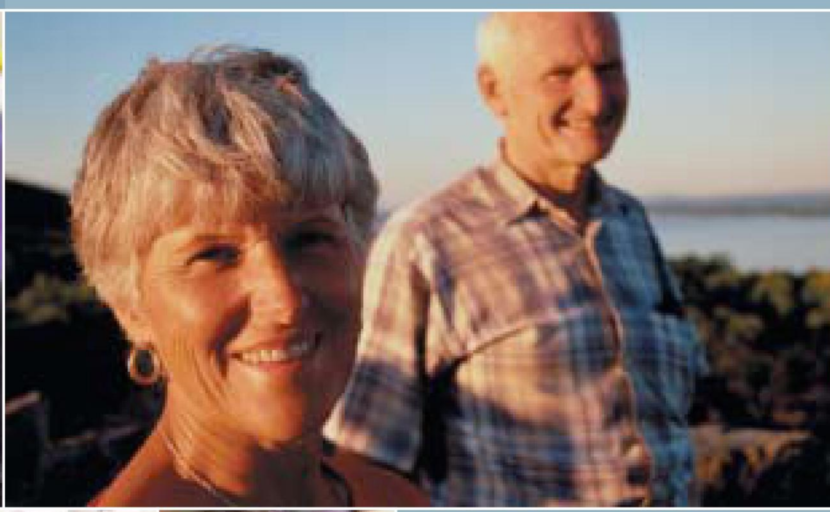
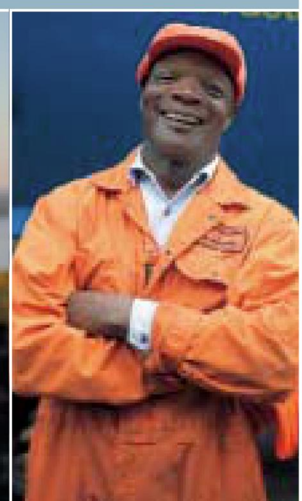
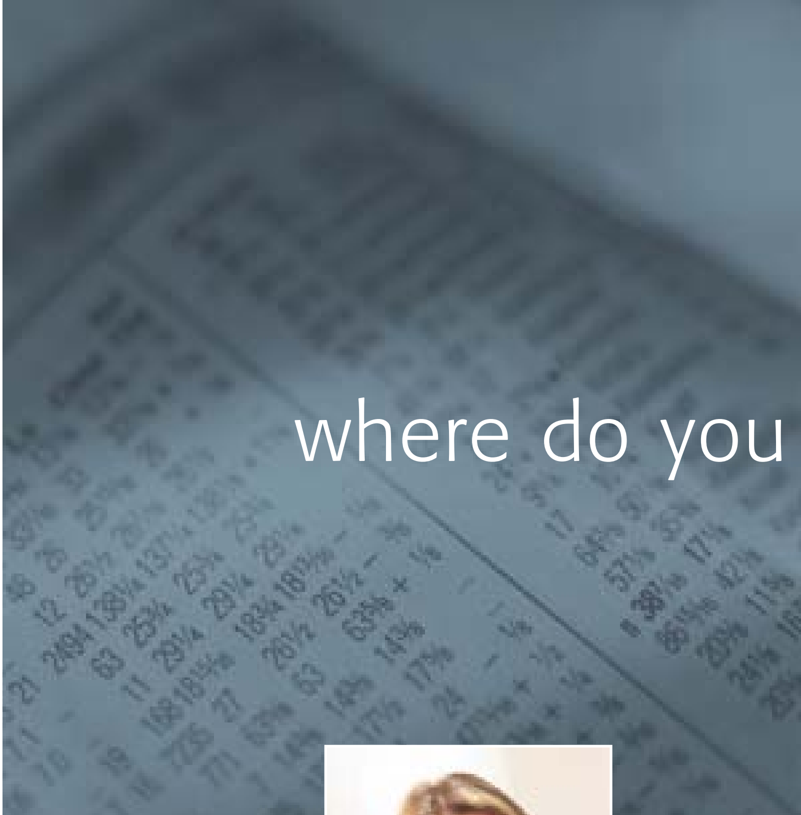
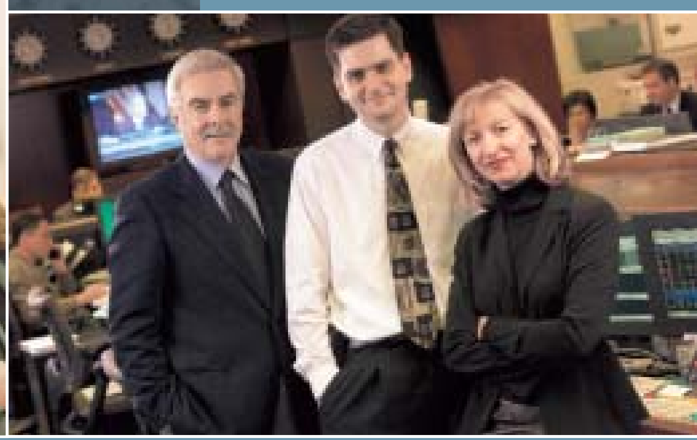




OMERS

Annual Report 2001



where do you look for
certainty?



More than 300,000 municipal employees and retirees from across Ontario count on OMERS to provide them with confidence in their financial future.

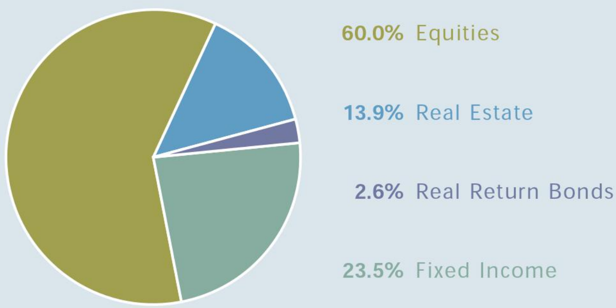
Our job, through prudent and responsible management, is to ensure their trust and to deliver on their confidence.

We outperformed our benchmarks

in virtually all asset classes, despite the poor performance of the equity markets. As our pension payroll increases, our investments continue to provide the long-term results needed to pay guaranteed benefits.

ASSET MIX AS AT DECEMBER 31, 2001

Our diversified investment portfolio minimizes risk, generates stable returns and ensures we can keep contribution rates low.

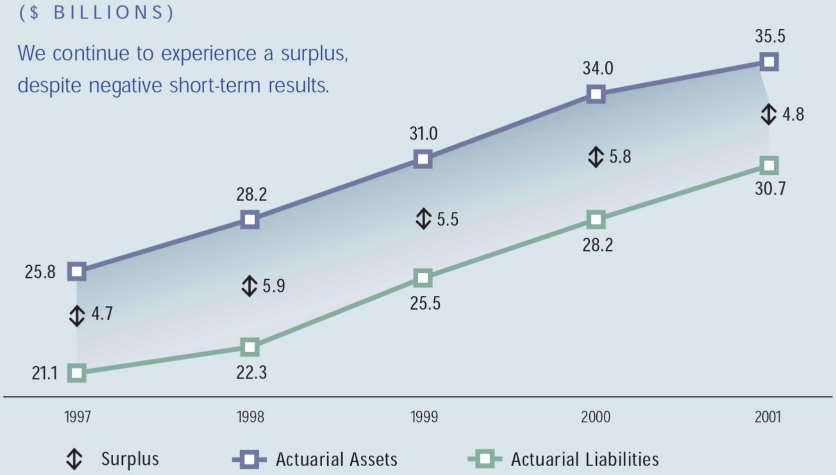


Net of investment liabilities

ACTUARIAL ASSETS AND LIABILITIES AS AT DECEMBER 31

($ BILLIONS)

We continue to experience a surplus, despite negative short-term results.

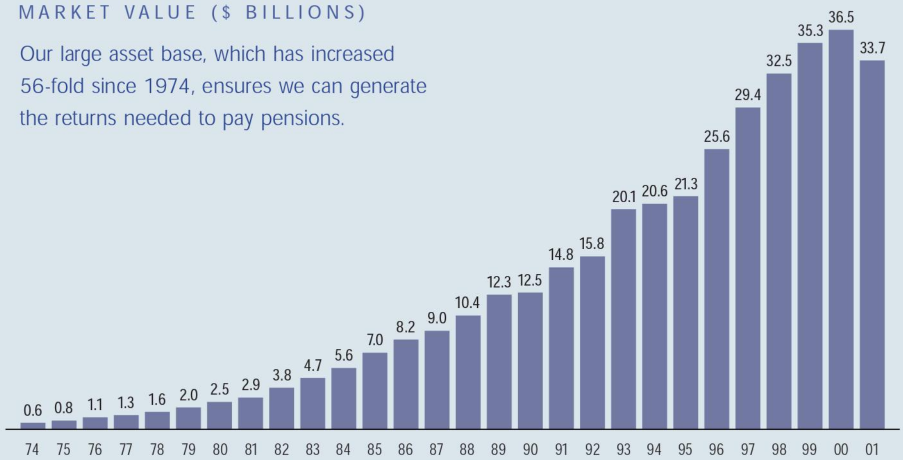


ONE YEAR

INVESTMENT ASSET GROWTH FROM 1974

MARKET VALUE ($ BILLIONS)

Our large asset base, which has increased 56-fold since 1974, ensures we can generate the returns needed to pay pensions.

