fact, that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual report.

Based on my knowledge, the annual financial statements together with the other financial information included in the annual report, fairly present in all material respects the financial condition, results of operations and cash flows of OMERS as of the date and for the periods presented in the annual report.

Paul G. Haggis
President and Chief Executive Officer

Wayne Gladstone
Senior Vice President
Finance and Administration

Toronto, Canada
February 19, 2004

auditors' report ::

TO THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

We have audited the consolidated statement of net assets and the consolidated statement of actuarial value of net assets over actuarial liabilities of the Ontario Municipal Employees Retirement Fund (the Fund) as at December 31, 2003 and the consolidated statement of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 and actuarial value of net assets over actuarial liabilities of the Fund as at December 31, 2003 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2002 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 21, 2003.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada
February 19, 2004

CONSOLIDATED STATEMENT OF NET ASSETS

(Millions)

As at December 31,	2003	2002
ASSETS		
Total investments (note 2)	$ 35,196	$ 32,940
Amounts due from pending trades	349	240
Goodwill from corporate acquisitions	215	390
Other investment assets (note 6)	279	387
Other assets	44	13
Total Assets	36,083	33,970
LIABILITIES		
Investment liabilities (notes 2 and 4)	2,769	3,325
Due to administered pension funds (note 5)	496	440
Future income taxes	215	284
Amounts payable from pending trades	346	215
Other pension liabilities	164	201
Total Liabilities	3,990	4,465
NET ASSETS (note 8)	$ 32,093	$ 29,505

Guarantees, commitments and contingencies are discussed in note 15.
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,	2003	2002
CHANGES DUE TO INVESTMENTS		
Net investment income/(loss) (note 9)	$ 3,752	$ (2,245)
Interest on investment liabilities	(170)	(153)
	3,582	(2,398)
CHANGES DUE TO PENSION ACTIVITIES		
Contributions (note 11)	446	47
Benefits (note 12)	(1,356)	(1,302)
	(910)	(1,255)
ADMINISTRATIVE EXPENDITURES (note 13)	(84)	(85)
TOTAL INCREASE/(DECREASE)	2,588	(3,738)
Net assets at beginning of year	29,505	33,243
NET ASSETS AT END OF YEAR	$ 32,093	$ 29,505

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

CONSOLIDATED STATEMENT OF ACTUARIAL VALUE OF NET ASSETS OVER ACTUARIAL LIABILITIES

(Millions)

As at December 31,	2003	2002
Net Assets	$ 32,093	$ 29,505
Less fair value of full earnings pension assets (note 8)	(6)	(5)
Actuarial asset value adjustment (note 8)	3,888	6,048
Actuarial value of net assets (note 8)	35,975	35,548
Actuarial liability (note 8)	35,466	33,034
Net liability of full earnings pension (note 8)	63	58
	35,529	33,092
Excess of actuarial value of net assets over actuarial liabilities (note 8)	$ 446	$ 2,456

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

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 (NRA) is 65 years for all OMERS members except police officers and fire-fighters, 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 Pension 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 consolidated 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 employers 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, the consolidated statement of actuarial value of net assets over actuarial liabilities 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

Publicly traded securities are recorded as of the trade date of the transaction. All investment transactions are recorded at the point when the risks and rewards of ownership are transferred.

Investments are stated at fair value. Fair value represents 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 consolidated 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.

iii) Real estate is composed primarily of income producing properties. Unless recently acquired, properties are 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

The assessment of fair value of real estate and private equity investment assets is either performed by or concurred with by independent appraisal firms. The actual fair value is within a range of potential values and the value incorporated into OMERS financial statements is within this range.

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 amounts due from pending trades (other than unrealized gains on derivative contracts), other investment assets, other assets, amounts payable from pending trades (other than unrealized losses on derivative contracts) and other investment liabilities including real estate payables and real estate deferred revenue approximate their carrying amounts due to their short-term nature. The value of amounts due to administered pension funds and other pension liabilities reflect the contractual liability of OMERS as at the financial statement date.

Foreign Currency Translation

Certain OMERS investments are denominated in various foreign currencies. The fair values of such investments 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.

Accrued Pension Benefits

The value of accrued pension benefits is based on an actuarial valuation prepared by an independent firm of actuaries. This obligation is measured using actuarial assumptions and methods adopted by management as long-term best estimates of OMERS future experience.