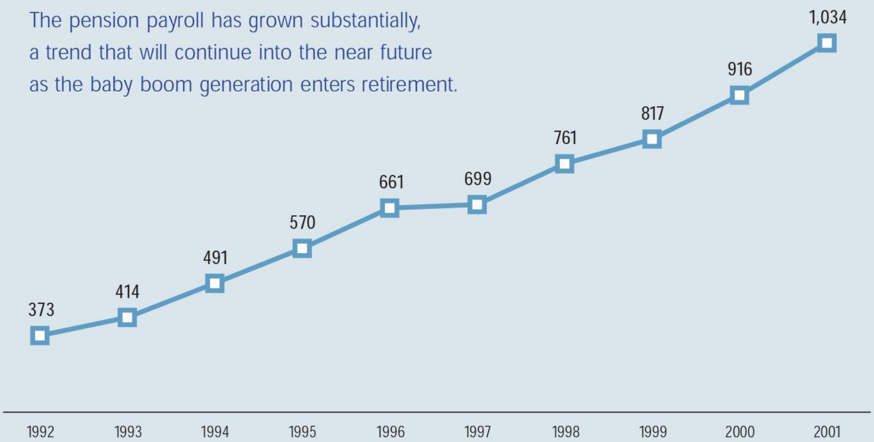


Net of investment liabilities

GROWTH IN PENSION PAYROLL

($ MILLIONS)

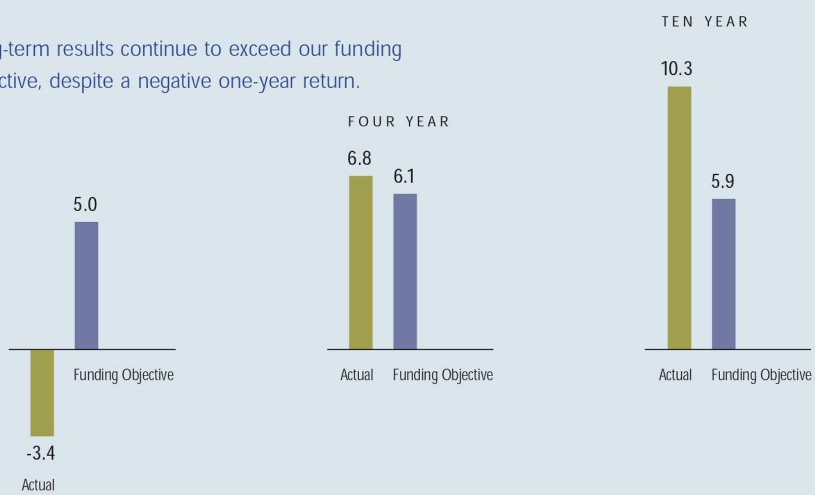
The pension payroll has grown substantially, a trend that will continue into the near future as the baby boom generation enters retirement.



OMERS RATE OF RETURN VS. FUNDING OBJECTIVE

%

Long-term results continue to exceed our funding objective, despite a negative one-year return.



Plan for the future

OMERS once again ended the year in a solid financial position, despite highly volatile and generally negative equity markets in 2001. Member pensions remain totally secure and we continue to provide good benefits at relatively low cost.

Secure pension—tough choices □ Protecting the plan's security is always our number one priority. We want to make sure that the plan has the funds to meet all current and future pension obligations, and that the investment strategy pays as much attention to preserving capital as it does to maximizing returns.

The negative performance of equity markets in 2001, exacerbated by uncertainties created by the events of September 11, prompted a review of the financial impact of plan changes announced in 2000. The Board decided that it would proceed with the contribution holiday until December 31, 2002, and will continue with the relatively low-cost plan to phase out the early retirement program more gradually.

Our most difficult decision was to defer $1.4 billion in improved pension benefits from a lower Canada Pension Plan (CPP) offset, along with a matching $1.4 billion contribution credit for employers imposed by the government. We knew that retirees would be disappointed. But our active and retired members can remain confident that their future income security is guaranteed regardless of the fluctuations of the capital markets.

Moving toward autonomy □ One of the Board's most important roles is to determine OMERS future strategic direction. In 2000, the government of Ontario asked the Board to consult with employers, employees, retirees and their associations and recommend the best way to transfer the province's responsibility for Board appointments and plan changes to those who pay for the plan. We undertook an extensive consultative process in 2001, and will make a recommendation to the government in 2002.

Our track record of success demonstrates that we already have an effective governance structure in place, but we need a "made-in-OMERS" solution to ensure plan sponsors (and not the province) assume responsibility for its future.

Acknowledgements □ On behalf of the Board, I thank management for their professionalism and hard work in meeting the challenges of the past year. Thank you to all OMERS employees for building such confidence in our future.

Walter Borthwick
CHAIR

Confident

At its heart, OMERS is about the financial security of our members. We know we play an important role in achieving their retirement goals—a responsibility we take seriously.

We have a history of first-rate investment results, responsive pension services, good governance practices and accountability to plan participants through a jointly managed Board. But how do we continue to deliver the certainty our members expect?

Contents



Security & Value

□ Our first priority is, and will always be, to preserve the security of the OMERS pension plan. Our members need to know their benefits will be there when they retire. OMERS provides competitive benefits that deliver real value for the level of contributions paid by employers and active members.

Performance & Strength

□ Our long-term investment returns consistently exceed the plan's funding requirement. We tightly manage risk to meet the plan's future financial obligations by paying as much attention to preserving capital as we do to optimizing returns.

Overall excellence □ OMERS continues to make major gains in customer service excellence — faster service, more personal service, and greater access to information. The expansion of user-friendly electronic communications will drive customer satisfaction to new levels. We are among Canada's top 100 employers. This recognition is built on our commitment to attracting and retaining the best talents in plan administration, investment and risk management, and corporate leadership.

The future is our business

OMERS continues to build a confident future based on our 40-year track record of earning reliable, long-term investment returns and providing responsive service to our customers. Our optimism is reflected in the new OMERS logo introduced last year and the accompanying statement "Plan for the Future," which expresses both our commitment to members and the hope that they will prepare for their own retirement as well.

An enviable investment reputation □ We have an enviable reputation as a successful and focused investment organization. We have maintained a large and strong asset base despite delivering improvements like guaranteed inflation protection for retirees and a substantial cash savings to employers and active members during the past three-and-a-half-year contribution holiday. All pension benefits, totalling $3.6 billion during that period, were paid solely out of investment income.

The investment function remains the driving force behind the plan's financial viability. I urge members to read the investment sections of this report. We made important decisions in 2001 to reduce the impact of volatile public equity markets by maintaining strong asset allocations in private equity, real estate and other assets that help produce more stable income. We shifted funds from Canadian

public equities to U.S. and international equities where we believe the returns will be higher and less volatile over the next several years. At the same time, we introduced programs to hedge foreign currency fluctuations as part of our efforts to manage risk and stabilize returns.

These actions are consistent with our philosophy of earning a level of investment returns that meets all current and future pension obligations. We do not believe in taking on more investment risk than makes sense for the plan's financial viability. We are well positioned to work through uncertainties in the world economy and capital markets over the next few years, when investment returns are expected to be more modest than those we enjoyed during the 1990s.

Improved customer relations □ Forming more productive and responsive relations with employers, active members and retirees has been a priority during the past few years. We are pleased with the progress being made, though much remains to be done.

Plan participants want more information and they want it faster, especially through electronic channels. In the past several years we have invested in new technology and staff training, and in revitalizing our pension administration organization. As discussed in the Pension Services section, this has already produced impressive improvements in service speed and quality.

The real payoffs are yet to come, especially now that our Board has designated customer service as a key corporate priority under our new three-year strategic plan.

Despite recent progress, we are still in the early days of the e-business world. We are moving methodically to design and deliver a richer Internet-based choice of secure and cost-efficient customer services.

The emphasis on customer service excellence, supported by an electronic delivery infrastructure, will ensure that employers and members realize measurable improvements in service.

Excellent value □ Our normal contribution rates are lower than other major public sector pension plans in Ontario — and yet we score very well on the value we deliver. For example, we continue to offer the most attractive unreduced early retirement incentives. Our survivor benefits exceed many plans and few plans offer the same guaranteed inflation-protection. And, of course, we differ from virtually all plans by sharing a portion of the surplus with active and retired members and employers through a contribution holiday and benefit improvements.

We are proud of our track record of maintaining contribution rates while enhancing plan benefits in a responsible manner.

Acknowledgements □ I thank our Board for their leadership during a challenging year and for making the difficult decisions necessary to ensure the plan's ongoing security. I also thank our employees for making solid gains in the quality of our customer service, including building innovative Internet solutions for all our stakeholders. Our investment professionals remained true to the prudent principles that once again enabled OMERS to earn higher returns than those offered by the markets in which we invest.

Dale E. Richmond
PRESIDENT AND CEO

Building confidence with our customers

OMERS has built advanced technology systems and reorganized its pension administration to successfully manage higher business volumes and deliver faster and more complete service. In 2002, we will begin to leverage this new foundation to deliver even greater efficiencies in pursuit of our goal of customer service excellence.

We already have a high level of interaction annually with active and retired members — meeting with more than 10,000 individuals and answering in excess of 100,000 telephone calls and 4,000 e-mails. Our routine contact with almost 1,000 employers includes training sessions with their staff to share new administrative efficiencies.

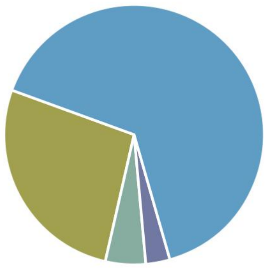
Our challenge is to respond to service demands that continue to increase as benefits change, more members opt for early retirement, members seek more information about their retirement options, more retirees ask about the security of their pensions, and employers look for easier ways to report. Our solution is to build a customer service organization that will increase employer and member satisfaction in dealing with OMERS.

Progress toward excellence □ In the past year, we have made good progress on improving customer service. For example, our average turnaround for processing retirement benefits declined from 18 days at the start of the year to seven days by year-end. We also substantially reduced the number of days it takes to process a retirement quote from 32 days in January to one day by year-end.

Another example of performance gains is a pilot program that enables employers to electronically access and view member files on our system and determine the status of any claims they have submitted. This service will be offered to all employers in 2002, supported by a training program for their staff.

Many other smaller gains symbolize our improving customer-centric culture, such as piloting the distribution of newsletters directly to plan members rather than through their employers. We conducted a major review of our phone systems in 2001 to find better ways of handling the rising volume of calls. A dedicated call centre, staffed by highly trained specialists, will be created over the next two years.

MEMBER PROFILE



65%	Active	201,937
3%	Deferred	9,432
5%	Inactive	16,166
27%	Retired/ Survivor	84,513
		312,048 TOTAL

We will track customer satisfaction on calls and transactions beginning in 2002 to ensure that we are being responsive to stakeholder expectations, and continue to build the type of service organization that meets their needs.

Faster member service □ Surveys in 2001 confirmed that both active and retired members agree we provide accurate and useful information and keep them informed regularly — though they would like faster and more personalized service.

Most members are technologically savvy and the web site is emerging as a key source of information sharing. Extensive benefits information is now available on-line. Last year we added an electronic *Pension News* option and a dialogue area where members can share their experiences on retirement planning.

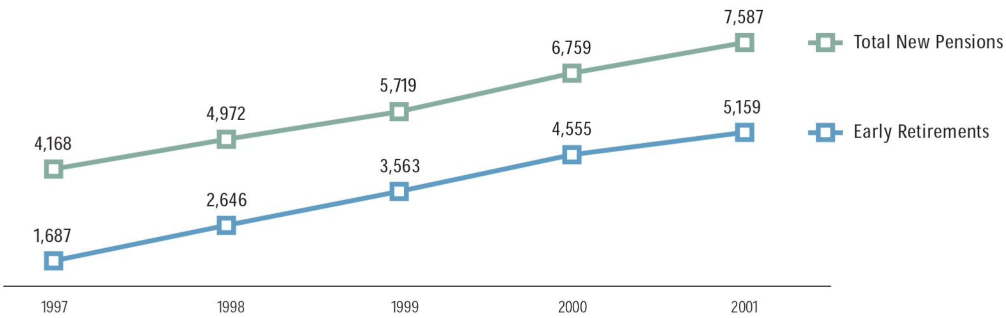
A popular feature is the Estimator, our pension calculator launched in 1999. It now attracts about 11,000 hits per month. This industry-leading pension planner enables members to calculate their retirement options well into the future.

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

Employer support □ Our research also confirmed that employers appreciate our success in keeping contribution rates low, feel well informed on plan changes, and applaud the accuracy of data. But they too would like faster service as well as greater accessibility to OMERS as their confidential advisor on pension matters.

Our custom-designed Membership Services System has already proven itself by facilitating higher service standards. Each month we post on our web site our record in achieving predetermined member service standards. The Customer Service Monitor is the first public accountability report of its kind in the pension industry and illustrates the competitive attitude that drives our commitment to innovative service.

NUMBER OF RETIREMENTS IN PAST FIVE YEARS



The new levels of service efficiency have considerably reduced the average time it takes to process retirement claims. Similar gains in processing time have been achieved in handling termination claims, pension quotes, disability claims, and buy backs.

In 2002, we will focus on further improving customer service through better information flow and document handling, as well as faster transfer of data.

The pension contract

□ The basic pension guaranteed by OMERS is based on 2% of the average of the member's best consecutive five years of earnings multiplied by the number of years of credited service, to a maximum of 35 years. Those with 35 years of credited service no longer contribute. OMERS provides an additional bridge benefit to members who retire early, roughly equal to the Canada Pension Plan (CPP) benefit they will receive at age 65. At age 65, the OMERS pension is integrated with the CPP.

The pensions of individual members vary greatly, reflecting the inherent diversity of the OMERS plan. The average salary in 2001 was about $44,700 and the average new pension was $17,912. This reflects the average years of service of new pensioners since the majority of members retire with much less than the maximum years of service.

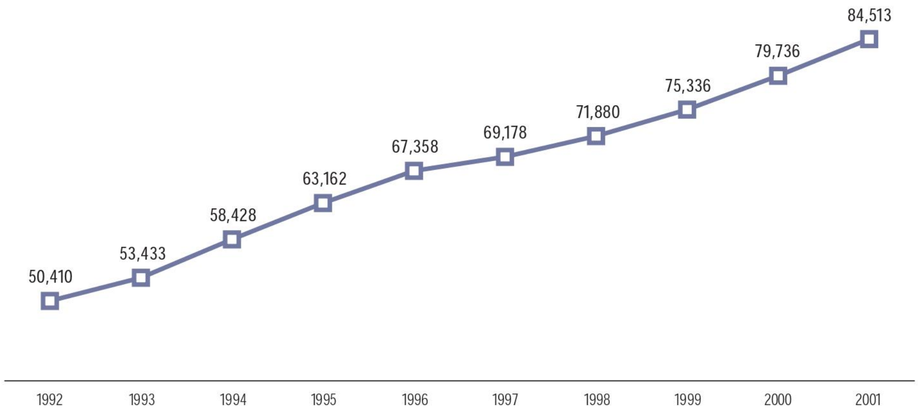
The pensioner payroll grew by $118 million to more than $1 billion in 2001 as the pensioner population expanded by 6% to 84,513 people, including members receiving disability pensions, surviving spouses and dependent children.

Of the 7,587 new retirements processed in 2001, 68% were early retirements. That compared with 6,759 new pensions in 2000, of which 67% were early retirements.

Status of plan improvements

□ The contribution holiday for employers and active members introduced in August 1998 is now scheduled to continue until December 31, 2002, based on the latest actuarial plan valuation.

GROWTH IN NUMBER OF PENSIONERS



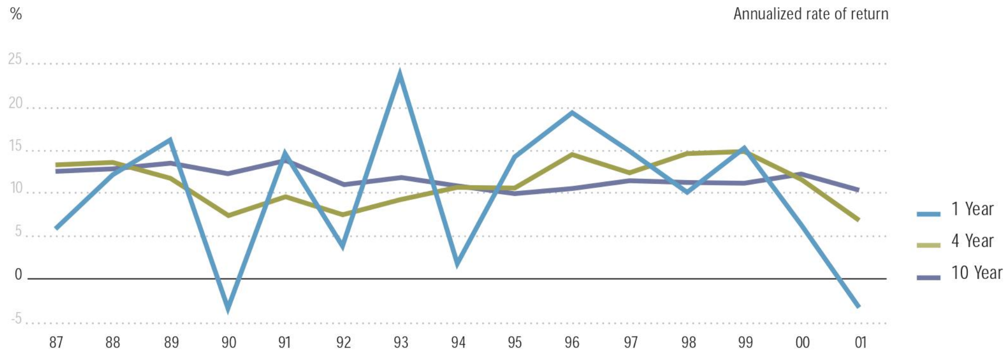
When contributions resume, rates are expected to rise gradually, returning to normal in three years. For members eligible to retire at 65, the normal contribution level is 6.0% of salary up to the Year's Maximum Pensionable Earnings (YMPE), and 7.5% after that. For members eligible to retire at 60 (police officers and fire fighters), it is 7.0% of salary up to the YMPE and 8.5% beyond that. The YMPE for 2002 is $39,100.

In 2001, the Ontario government approved our proposal to more gradually phase out early retirement incentives. Members within 15 years (instead of the normal 10 years) of their retirement age, providing they have the necessary combination of age and years of service, can retire early without penalty up to December 31, 2003. This initiative has helped members and employers during a period of prolonged restructuring in the municipal sector.