Actuarial Asset Value Adjustment

The actuarial value of assets as at the reporting date has been determined using a formula that smoothes the effect of changes in fair value of net assets over a five-year period. The actuarial asset value adjustment reflects the portion of gains or losses not yet recognized for purposes of determining the actuarial net assets available for benefits.

Contributions

Basic contributions from employers and members due to the Plan as at the end of the year are recorded on an accrual basis. Service purchases that include but are not limited to leaves of absence, conversion of normal retirement age and contract adjustments and transfers from other pension plans are recorded when received.

Benefits

Benefit payments to retired members, commuted value payments and transfers to other pension plans are recorded in the period in which they are paid. Accrued benefits are recorded as part of accrued actuarial liabilities.

NOTE 2: INVESTMENTS

Investments before allocating the effect of derivative contracts and investment-related assets and liabilities are as follows:

(Millions)	2003		2002	
	Fair Value	Cost	Fair Value	Cost
INTEREST-BEARING INVESTMENTS				
Cash and short-term deposits	$ 5,420	$ 5,420	$ 4,253	$ 4,253
Canadian bonds and debentures	5,121	4,932	5,018	4,802
Real return bonds	872	736	796	736
Private debt	445	428	357	339
Mortgages	1,153	1,083	1,119	1,063
	$ 13,011	$ 12,599	$ 11,543	$ 11,193
ABSOLUTE RETURN INVESTMENTS	$ 269	$ 294	$ —	$ —
EQUITY INVESTMENTS				
Canadian equities	6,090	4,112	5,750	4,870
Non-Canadian equities	7,166	6,552	6,530	6,977
Resource properties	94	91	148	108
Canadian private equities	1,384	1,595	712	711
Non-Canadian private equities	472	617	510	514
	$ 15,206	$ 12,967	$ 13,650	$ 13,180
REAL ESTATE INVESTMENTS	$ 6,710	$ 6,811	$ 7,747	$ 7,689
TOTAL INVESTMENTS	$ 35,196	$ 32,671	$ 32,940	$ 32,062
INVESTMENT-RELATED ASSETS				
Amounts due from pending trades	349	79	240	108
Goodwill from corporate acquisitions	215	215	390	390
Other investment assets (note 6)	279	279	387	387
	$ 36,039	$ 33,244	$ 33,957	$ 32,947
INVESTMENT-RELATED LIABILITIES				
Investment liabilities (note 4)	(2,769)	(2,672)	(3,325)	(3,258)
Future income taxes	(215)	(215)	(284)	(284)
Amounts payable from pending trades	(346)	(40)	(215)	(67)
Net investment assets	$ 32,709	$ 30,317	$ 30,133	$ 29,338

NOTE 2: INVESTMENTS CONTINUED

At December 31, 2003, 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:

	2003 Aggregate			2002 Aggregate		
($ Millions)	Number of Investments	Fair Value	Cost	Number of Investments	Fair Value	Cost
Canadian interest-bearing investments	2	$ 733	$ 741	1	$ 481	$ 479
Equities and real estate properties	3	1,362	1,223	4	1,396	1,255
	5	$ 2,095	$ 1,964	5	$ 1,877	$ 1,734

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, equity securities issued by Bruce Power and real estate 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 $3,524 million at December 31, 2003 (2002 – $3,741 million). OMERS share of the net income earned by these entities was $275 million for the year ended December 31, 2003 (2002 – $268 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, 2003, securities with an estimated fair value of $4,143 million (2002 – $2,856 million) were loaned out, while securities received and contractually receivable as collateral had an estimated fair value of $4,240 million (2002 – $2,935 million).

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, require 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 converted back into Canadian Dollar exposure through the use of foreign exchange forward contracts. The Fund's total currency exposure, impact of the currency overlay program and the net currency exposure as at December 31 are as follows:

CURRENCY EXPOSURE

(Millions – Canadian dollar equivalent)	2003 Total	2003 Currency Overlay	2003 Net	2002 Total	2002 Currency Overlay	2002 Net
Canada	$ 20,489	$ 5,091	$ 25,580	$ 19,337	$ 4,947	$ 24,284
United States of America	6,363	(3,170)	3,193	5,680	(2,568)	3,112
Euro zone[1]	1,862	(817)	1,045	1,562	(808)	754
United Kingdom	1,246	(532)	714	1,261	(620)	641
Japan	1,029	(352)	677	941	(453)	488
Other Pacific	737	(173)	564	424	(183)	241
Other Western Europe	616	(201)	415	668	(264)	404
Emerging Markets	367	154	521	260	(51)	209
	$ 32,709	$ —	$ 32,709	$ 30,133	$ —	$ 30,133