Last year, we increased pension payments by reducing the formula used to integrate the OMERS benefits with the Canada Pension Plan when a member turns 65. We also received provincial approval to proceed with a further reduction in the CPP offset. However, because of current economic conditions, as discussed in the Chair's Report, the Board has put the new pension improvement on hold.

A confident investment strategy

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



The depth of expertise in our investment organization and the soundness of our investment strategy showed their true value in 2001, a year of unprecedented disruption in equity markets around the world.

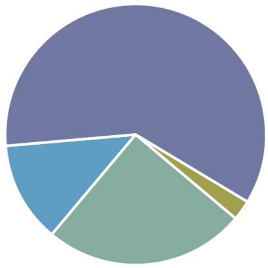
Our priority is to preserve the capital entrusted to us and earn reasonable returns over each market cycle to meet the plan's long-term pension obligations. In 2001, OMERS added measurable value to the plan. Based on our historical record, we are among the most consistent long term performers in the pension industry.

Investment objective □ Every year, an independent actuary calculates the plan's funding requirement to ensure that the value of invested assets exceeds the present value of all pension benefits promised to members. This funding requirement is currently set at 4.25% annually above the rate of inflation. Although Canadian inflation has been low in recent years, it is projected at 3% annually over the long term. Therefore, the nominal investment target for the next several years is 7.25%.

We aim to earn more than the funding requirement so that the plan maintains a surplus of assets over pension costs as a contingency reserve against the risk of short-term declines in investment values. The surplus helps to keep contribution rates stable over the long term.

Investment philosophy □ We follow a prudent, risk-managed investment policy. With a clear focus on earning investment income to pay pensions over the next 20 or 30 years, our investment professionals understand the level of risk we need to assume and manage to achieve the plan's long-term investment objective. This understanding is reflected in our asset mix policy, which spreads risk over a variety of asset classes. The asset mix chosen by OMERS is the one most likely to meet current and future pension obligations without causing an increase in the level of payroll contributions by members and employers.

ASSET MIX POLICY



Changes to asset mix □ In 2001, we made important changes to our asset mix, summarized in the following table. Each asset class has a different risk/reward profile, as well as a different time frame for producing optimum returns.

	2000 (%)	2001 (%)
Canadian equity	35.0	25.0
Foreign equity	25.0	35.0
Canadian debt	20.0	25.0
Foreign debt	5.0	0.0
Real return bonds	0.0	2.5
Real estate	12.5	12.5
Cash	2.5	0.0
	100.0	100.0

The largest portion of assets at 60% is committed to equities. As we experienced in 2001, publicly traded equities can be highly volatile in the short-term. However, despite short-term volatility and occasional negative returns, equities are expected to produce better returns than bonds and real estate over the long term.

In the first quarter of 2001, we moved a portion of our Canadian equity funds into foreign equities under our revised asset mix. The re-allocation anticipates that foreign equities will perform better than Canadian stocks over the long term and offset some of the volatility, thus lowering overall risk. Our debt holdings consist primarily of bonds, which are generally less risky and volatile than stocks. Bonds provide steady income as well as the return of the original capital at maturity.

Real estate has historically been an effective hedge against inflation, offsetting the indexed nature of pension benefits. Commercial real estate is also expected to deliver returns between those of bonds and stocks. To enjoy these advantages, we have increased our real estate holdings to the upper limit of the asset mix policy.

RATES OF RETURN vs. BENCHMARK IN EACH ASSET CLASS

Real return bonds earn inflation-adjusted returns and are the closest match with indexed pension payments, particularly with most issues maturing over 20 years. While attractive to a pension plan with indexed benefits, issuance of these products has been scarce.

Foreign exposure □ On a market value basis, approximately 35.9% of total assets were invested outside Canada through direct investments and derivative contracts. The increase from 27.6% a year earlier reflects our belief that international diversification is likely to produce better results over the long term. Our asset mix at cost is in full compliance with the federal government's foreign property limit of 30% for 2001.

With this portion of total assets at market value now allocated to foreign equities, our investment returns could be impacted by foreign currency movements. We introduced a hedging program in 2001 to protect foreign investment returns (and the surplus) from fluctuations in the Canadian dollar relative to other currencies. The program hedges 50% of the foreign exchange risk in 16 currencies in which we invest. In previous years, when our foreign exposure was substantially less, we did not hedge foreign exchange fluctuations. This worked in our favour because persistent declines in the value of the Canadian dollar in recent years produced higher investment returns. Going forward, we believe it is prudent risk management to hedge our currency exposure.

Equities □ We invest in publicly traded equities through both actively managed portfolios and indexed stock funds as well as in private equities.

We concluded 2001 with $14.1 billion invested in the shares of Canadian and foreign publicly traded companies. Approximately 52.9% of these stock holdings were outside Canada as we diversified risk beyond Canada's small and closely owned equity market. Foreign investing also enables us to invest in a wider choice of economic sectors than those available in Canada.

Actively managed stocks: Our actively managed Canadian stock portfolios are 94% managed by internal staff and 6% by external managers with expertise in particular market niches. These portfolios decreased by $3.6 billion to $5.2 billion in 2001 as we reallocated funds to foreign equities and markets declined. The portfolios contained the shares of approximately 190 publicly traded companies. We are primarily a value investor focused on buying and holding the shares of established and profitable companies that can produce reliable long-term returns. However, our investment professionals have the discretion within approved asset allocation guidelines to take advantage of short-term trading opportunities to generate added portfolio value.

Our actively managed foreign stock portfolios are managed by investment specialists knowledgeable about regional and national markets in the United States and globally. In 2001, these portfolios grew by $0.5 billion to $5.5 billion and contained approximately 1,050 stocks. We select individual companies based on value, and portfolio risk is reduced by investing in different economies around the world. Approximately 50% of our foreign equity exposure is in the United States, with the remainder split between Europe, the Far East and emerging markets.

Indexed stock funds: While OMERS is primarily an actively managed fund, buying shares to replicate a recognized stock index is a cost-efficient way to invest in the markets. In Canada, we invest $1.4 billion in the shares of the companies that make up the TSE 300 Index. Outside Canada, our index investing of $2.0 billion focused on the Russell 1000 Index of companies in the United States.

Merchant banking: We continue to expand our equity and debt holdings in private companies. At the end of 2001, OMERS had $1.3 billion invested in Canadian and foreign private equity and $0.3 billion in private debt. Private equity is expected to provide higher risk-adjusted long term returns than those available from publicly traded equities.

One of our principal vehicles for infrastructure investments is Borealis Capital Corporation, one of Canada's largest merchant banks. In 2001, we reduced our ownership of Borealis to 27% with other major corporate entities and the Borealis management team owning the remaining shares. As a strategic investor, we are able to participate in the returns generated by Borealis' financial and strategic support of start-up and growth companies offering technological innovation.

Fixed-income investments

□ We manage a $13.7 billion fixed-income portfolio of various Canadian government and corporate bonds, mortgages, cash and short-term instruments. Because the supply of government debt has declined as governments reduce or eliminate deficits, the proportion of the portfolio committed to corporate bonds has expanded in recent years. At the end of 2001 we had $2.6 billion invested in corporate debt securities.

Real return bonds □ In 2001 we expanded our holdings of real return bonds to 2.6% of the fund's assets, approximately equal to our target allocation for these securities. Because these bonds pay a return that adjusts with the inflation rate, they are an ideal match with our indexed liabilities.

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

The notional value of derivative contracts in 2001 was $20.6 billion, compared with $7.8 billion a year earlier primarily due to the introduction of our currency hedging program. Net credit risk exposure at year-end was $147 million, or 0.4% of the fund. Extensive monitoring and control processes are in place to manage risk.

Real estate □ Real estate is one of the best investment assets available to match our liabilities. It generates superior returns over the long run, acts as a hedge against inflation, produces regular cash flow from the rental income stream, and generally has lower volatility than stocks and bonds. The cash flow alone from rental income was sufficient in 2001 to pay 33% of all pension benefits.

We own one of the largest and most diversified real estate investment portfolios in Canada. The portfolio contains 125 properties, including major shopping centers, office buildings, multi-residential apartment complexes and industrial properties.

This portfolio was strengthened by the acquisition of Oxford Properties Group late in 2001. The purchase expanded the effective value of our real estate assets from $4.7 billion to $8.2 billion. We had previously owned 17% of Oxford. We have retained Oxford Properties as a premier property management brand.

Our total real estate exposure also includes equity in Canadian and U.S. property companies, as well as real estate investment trusts (REITs). Consistent with our commitment to global investing, we are diversifying internationally through real estate investment funds.

Socially responsible investing □ As an active equity investor, we consider the potential impact of non-financial factors on future returns. This is done as part of our due diligence research of a corporation as well as our monitoring of its ongoing performance.

Our *Investment Practices* booklet, updated in 2001, articulates our position on socially responsible investing. OMERS believes that well-managed companies are those that demonstrate respect for their employees, the environment, the communities in which they do business, and for human rights, as well as meeting financial standards. As a result, we believe that companies should account for their behaviour and its implications for the creation of value. In fact, we support the notion that companies should publish and update in their annual reports their policies and procedures with respect to social, ethical and environmental issues that materially affect performance.

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

Corporate governance

□ We believe in voting the shares we beneficially own on behalf of plan members to enhance their long term value. Senior OMERS staff vote all shares we own either directly or through the services of a specialized external agency.

Our *Proxy Voting Guidelines* were updated in 2001 and are posted on our web site. They set out our policy on various corporate governance matters and indicate how we will likely vote on individual issues. The guidelines are intended to be a flexible response to proposals by management and shareholders by taking a company's specific circumstances into consideration. As a rule, however, we oppose the granting of excessive stock options and the repricing of options when share values decline. We also object to takeover protection measures that might prevent the realization of full shareholder value. The following table summarizes our voting record in 2001 on key proposals put to the shareholders of Canadian and U.S. companies.

	Total Issues	For Management	Against Management	Abstain
Options programs	306	102	204	0
Insider Directors on committees	161	0	161	0
Options repricing	12	0	12	0
Social, ethical, environmental	71	19	38	14
Other issues	692	516	176	0
TOTAL	**1,242**	**637**	**591**	**14**

Board Mandate and Structure

[a] Board Mandate

OMERS mandate is set out in the *OMERS Act and Regulation*. Board responsibilities include:

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

[b] Board Membership

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

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

[c] Board Accountability

Most of the thirteen current members of the Board are Plan members—a constant reminder that policies and decisions must be in the best interests of stakeholders.

There are meetings nine times each year plus two annual strategy sessions. Board attendance in 2001 was close to 100%. The Board holds two regional meetings a year with Plan participants and conducts extensive consultations on key issues such as surplus and autonomy.

[d] Board Committees

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

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

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

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

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

Walter Borthwick, left
John Sabo

Rick Miller, left
Susan O'Gorman

Bill Rayburn

David Kingston, left
Peter Leiss

BOARD MEMBERS

Employer Representatives

■ Walter Borthwick, Chair
Town of Wasaga Beach

■ Bill Rayburn
County of Middlesex

Marianne Love
Association of Municipalities of Ontario

Frederick Biro
Peel Police Services Board

John Sabo
York Catholic District School Board

Dennis Neethling
Township of East Ferris

Roger Richard
Limestone District School Board
(until September 2001)

Employee Representatives

■ Peter Leiss, Past Chair
Canadian Union of Public Employees

David Carrington
Canadian Union of Public Employees

Susan O'Gorman
Ontario Nurses' Association

■ Rick Miller
Ontario Professional Fire Fighters
Association

Dick McIntosh, Retired Member

David Kingston
York Regional Police

Government of Ontario Representative
Nancy Bardecki

■ Members of Executive Committee

David Carrington, left
Marianne Love

Fred Biro, left
Dick McIntosh

Dennis Neethling, left
Nancy Bardecki

SENIOR OFFICERS

Dale E. Richmond
President and CEO

Michael Beswick
Senior Vice President
Pensions

Wayne Gladstone
Senior Vice President
Finance and Administration

Tom Gunn
Senior Vice President
Investments

Debbie Oakley
Senior Vice President
Corporate Affairs

ADVISORS TO THE BOARD

Actuary
Watson Wyatt Worldwide

Auditors
KPMG LLP

Legal Advisor
Osler, Hoskin & Harcourt LLP

Master Custodian
State Street Canada Inc.

Medical Advisor
Dr. D. Lewis

Governance Track Record

[a] Governance Sub-Committee
The Board Governance Sub-Committee was established in 1998. It consists of the chair, first vice chair, immediate past chair and vice chairs of the pension, management and investment committees. The Sub-Committee reviews annually the mandate of the Board and its committees, evaluates the orientation and education programs, and reviews the composition, qualification, compensation and nomination process for Board members. It conducts a bi-annual Board self-evaluation with the assistance of independent consultants.

[b] Board Self-Evaluation
In April 2001, the Board conducted its second Board Effectiveness Survey, with a 100% response rate. The 2001 survey was conducted by independent consultants, and was based on a "best practice" approach using key dimensions of corporate governance in the financial and pension plan governance arena. The Governance Sub-Committee has stewardship for implementing the recommendations.

[c] Board Independence
The Board has access to outside experts in plan administration and fund investment to assist them in undertaking their oversight responsibilities.

The Board appoints the CEO, who is not a member of the Board, and reviews his performance annually. The Board appoints the auditor, custodian, and actuary, and regularly solicits legal advice. The Board holds regular in camera meetings.

The Board has responsibility for strategic direction setting, stewardship and oversight. Day-to-day management of OMERS is delegated to the CEO.

[d] Time Spent Analysis
The Board conducts an annual analysis of the percentage of time devoted to future planning vs. retrospective analysis and reviews of performance. The analysis is used to regulate an appropriate balance of activities.

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

Governance Improvements in 2001

The year 2001 saw a number of significant improvements in governance practices, which built upon the strong foundation already in place at OMERS:

[a] development of a Corporate Governance and Oversight Framework to ensure appropriate Board oversight of strategies, policies and reporting.

[b] adoption of a framework for Enterprise Risk Management to identify, manage and monitor risk.

[c] development of new succession and contingency plans for senior OMERS executives.

The cost of all current and future pensions is estimated on a regular basis to ensure the plan has enough money to pay secure pensions.

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

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

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

Calculating the surplus □ The present value of accrued liabilities is deducted from the actuarial value of assets to calculate the actuarial surplus. From this, 5% of liabilities is set aside in a Funding Stabilization Reserve as a cushion against volatile investment returns, or a surprise change in the liabilities through demographic variations, such as accelerated early retirements. A contribution deficiency reserve of $1,691 million has been established to assist in the management of future contribution short-falls.

(Millions)	2001*	2000
Surplus, beginning of year	**$5,804**	**$5,469**
Change in net assets available for benefits	(2,632)	945
Change in actuarial fair value adjustment	4,152	2,044
Increase in actuarial value of net assets available for benefits	1,520	2,989
Less: net increase in accrued pension benefits	2,520	2,260
Less: change in contribution liability	43	394
Surplus, end of year	**$4,761**	**$5,804**

*Projection based on 2000 valuation and changes in assets and benefits during 2001.

Fund Performance

□ Our long term goal is to exceed the funding requirement of 4.25% plus the rate of inflation as measured by the Consumer Price Index. Our timeframe for doing this extends over several decades and involves selecting investment assets to pay retirement income to all current plan members during their lifetime. As a result, we focus on long-term investment performance.

Over the past 27 years, since OMERS was empowered to pursue an active investment policy, the fund has achieved a compounded annual rate of return of 10.7%. During the past 10 years, the return was 10.3%. These long-term returns are well above the level required to keep the plan fully funded.

Returns are also measured in the short-term to monitor performance in volatile markets. If short-term returns deviate unusually from market results, we can refine the investment policy and asset mix to better balance fluctuations over the long term.

In 2001, our annualized rate of return for four years (a standard in the pension fund industry) was 6.8%. This exceeded the four-year funding requirement of 6.1%. The one-year return for 2001 was a negative 3.4%, compared with a positive 5.0% for the funding requirement. Though we recorded a negative one-year return, we nonetheless succeeded in outperforming the markets and beating the fund benchmark of negative 4.2%. Our real estate and fixed income portfolios recorded strong returns, however the gains were offset by the poor performance of the equity markets.

Investments at market value totaled $37.2 billion at the end of 2001, nearly $0.5 billion greater than the previous year. Investment assets rose in 2001, despite declining equity markets, due to the purchase of Oxford Properties, which added $4.2 billion of assets and a corresponding $2.5 billion of debt. Approximately 63% of gross investment assets were non-interest bearing, including equities and real estate. Bonds, mortgages and short-term deposits that produce interest income comprised the remaining 37%.

Asset class performance vs. benchmarks

□ A short-term goal is to add value 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 themselves. These benchmarks are aggregated and weighted to conform with our asset mix policy to provide a benchmark for the total fund.

Our $13.7 billion Canadian fixed-income portfolios performed well with an 8.1% return in 2001, versus 7.8% for the benchmark (the Scotia Capital Bond Universe Index and the Scotia Capital 30-Day T-bill). The gain of 25 basis points primarily reflected an overweight position on corporate and provincial bonds over Government of Canada bonds.

In the equity category, our total Canadian stock portfolio did slightly better at minus 11.4%, than the benchmark of minus 11.7% (a blend of the TSE 300 Index, the Nesbitt Burns Small Cap, the TSE 60 and custom private placement).

Within the stock portfolio, our merchant banking operation posted a return of 0.0%, surpassing the negative 7.2% benchmark (the TSE 300 Index adjusted). Over the past four years, merchant banking has earned an average annual rate of return of 11.0%, more than double the 4.7% for the benchmark.