The above table allocates the total and net currency exposure of Canadian assets backing derivatives to the 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:

	2003					2002	
	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	$ 5,420	$ —	$ —	$ 5,420	2.72%	$ 4,253	2.84%
Canadian bonds and debentures	550	1,588	2,983	5,121	4.34%	5,018	4.35%
Real return bonds	—	—	872	872	2.78%	796	3.30%
Private debt	5	227	213	445	4.91%	357	7.76%
Mortgages	101	419	633	1,153	5.16%	1,119	5.42%
Total	$ 6,076	$ 2,234	$ 4,701	$ 13,011	3.65%	$ 11,543	3.94%

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 27.2 per cent (2002 – 29.5 per cent) of the fair market value of Canadian bonds and debentures (including real return bonds).

NOTE 2: INVESTMENTS CONTINUED

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.

> **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.
- **Fair value:** Derivative contracts are recorded in the consolidated statement of net assets at fair value. Fair value represents the cost of replacing all outstanding contracts under current market conditions. Contracts with a positive fair value are recorded as part of amounts due from pending trades. Contracts with a negative fair value are recorded as part of amounts payable from pending trades.
- **Replacement cost:** represents the loss to which OMERS is exposed should counterparties fail to perform under the derivative contracts. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be held.

	2003				2002		
		Fair Value				Fair Value	
(Millions)	Notional Value	Assets	Liabilities	Credit Risk Replacement Cost	Notional Value	Assets	Liabilities
INTEREST RATE CONTRACTS							
Interest rate swap contracts	$ 1,152	$ 14	$ (10)	$ 14	$ 923	$ 3	$ (10)
Bond index swap contracts	594	7	—	7	578	7	—
Bond options – purchased	200	6	—	6	—	—	—
Bond forward contracts	80	—	—	—	—	—	—
	2,026	27	(10)	27	1,501	10	(10)
EQUITY CONTRACTS							
Equity index futures contracts	4,720	12	—	12	3,777	11	—
Equity index swap contracts	849	30	—	30	982	44	—
Equity swap contracts	—	—	—	—	70	2	—
Equity options – written	42	—	(1)	—	22	—	(1)
	5,611	42	(1)	42	4,851	57	(1)
Foreign exchange forward contracts	18,093	270	(306)	270	10,530	132	(148)
Total	$ 25,730	$ 339	$ (317)	$ 339	$ 16,882	$ 199	$ (159)

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

(Millions)	2003	2002
Under 1 year	$ 25,049	$ 16,751
1 to 5 years	361	35
Over 5 years	320	96
	$ 25,730	$ 16,882

NOTE 4: INVESTMENT LIABILITIES

Investment liabilities are comprised of the following:

(Millions)	2003	2002
Real estate investment liabilities (note 7)	$ 2,511	$ 2,999
Real estate payables (note 7)	155	219
Real estate deferred revenue (note 7)	98	107
Real estate-related liabilities	2,764	3,325
Other investment liabilities	5	—
	$ 2,769	$ 3,325

Real estate investment liabilities are comprised of:

> Mortgages with various terms to maturity to 2025 with each mortgage secured by a specific real estate property or properties.

> OMERS Realty Corporation Series A 5.48% Debentures issued November 27th, 2002, maturing December 31, 2012.

> OMERS Realty Corporation Series B 4.69% Debentures issued April 25th, 2003 maturing June 2, 2008.

> OMERS Realty Corporation Commercial Paper with maturities as at December 31 up to March 16, 2004.

> Other debt secured by Government of Canada Bonds.

> Other unsecured debt.

The rights of OMERS Realty Corporation debenture holders are subordinate to the claims of OMERS pension liabilities.