Our foreign portfolios had a total return of minus 9.9%, bettering the minus 10.4% benchmark (based on the Russell 3000 Index in the U.S. and the Goldman Sachs Global Index, excluding Canada and the U.S.). Our actively managed U.S. portfolios, which make up about half of the $7.5 billion in foreign equities, added good value, while non-North American equities performed poorly.

The real estate portfolio had another strong year with a 13.5% return in 2001, following the 14.5% earned in 2000. The 2001 performance compared with a 7.9% return for the benchmark (85% of the five-year smoothed CPI plus 4.75%, and 15% of the TSE 300 Real Estate Sub-index). We expanded our portfolio of high-quality properties late in October 2001 through the acquisition of Oxford Properties Group. Real estate assets totaled $8.2 billion at year-end, before $3.6 billion in related mortgages and other debt, and are expected to generate reliable and growing value added in future years.

Growth in liabilities □ The actuarial present value of accrued pension benefits totaled $30.2 billion at the end of 2001, a 9.1% increase over the previous year. In the 2000 valuation, an additional provision of $0.4 billion was made to establish an actuarial contribution liability reserve, which covers the anticipated differential increase in the actuarial cost caused by the Baby Boom generation moving through the OMERS active membership.

The plan's financial obligations to active, retired and former members have grown substantially in recent years, a trend that will continue as the Baby Boom generation enters retirement and members take advantage of early retirement enhancements.

Cash flow □ We received $1.6 billion in cash flow during 2001 (similar to the previous year) from interest, dividend and rental property income. The cash flow was more than sufficient to meet the $1.2 billion in pension benefit obligations during the year.

Future cash flow will improve as the contribution holiday expires and employer and member contribution rates gradually return to normal. In addition, our increased investment in real estate is expected to generate a larger and more reliable source of cash in the form of rental income.

Change in net assets □ Overall, we outperformed the markets in 2001, adding a total of 76 basis points, or more than $250 million, to the fund. However, the plan's net assets decreased by $2.6 billion to end the year at $33.2 billion.

We experienced a $1.3 billion loss in net investment income. Equities lost $2.8 billion, while fixed income securities and real estate earned $1.5 billion.

The decrease in net assets was a result of several factors, including the worst market decline in decades. In addition, there was a rise in pension costs because of benefit improvements and an increase in the number of retirees, with a total of $1.2 billion in benefit payments paid out in 2001, an increase of $148 million from the previous year. We collected no normal contributions due to the continuation of the holiday begun in August of 1998.

A total of $85 million in administrative costs was also deducted from net assets, compared with $73 million a year earlier (Administrative expenses are tabulated in note 13 to the financial statements). The increase was primarily due to the expansion of our e-business and members' services, reflecting our commitment to customer service excellence.

Actuarial Cost Certificate

AS AT DECEMBER 31, 2001 FOR THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 2000 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purposes of the valuation were to determine the funded status of OMERS as at December 31, 2000 and to examine the adequacy of the ongoing contribution structure to maintain OMERS in a satisfactory actuarial and financial position.

The results of the actuarial valuation of the registered pension plan benefits disclosed total going concern Actuarial Liabilities of $28,428.707 million in respect of benefits accrued for service to December 31, 2000 (including liabilities of $325.210 million in respect of plan amendments made in 2001). The Actuarial Assets at that date were $33,954.293 million indicating a going concern Actuarial Surplus of $5,525.586 million, of which the Board has allocated $1,401.703 million to a Funding Stabilization Reserve and $1,637.301 million to a Contribution Deficiency Reserve. The net actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 2000 (determined using assumptions selected by the Board for purposes of the Consolidated Financial Statements) was $46.451 million, leaving an overall Actuarial Surplus of $5,479.135 million ($5,804.345 million prior to recognizing the 2001 amendments).

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

We have considered the funded position of the Plan assuming it had been wound up on December 31, 2000. In our opinion, the value of the Plan assets would have been greater than the actuarial liabilities if the Plan had been wound up on that date.

We have considered the likely development of the Actuarial Liabilities during 2001. Further, we have calculated the Actuarial Assets at December 31, 2001. In our opinion, the assets of the Fund at December 31, 2001 are sufficient to meet all the liabilities of the Plan in respect of benefits accrued for service to that date on a going concern basis and more than 97% of the corresponding liabilities on a wind up basis.

The actuarial valuation of OMERS as at December 31, 2000 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

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

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

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

Respectfully submitted
WATSON WYATT & COMPANY

Martin Brown

Martin J.K. Brown, F.I.A.
Fellow, Canadian Institute of Actuaries
February 22, 2002

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

Responsibilities of Management, the Actuary and External Auditors

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

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

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

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

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

Dale E. Richmond
President and Chief Executive Officer

Wayne Gladstone
Senior Vice President
Finance and Administration

Auditors' Report

To the Ontario Municipal Employees Retirement Board

We have audited the Consolidated Statement of Net Assets of the Ontario Municipal Employees Retirement Fund (the Fund) as at December 31, 2001 and the Consolidated Statement of Changes in Net Assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 2001 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
February 22, 2002

CONSOLIDATED STATEMENT OF NET ASSETS

(Millions) As at December 31,	2001	2000
ASSETS		
Investments (note 2)	$ 37,246	$ 36,776
Accrued income	120	145
Amounts due from pending trades	176	389
Goodwill (note 1)	460	95
Other assets (note 7)	256	85
Total Assets	38,258	37,490
LIABILITIES		
Investment liabilities (notes 2 and 4)	3,565	270
Due to administered pension funds (note 5)	487	528
Future income taxes	346	61
Amounts payable from pending trades	128	468
Other investment liabilities (note 8)	284	122
Other pension liabilities	205	166
Total Liabilities	5,015	1,615
NET ASSETS (note 9)	$ 33,243	$ 35,875

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,	2001	2000
INCREASES IN NET ASSETS		
Net investment income (note 10)	$ –	$ 2,053
Contributions (note 11)	36	30
Total Increase	36	2,083
DECREASES IN NET ASSETS		
Net investment loss (note 10)	1,335	–
Benefits (note 12)	1,193	1,045
Administrative expenditures (note 13)	85	73
Interest on investment liabilities	55	20
Total Decrease	2,668	1,138
INCREASE/(DECREASE) IN NET ASSETS	(2,632)	945
Net assets at beginning of year	35,875	34,930
NET ASSETS AT END OF YEAR	$ 33,243	$ 35,875

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

YEAR ENDED DECEMBER 31, 2001

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

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

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

b) Pensions □ The normal retirement age is 65 years for all OMERS members except police officers and 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 financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund as a separate financial reporting entity independent of the sponsors and plan members.

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

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

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

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

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

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

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

Fair values of investments are determined as follows:

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

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

Note 1 □ Summary of Significant Accounting Policies *continued*

iii) Real estate, composed primarily of income producing properties, is generally valued through an appraisal process which 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 appraisal process is carried out annually by independent appraisers in accordance with generally accepted appraisal practices and procedures.

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

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

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

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

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

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

Future Income Taxes □ Future income taxes 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 □ 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. In each year subsequent to the acquisition the value of the goodwill is reassessed and impairment, if any, is reflected in investment income.

Note 2 □ Investments

(Millions)	2001 Fair Value	2001 Cost	2000 Fair Value	2000 Cost
INTEREST BEARING INVESTMENTS				
Cash and short-term deposits	$ 4,374	$ 4,374	$ 2,907	$ 2,907
Canadian bonds and debentures	6,905	6,730	8,133	7,958
Real return bonds	875	898	773	764
Private debt	307	300	299	299
Mortgages	1,225	1,186	1,413	1,395
	$ 13,686	$ 13,488	$ 13,525	$ 13,323
NON-INTEREST BEARING INVESTMENTS				
Canadian equities	6,642	5,046	10,732	6,900
Non-Canadian equities	7,452	6,777	6,684	5,435
Real estate (note 6)	8,181	7,889	4,707	4,560
Resource properties	116	105	141	104
Canadian private equities	641	635	444	405
Non-Canadian private equities	528	442	543	434
	$ 23,560	$ 20,894	$ 23,251	$ 17,838
Investments	$ 37,246	$ 34,382	$ 36,776	$ 31,161
less: Investment liabilities (note 4)	(3,565)	(3,554)	(270)	(266)
Net Investments	$ 33,681	$ 30,828	$ 36,506	$ 30,895

At December 31, 2001, 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:

($ Millions)	2001 Aggregate Number of Investments	2001 Aggregate Fair Value	2001 Aggregate Cost	2000 Aggregate Number of Investments	2000 Aggregate Fair Value	2000 Aggregate Cost
Canadian interest bearing investments	2	$ 788	$ 782	3	$ 1,177	$ 1,164
Canadian equities	2	675	670	3	2,659	1,182
Real estate properties	3	1,083	910	3	1,148	1,000
	7	$ 2,546	$ 2,362	9	$ 4,984	$ 3,346

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

OMERS holds a number of its real estate investments through entities involving joint venture and co-ownership arrangements. The fair value of OMERS proportionate share in these assets was $4,059 million at December 31, 2001 (2000 - $2,721 million). OMERS share of the net income earned by these entities was $165 million for the year ended December 31, 2001 (2000 - $166 million) and is included in net investment income from real estate.