Long-term debt fair value, cost and weighted average interest rates are as follows:

	2003		2003 Weighted Average	2002		2002 Weighted Average
(Millions)	Fair Value	Cost	Interest Rate	Fair Value	Cost	Interest Rate
Mortgages	$ 1,192	$ 1,125	8.39%	$ 1,656	$ 1,598	7.45%
OMERS Realty Corporation						
Series A debentures	516	500	5.48%	509	500	5.48%
Series B debentures	514	500	4.69%	—	—	
Commercial paper	285	285	2.71%	—	—	
Other secured debt	—	—		827	827	1.60%
Unsecured debt	4	4	7.51%	7	7	6.95%
Total	$ 2,511	$ 2,414	6.39%	$ 2,999	$ 2,932	5.50%

Scheduled principal repayments for each of the five years subsequent to December 31, 2003 and thereafter are as follows:

(Millions)	
2004	$ 401
2005	96
2006	52
2007	130
2008	246
Thereafter	1,489
Total	$ 2,414

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, the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and the Transit Windsor 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 INVESTMENT ASSETS

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

(Millions)	2003	2002
Accrued income	$ 90	$ 114
Real estate receivables	84	87
Real estate deferred assets	105	186
	$ 279	$ 387

NOTE 7: INVESTMENT IN REAL ESTATE

The asset categories related to OMERS investment in real estate are as follows:

(Millions)	2003		2002	
	Fair Value	Cost	Fair Value	Cost
ASSETS				
Investments (note 2)	$ 6,710	$ 6,811	$ 7,747	$ 7,689
Goodwill from corporate acquisitions	215	215	390	390
Real estate receivables (note 6)	84	84	87	87
Real estate deferred assets (note 6)	105	105	186	186
Total real estate assets	$ 7,114	$ 7,215	$ 8,410	$ 8,352
LIABILITIES				
Real estate long-term liabilities (note 4)	$ 2,511	$ 2,414	$ 2,999	$ 2,932
Real estate payables (note 4)	155	155	219	219
Real estate deferred revenue (note 4)	98	98	107	107
Real estate investment liabilities	$ 2,764	$ 2,667	$ 3,325	$ 3,258
Future income taxes	215	215	284	284
Total real estate liabilities	$ 2,979	$ 2,882	$ 3,609	$ 3,542
Net investment in real estate	$ 4,135	$ 4,333	$ 4,801	$ 4,810

A goodwill impairment was recorded in 2003 to recognize changes in the market and OMERS business operations.

NOTE 8: NET ASSETS

The excess of actuarial value of net assets over actuarial liabilities is calculated net of the liability of the full earnings benefit. 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)*. These excess benefits are partially funded through the use of a Retirement Compensation Arrangement.

NOTE 8: NET ASSETS CONTINUED

ACTUARIAL VALUE OF NET ASSETS

The actuarial value of net assets is established such that investment returns above or below the long-term return assumption (currently set as 7.25%) are deferred and are smoothed over 5 years into actuarial assets. This is a common practice accepted by the actuarial profession and pension regulators to reduce the effect of short-term volatility and to stabilize contributions. As at December 31, 2003, OMERS has $3,888 million in investment losses in a smoothing reserve. The following schedule outlines the composition of the smoothing reserve (millions) as at December 31:

	Smoothing Reserve* as at 12/31/2003	Unrecognized Gains/(Losses) to be recognized in 2004	2005	2006	2007	Smoothing Reserve* as at 12/31/2002
1999	$ —	$ —	$ —	$ —	$ —	$ 575
2000	(119)	(128)	—	—	—	(223)
2001	(1,832)	(982)	(1,054)	—	—	(2,562)
2002	(3,087)	(1,104)	(1,184)	(1,269)	—	(3,838)
2003	1,150	308	331	354	380	—
	$ (3,888)	$ (1,906)	$ (1,907)	$ (915)	$ 380	$ (6,048)

* This smoothing reserve represents the present value of previous years' gains/(losses) that will be recognized over the next 4 years and this recognition could result in a reported deficit in the future. The smoothing reserve in future years will be impacted by investment returns in future years.

ACCRUED PENSION BENEFITS

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 the same actuarial assumptions and methods adopted by the OMERS Board for setting the long-term funding target. Since there is no intention of terminating the obligations for the foreseeable future, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, the actuarial basis may also change, which could cause a material change in the actuarial present value of accrued benefits.

The projected accrued benefit method (pro-rated on service) is used for the actuarial valuation of OMERS. Under this method, the cost of providing benefits to an individual member will increase as the individual member ages. However, for a group with a stable demographic profile, annual costs will tend to remain stable when expressed as a percentage of earnings.