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.

Note 2 □ Investments *continued*

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, 2001, securities with an estimated fair value of $2,223 million (2000 - $2,845 million) were loaned out, while securities received and contractually receivable as collateral had an estimated fair value of $2,292 million (2000 - $2,987 million).

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

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

	Geographical Location		Net Currency Exposure	
(Millions - Canadian dollar equivalent)	2001	2000	2001	2000
Canada	$ 21,601	$ 26,447	$ 27,238	$ 26,471
United States of America	6,101	5,046	3,480	5,180
Euro zone[1]	1,873	1,561	946	1,523
United Kingdom	1,514	967	756	952
Japan	1,031	1,327	493	1,328
Other Western Europe	741	660	452	660
Other Pacific	420	274	185	271
Emerging Markets	400	224	131	121
	$ 33,681	$ 36,506	$ 33,681	$ 36,506

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

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

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

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

Note 2 □ Investments *continued*

	2001					2000	
	Term to Maturity						
(Millions)	Within 1 Year ($)	1 to 5 Years ($)	Over 5 years ($)	Total ($)	Average Effective Yield	Total ($)	Average Effective Yield
Cash and short-term deposits	4,374	–	–	4,374	2.21%	2,907	5.83%
Canadian bonds and debentures	742	2,348	3,815	6,905	5.34%	8,133	5.78%
Real return bonds	–	–	875	875	3.79%	773	3.52%
Private debt	1	116	190	307	6.76%	299	8.16%
Mortgages	231	355	639	1,225	5.96%	1,413	7.34%
TOTAL	5,348	2,819	5,519	13,686	4.10%	13,525	5.88%

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 33.7 per cent (2000 - 30.5 per cent) of the Canadian bonds and debentures.

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

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

Note 3 □ Derivative Financial Instruments

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

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

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

Note 3 □ Derivative Financial Instruments *continued*

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

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

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

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;

- enters into derivatives only on an unlevered basis; and

- arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or quarterly prepayments of the fair value of the contract on all derivative transactions.

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

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

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

- Notional value: represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

- Replacement cost: represents the cost of replacing, at current market rates, all contracts which have a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

Note 3 □ Derivative Financial Instruments *continued*

	2001				2000		
		Fair Value				Fair Value	
(Millions)	Notional Value	Assets	Liabilities	Credit Risk (replacement cost)	Notional Value	Assets	Liabilities
Interest rate swap contracts	$ 954	$ 6	$ (15)	$ 6	$ 927	$ 8	$ (15)
Bond index swap contracts	304	1	–	1	215	1	–
Equity index swap contracts	848	47	–	47	760	–	(51)
Equity swap contracts	15	–	(1)	–	67	–	(7)
Equity index futures contracts	4,168	–	(23)	–	2,860	5	(24)
Equity options	105	–	(4)	–	–	–	–
Bond options – written	100	–	–	–	70	–	(3)
Bond options – purchased	200	–	–	–	335	5	–
Foreign exchange forward contracts	13,943	93	(96)	93	2,581	25	(33)
Total	$ 20,637	$ 147	$ (139)	$ 147	$ 7,815	$ 44	$ (133)

All derivative instruments mature within one year except interest rate swap contracts with a notional value of $463 million that mature between 2002 and 2007 (2000 - $410 million that mature between 2001 and 2006) and $96 million that mature beyond 2007 (2000 - $34 million that mature beyond 2006).

Note 4 □ Investment Liabilities

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

Debt relating to Real Estate operations comprises:

	2001		2001 Weighted Average Interest	2000		2000 Weighted Average Interest
(Millions)	Fair Value	Cost	Rate	Fair Value	Cost	Rate
Unsecured debt	$ 367	$ 365	7.05%	$ –	$ –	–
Mortgages	1,898	1,889	7.63%	270	266	8.41%
Other secured debt	1,300	1,300	2.28%	–	–	–
Total	$ 3,565	$ 3,554	5.61%	$ 270	$ 266	8.41%

Note 4 □ Investment Liabilities *continued*

Scheduled principal repayments for each of the five years subsequent to December 31, 2001 and thereafter are as follows:

(Millions)		
2002	$	227
2003		1,535
2004		190
2005		117
2006		204
Thereafter		1,268
Total	$	3,541

Excludes net premium/(discount) on debt of $13 million assumed on acquisition of properties.

Note 5 □ Due to Administered Pension Funds

The managed pension plans which form part of the Fund are administered on behalf of The Board of Trustees of the Ryerson Polytechnic University and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and are credited with income 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 □ Real Estate Acquisition

Acquisition of Oxford Properties Group Inc. ("OPGI")

In October 2001, OMERS through its wholly owned subsidiary BPC Properties Ltd., acquired (for a cash price of $23.75 per common share) all of the common shares of OPGI that it did not already own. OPGI is a fully integrated commercial real estate operating company. OMERS had previously owned 17 per cent of the outstanding shares of OPGI on a fully diluted basis.

The estimated allocation of the fair value of OPGI's net assets acquired and the cost of acquisition is summarized below.

(Millions)		
ASSETS ACQUIRED		
Real estate properties	$	3,539
Fair value of other assets		216
Goodwill arising from acquisition		396
Total assets acquired	$	4,151
LIABILITIES ASSUMED		
Debt assumed from real estate properties	$	2,016
Other liabilities assumed		216
Future income taxes		303
Total liabilities assumed		2,535
Net assets of OPGI	$	1,616
Less: Shares previously held		258
Net Assets Acquired	$	1,358

The acquisition of net assets was financed through the use of debt (note 4).

Note 7 □ Other Assets

(Millions)		2001		2000
Real estate receivables	$	111	$	35
Real estate deferred assets		131		34
Other		14		16
	$	256	$	85

Note 8 □ Other Investment Liabilities

(Millions)		2001		2000
Real estate payables	$	184	$	51
Real estate deferred revenue		100		71
	$	284	$	122

Note 9 □ Net Assets

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

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

	2001	2000
Assumed rate of inflation	3.0%	3.0%
Assumed rate of pensionable earnings increases	4.5%	4.5%
Assumed actuarial rate of return on plan assets	7.25%	7.25%

The extrapolation of the actuarial valuation to December 31, 2001, which follows, takes account of amendments made to the plan and approved by the Provincial Government up to December 31, 2001. The 2000 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 2000.

The valuation includes a contribution liability, which has been developed in accordance with accepted actuarial practice to stabilize contributions. It is determined as the present value of the temporary increase in the annual actuarial cost over the next twenty-five years, and is subtracted from the excess of the actuarial value of net assets over the actuarial present value of accrued pension benefits before the allocation of reserves.

Note 9 □ Net Assets *continued*

(Millions)	2001	2000
Fair value of net assets at end of year *	$ 33,236	$ 35,867
Adjustment to the fair value for actuarial purposes	2,239	(1,913)
Actuarial value of net assets at end of year	35,475	33,954
Actuarial present value of accrued pension benefits at beginning of year	27,710	25,462
Interest accrued on benefits	2,028	1,845
Benefits accrued	1,081	1,030
Benefits paid	(1,193)	(1,045)
Plan amendments	325	–
Experience losses	275	418
Actuarial present value of accrued pension benefits at end of year	30,226	27,710
Actuarial contribution liability	437	394
Total actuarial liabilities	30,663	28,104
Full earnings pension assets	7	8
Full earnings pension liability	58	54
Net liability of full earnings pension	51	46
	30,714	28,150
Excess of actuarial value of net assets over actuarial liabilities	$ 4,761	$ 5,804

* Excludes full earnings pension assets.

A portion of the excess of actuarial value of net assets over the actuarial liabilities has been allocated by the Board to a Funding Stabilization Reserve. The amount of this reserve as at December 31, 2001 is $1,511 million (2000 - $1,402 million). A further allocation of the excess assets over liabilities has been made to a Contribution Deficiency Reserve in the amount of $1,691 million for 2001 (2000 - $1,637 million).

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

In December 2001, the following benefit improvements were approved by the Government of Ontario, as recommended by the OMERS Board:

1. The early retirement window was extended through 2004 on a modified basis. The earliest retirement eligibility age will be 15 years prior to the normal retirement age (NRA) in 2002 and 2003, reverting to 10 years prior to the normal retirement age in 2004. Similarly, the early retirement reduction factor of 2.5% per year for members not eligible for an unreduced early retirement pension will be maintained for 2002 and 2003, reverting to 5.0% per year in 2004. The years of age plus service required for an unreduced early retirement pension will be as follows:

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

2. Members who retired prior to 1978 with a career average pension will be given a pension increase of 1.92% retroactive to January 1, 1999. The increase is equal to the average percentage increase received by other retired members of OMERS when the CPP offset was reduced from 0.7% to 0.675%.