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

	2003	2002
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%

As a pension plan which provides 100% inflation protection, OMERS accrued benefit obligation is particularly sensitive to changes in the assumed real rate of pensionable earnings increases which impacts future benefits and the assumed real rate of return on plan assets which is used in the discounting of these future benefits. A 50 basis point change in the real rates for a particular assumption (with no change in other assumptions) would have the following approximate effects on the accrued benefit obligation:

50 basis point decrease	Effect on Accrued Benefit Obligation
Real pensionable earnings assumption	-2.4%
Real return on plan assets	+8.0%

The extrapolation of the accrued benefit obligation to December 31, 2003, which follows, takes account of known membership movement up to November 30, 2003, actual inflationary increases to pensions in payment for 2003, and the estimated earnings increase for 2003 which is based partly on a survey of OMERS larger participating employers. The 2002 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 2002.

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 22 years caused by the Baby Boomers aging through the OMERS active membership. This Contribution Liability is subtracted from the actuarial value of net assets before the determination of surplus and the associated allocation of reserves.

(Millions)	2003	2002
BASIC PLAN		
Fair value of net assets at end of year	$ 32,093	$ 29,505
Less fair value of full earnings assets	(6)	(5)
Actuarial value adjustment	3,888	6,048
Actuarial value of net assets at end of year	35,975	35,548
Accrued benefit obligation at beginning of year	32,624	30,572
Interest accrued on benefits	2,388	2,333
Benefits accrued	1,266	1,172
Benefits paid	(1,355)	(1,301)
Plan amendments/Changes in Legislation	—	(27)
Experience and other losses	103	(125)
Accrued benefit obligation at end of year	35,026	32,624
Contribution liability	440	410
Total actuarial liabilities	35,466	33,034
FULL EARNINGS PLAN		
Full earnings pension assets	6	5
Full earnings pension liability	69	63
Net liability of full earnings pension	63	58
	35,529	33,092
Excess of actuarial value of net assets over actuarial liabilities	$ 446	$ 2,456

The Board normally allocates a portion of the excess of actuarial value of net assets over the total actuarial liabilities to a Contribution Deficiency Reserve to assist in the management of any potential future contribution shortfalls. The entire excess of actuarial value of net assets over the actuarial liabilities as at December 31, 2003 of $446 million, though not sufficient to completely cover the present value of the potential future contribution short falls, is reserved for this purpose (2002 – $1,110 million). A further allocation to a Funding Stabilization Reserve may also be made as a cushion against volatile investment returns, or a surprise change in the liabilities through demographic variations such as accelerated early retirements. The excess of actuarial value of net assets over the actuarial liabilities as at December 31, 2003 was insufficient to warrant such an allocation (2002 – $1,346 million).

The plan is amended effective January 1, 2004 to restructure the contribution rates to better reflect the actuarial cost of benefits being accrued by members. Specifically, the contribution rates will be as follows:

Earnings	NRA 60	NRA 65
Up to YMPE*	7.3%	6.0%
Above YMPE*	9.8%	8.8%

*YMPE stands for Year's Maximum Pensionable Earnings which is the maximum amount of your earnings on which you contribute to the Canadian Pension Plan. For 2004, YMPE is set to be $40,500.

NOTE 8: NET ASSETS CONTINUED

In addition, the earliest retirement eligibility age will revert to 10 years prior to the normal retirement age in 2004. Similarly, the early retirement reduction factor for members not eligible for unreduced early retirement pensions will revert 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
2004	80	85
2005	85	90

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits are 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. 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 actuarial present value of accrued pension benefits under the solvency valuation, excluding the fall earnings pension benefits, was estimated to be $28,547 million as at December 31, 2003 (2002 – $27,761 million). As at December 31, 2003, the fair value of net assets, excluding the full earnings assets and allowing for a provision for expenses on wind up, was $32,026 million (2002 – $29,439 million).

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 $24 million (2002 – $13 million) are netted against the particular portfolio where the costs were incurred. Realized and unrealized income/(loss) from derivative financial instruments is $1,371 million (2002 – $(1,120) million).

(Millions)	2003	2002
INCOME		
INTEREST-BEARING INVESTMENTS		
Short-term deposits	$ 115	$ 87
Canadian bonds & debentures	296	389
Real return bonds	30	34
Private debt	29	25
Mortgages	77	85
	547	620
EQUITY INVESTMENTS		
Canadian equities	108	104
Non-Canadian equities	167	167
Resource properties	54	14
Canadian private equities	73	19
	402	304
REAL ESTATE INVESTMENTS	548	573
Less investment management fees[1]	94	55
NET GAIN/(LOSS) on investments		
and derivative financial instruments[2]	2,400	(3,715)
	3,803	(2,273)
Less income/(loss) credited to:		
Administered pension funds	53	(35)
Supplementary retirement benefits	(2)	7
Net investment income/(loss)	$ 3,752	$ (2,245)

[1] Investment management fees relate primarily to private equity and real estate investments.
[2] Includes net realized gain/(loss) of $803 million (2002 – loss of $1,705 million).

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

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

(Millions)	2003	2002
Interest-bearing investments	$ 668	$ 868
Absolute return investments	(26)	—
Equity investments		
Canadian	1,321	(717)
Non-Canadian	1,784	(2,669)
Real estate investments	56	245
	$ 3,803	$ (2,273)

NOTE 10: INVESTMENT RETURNS AND RELATED BENCHMARK RETURNS

	2003		2002	
	Rate of Return	Benchmark	Rate of Return	Benchmark
Canadian fixed income	7.0%	6.5%	9.6%	8.3%
Canadian equities	19.4%	25.6%	-9.2%	-11.2%
Foreign equities	17.8%	17.9%	-19.9%	-21.0%
Real estate	-3.7%	7.1%	1.3%	4.6%
Real return bonds	13.4%	13.3%	15.3%	15.3%
Total Fund	12.7%	15.5%	-7.1%	-7.4%

Investment returns have been calculated in accordance with industry standards.

The performance of each portfolio is measured against an objective benchmark that acts as a proxy for each market. Benchmarks are aggregated and weighted to conform with the fund asset mix policy to provide a benchmark for the total fund.

NOTE 11: CONTRIBUTIONS

(Millions)	2003	2002
Basic[1]	$ 394	$ —
Transfers from other pension plans	19	20
Other contributions[2]	33	27
	$ 446	$ 47

[1] The contribution holiday that began in August 1998 for both members and employers ended December 31, 2002. For the year 2003, contributions resumed at one third the normal rate.

[2] Other contributions include payments for leaves of absence, conversion of normal retirement age and contract adjustments.

NOTE 12: BENEFITS

(Millions)	2003	2002
Members' pensions	$ 1,246	$ 1,153
Commuted value payments and members' contributions plus interest refunded	81	102
Transfers to other pension plans	29	47
	$ 1,356	$ 1,302

NOTE 13: ADMINISTRATIVE EXPENDITURES

(Millions)	2003	2002
Personnel services	$ 41	$ 43
System development and other purchased services	28	26
Premises and equipment	10	11
Professional services[1]	3	3
Transport & communication	2	2
	$ 84	$ 85

[1]OMERS corporate professional services includes actuarial costs of $0.5 million (2002 – $0.9 million), audit costs of $0.3 million (2002 – $0.4 million) and legal costs of $0.9 million (2002 – $1.0 million).

NOTE 14: EXECUTIVE COMPENSATION

The compensation amounts for 2003 and 2002 are included under personnel services in note 13. The table below represents disclosure of base salary, annual bonus and other compensation earned in 2001, 2002 and 2003 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
Paul Haggis[3]	2003	$ 100,962	$ —	$ 3,271	$ 532
President and CEO					
Dale Richmond[4]	2003	$ 339,696	$ 117,644	$ —	$ 24,364
President and CEO	2002	328,503	113,567	—	30,695
	2001	319,729	99,359	15,380	29,254
Michael Beswick	2003	$ 226,042	$ 72,028	$ 6,562	$ 15,488
Senior Vice President	2002	211,730	158,853	10,577	16,768
Pensions	2001	174,904	55,078	8,510	17,738
Wayne Gladstone	2003	$ 230,080	$ 69,828	$ 21,907	$ 13,440
Senior Vice President	2002	217,846	67,600	10,577	13,511
Finance and Administration	2001	193,658	56,320	9,615	13,281
Tom Gunn[4]	2003	$ 291,269	$ 362,954	$ 9,626	$ 2,315
Senior Vice President	2002	295,761	228,575	23,893	1,381
Investments	2001	284,864	197,186	30,744	1,332
Debbie Oakley	2003	$ 190,080	$ 59,644	$ 10,000	$ 1,056
Senior Vice President	2002	189,385	50,685	9,600	837
Corporate Affairs	2001	157,318	8,313	7,212	11,680

[1] Based on prior year's performance.
[2] Includes vacation cash-in and car allowance, but excludes retiring allowance.
[3] Joined OMERS in 2003.
[4] Retired from OMERS in 2003.