The liability increase at December 31, 2001 associated with the two benefit improvements is $314 million for the early retirement window and $11 million for the pension increase.

Note 9 □ Net Assets *continued*

Solvency Valuation □ The actuarial value of net assets and the actuarial present value of accrued pension benefits is presented above on the going concern basis, consistent with other areas of the financial statements. Under the *Pension Benefits Act* of Ontario, a solvency (hypothetical windup) valuation must be performed on the plan, even though the risk of it being wound up is remote. This special valuation excludes the full earnings pension benefits and assumes a liquidation scenario. In past years, the solvency valuation has been performed on a fair value basis at a point in time using the fair value of assets and a liability discount rate based on real return bond yields at the valuation date. Starting in 2001, as permitted by the *Pension Benefits Act*, the solvency valuation uses the actuarial value of assets, which averages market value fluctuations over 5 years, and a liability discount rate based on 5-year average real return bond yields. The prior year's figures are presented on the current year basis restated to reflect the actuarial valuation conducted as of December 31, 2000.

The actuarial present value of accrued pension benefits, excluding the full earnings pension benefits, was estimated to be $33,864 million as at December 31, 2001 (2000 - $31,300 million). As at December 31, 2001, the actuarial value of net assets excluding the full earnings assets was $35,475 million (2000 - $33,954 million). A reasonable allowance for the expenses of winding up the plan would not significantly reduce the assets available for benefits.

NOTE 10 □ Net Investment Income/(Loss)

a) **Net Investment Income/(Loss) Before Allocating the Effect of Derivative Contracts**
Investment income 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 $32 million (2000 - $34 million) are netted against the particular portfolio where the costs were incurred. Realized and unrealized income (loss) from derivative financial instruments of $(939) million (2000 - $(371) million) is included in the net gain/(loss) on investments.

(Millions)	2001	2000
INCOME		
Interest Bearing Investments		
Short-term deposits	$ 151	$ 153
Canadian bonds & debentures	485	509
Real return bonds	34	9
Non-Canadian bonds	–	28
Private debt	32	28
Mortgages	107	101
	809	828
Equity Investments		
Canadian equities	122	151
Non-Canadian equities	195	98
Resource properties	42	20
Canadian private equities	(20)	49
Non-Canadian private equities	5	14
	344	332
Real Estate Investments	394	314
NET GAIN/(LOSS) ON INVESTMENTS [1]	(2,886)	626
	(1,339)	2,100
Less income/(loss) credited to:		
Administered pension funds	(21)	31
Provision for supplementary retirement benefits	17	16
	$ (1,335)	$ 2,053

1 Includes net realized loss of $225 million (2000 - gain of $2,004 million).

Note 10 □ Net Investment Income/(Loss) *continued*

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

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

(Millions)	2001	2000
Interest Bearing Investments	$ 888	$ 1,121
Equity Investments		
Canadian	(1,239)	1,419
Non-Canadian	(1,576)	(880)
Real estate Investments	588	440
	$ (1,339)	$ 2,100

Note 11 □ Contributions

(Millions)	2001	2000
Employers, long-term receivables and interest thereon	$ 4	$ 4
Transfers from other pension plans	18	14
Other contributions	14	12
	$ 36	$ 30

Effective August 1998, a contribution holiday for both members and employers was put into place. The contribution holiday is reviewed annually and an extension that is intended to end no sooner than June 30, 2002, has been approved. These initiatives were introduced as part of the surplus management measures discussed in note 9.

Note 12 □ Benefits

(Millions)	2001	2000
Members' pensions	$ 1,034	$ 916
Commuted value payments	90	87
Members' contributions plus interest refunded	35	34
Transfers to other pension plans	34	8
	$ 1,193	$ 1,045

Note 13 □ Administrative Expenditures

a) Operating Expenses

(Millions)	2001	2000
Personnel services	$ 42	$ 36
System development and other purchased services	26	21
Premises and equipment	12	10
Professional services [1]	3	3
Transport & communication	2	3
	$ 85	$ 73

1 Professional services includes actuarial costs of $ 0.5 million (2000 - $0.5 million), audit costs of $0.4 million (2000 - $0.4 million) and legal costs of $1.0 million (2000 - $0.5 million).

Note 13 □ Administrative Expenditures *continued*

b) Executive Compensation

The compensation table represents disclosure of base salary, annual bonus and other compensation earned in 1999, 2000 and 2001 by the Chief Executive Officer and the four other members of the senior executive team.

Name and Principal Position	Year	Base Salary	Bonus [1]	Other Compensation [2]	Taxable Benefits
Dale E. Richmond	2001	$ 319,729	$ 99,359	$ 15,380	$ 29,254
President and C.E.O.	2000	310,473	–	23,892	22,048
	1999	304,431	–	9,955	20,505
Michael Beswick	2001	$ 174,904	$ 55,078	$ 8,510	$ 17,738
Senior Vice President	2000	164,187	19,982	7,964	9,814
Pensions	1999	155,235	12,834	7,507	9,849
Wayne Gladstone	2001	$ 193,658	$ 56,320	$ 9,615	$ 13,281
Senior Vice President	2000	165,148	18,982	12,836	11,662
Finance and Administration	1999	161,984	15,334	7,808	11,678
Tom Gunn	2001	$ 284,864	$ 197,186	$ 30,744	$ 1,332
Senior Vice President	2000	274,569	92,000	22,840	1,232
Investments	1999	268,269	65,000	21,283	1,074
Debbie Oakley [3]	2001	$ 157,318	$ 8,313	$ 7,212	$ 11,680
Senior Vice President					
Corporate Affairs					

1 Based on prior year's performance.
2 Includes vacation cash-in and car allowance.
3 Promoted to the position October 2000.

Note 14 □ Commitments

As part of normal business operations, OMERS enters into commitments to fund investments in the future. These commitments may include but are not limited to investments in mortgages, real estate and limited partnership agreements. As at December 31, 2001, these commitments totalled $1.5 billion (2000 - $1.0 billion).

Ten Year Review of Financial Data

($ Millions)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Net Investments at market *										
Debt	**13,686**	13,525	11,566	12,947	10,625	8,554	6,737	6,560	6,673	5,682
Equity	**15,379**	18,544	19,586	15,587	16,022	14,612	12,149	11,935	11,570	8,505
Real Estate **	**4,616**	4,437	4,126	3,995	2,729	2,450	2,391	2,151	1,846	1,646
	33,681	36,506	35,278	32,529	29,376	25,616	21,277	20,646	20,089	15,833
Assets at market value *										
Total Fund	**33,243**	35,875	34,930	31,380	29,108	25,378	21,213	18,389	17,778	14,005
Liability for:										
Supplementary agreements	**165**	148	131	116	110	121	120	134	139	136
Administered pension plans	**487**	528	502	437	395	341	345	2,463	2,362	1,841
	33,895	36,551	35,563	31,933	29,613	25,840	21,678	20,986	20,279	15,982
Investment Income earned (including realized & unrealized gains)										
Basic Plan	**(1,335)**	2,053	4,598	2,867	3,692	4,074	2,625	310	3,363	475
Supplementary benefit agreements	**17**	16	16	13	11	9	11	13	8	2
Administered pension plans	**(21)**	31	69	39	51	55	381	44	448	106
	(1,339)	2,100	4,683	2,919	3,754	4,138	3,017	367	3,819	583
Contributions received for										
Basic plan	**–**	–	–	364	869	874	869	870	890	878
Basic plan unfunded liabilities	**36**	30	27	8	21	8	6	9	11	12
Supplementary benefit agreements	**–**	–	–	–	–	–	1	–	1	–
	36	30	27	372	890	882	876	879	902	890
Payments to members										
Pensions paid	**1,034**	916	817	761	699	661	570	491	414	373
Contributions and interest refunded	**125**	121	178	149	104	89	67	51	43	37
Transfers to other plans	**34**	8	10	10	9	6	6	4	6	13
	1,193	1,045	1,005	920	812	756	643	546	463	423
Expenditures										
Administration	**85**	73	70	47	40	35	33	33	31	30
Investment operating	**32**	34	28	30	24	25	22	18	16	15
	117	107	98	77	64	60	55	51	47	45
Total Fund annual rate of return										
Time weighted return on market value	**-3.4%**	6.2%	15.2%	10.1%	14.8%	19.3%	14.2%	1.8%	23.7%	3.9%
Benchmark	**-4.2%**	4.1%	14.7%	10.7%	15.1%	18.0%	16.1%	1.1%	20.5%	2.7%
Funding Requirement	**5.0%**	7.5%	6.8%	5.3%	5.0%	6.4%	6.0%	4.5%	6.0%	6.3%

* Market Value as at December 31.

** Net of Investment Liabilities.

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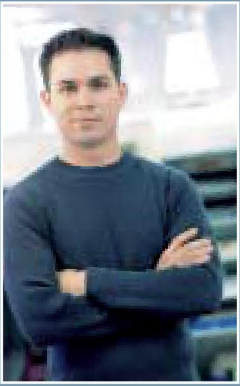

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