NOTE 15: GUARANTEES, COMMITMENTS & CONTINGENCIES

As part of normal business operations, OMERS enters into commitments and guarantees related to the funding of investments. Future commitments to fund investments may include but are not limited to investments in mortgages, real estate and limited partnership agreements. As at December 31, 2003, these commitments totalled $2.8 billion (2002 – $3.2 billion). Guarantees provided as part of investment transactions have a current estimated value of $327 million (2002 – nil).

NOTE 16: 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 a minority interest. 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 $7,045 million as at December 31, 2003. Payments to the Asset Manager during the period were $42 million and, as at December 31, 2003, $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.

10 year review of financial data ::

($ Millions)	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
NET ASSETS AT MARKET VALUE[1]										
Investment Assets										
Debt	13,011	11,543	13,686	13,525	11,566	12,947	10,625	8,554	6,737	6,560
Absolute return investments	269	—	—	—	—	—	—	—	—	—
Equity	15,206	13,650	15,379	18,544	19,586	15,587	16,022	14,612	12,149	11,935
Real estate	6,710	7,747	8,181	4,707	4,126	3,995	2,729	2,450	2,391	2,151
	35,196	32,940	37,246	36,776	35,278	32,529	29,376	25,616	21,277	20,646
Other investment assets	843	1,017	998	698	493	297	244	270	381	388
Investment liabilities	(3,330)	(3,824)	(4,323)	(921)	(280)	(916)	(102)	(156)	(96)	(181)
Net investment assets	32,709	30,133	33,921	36,553	35,491	31,910	29,518	25,730	21,562	20,853
Non investment assets/(liabilities)										
Supplementary agreements	(143)	(172)	(165)	(148)	(131)	(116)	(110)	(121)	(120)	(134)
Administered pension plans	(496)	(440)	(487)	(528)	(502)	(437)	(395)	(341)	(345)	(2,463)
Other assets/(liabilities)	23	(16)	(26)	(2)	72	23	95	110	116	133
Net assets	32,093	29,505	33,243	35,875	34,930	31,380	29,108	25,378	21,213	18,389
INVESTMENT INCOME[2,3]										
Basic Plan	3,752	(2,245)	(1,335)	2,053	4,598	2,867	3,692	4,074	2,625	310
Supplementary benefit agreements	(2)	7	17	16	16	13	11	9	11	13
Administered pension plans	53	(35)	(21)	31	69	39	51	55	381	44
	3,803	(2,273)	(1,339)	2,100	4,683	2,919	3,754	4,138	3,017	367
CONTRIBUTIONS RECEIVED FOR[2]										
Basic plan	394	—	—	—	—	364	869	874	869	870
Basic plan unfunded liabilities	52	47	36	30	27	8	21	8	6	9
Supplementary agreements	—	—	—	—	—	—	—	—	1	—
	446	47	36	30	27	372	890	882	876	879
PAYMENTS TO MEMBERS[2]										
Pensions paid	1,246	1,153	1,034	916	817	761	699	661	570	491
Contributions and interest refunded	81	102	125	121	178	149	104	89	67	51
Transfers to other plans	29	47	34	8	10	10	9	6	6	4
	1,356	1,302	1,193	1,045	1,005	920	812	756	643	546
EXPENDITURES[2]										
Administration	84	85	85	73	70	47	40	35	33	33
Investment operating and manager fees	118	68	32	34	28	30	24	25	22	18
	202	153	117	107	98	77	64	60	55	51
TOTAL FUND ANNUAL RATE OF RETURN										
Time weighted return on market value	12.7%	-7.1%	-3.4%	6.2%	15.2%	10.1%	14.8%	19.3%	14.2%	1.8%
Benchmark	15.5%	-7.4%	-4.2%	4.1%	14.7%	10.7%	15.1%	18.0%	16.1%	1.1%
Funding Requirement	6.3%	8.1%	5.0%	7.5%	6.8%	5.3%	5.0%	6.4%	6.0%	4.5%

[1] As at December 31.
[2] For the year ended December 31.
[3] Includes realized and unrealized gains.

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