ONTARIO PENSION BOARD

"You can count on the Board."

2002
Annual Report

OPB is making careful
decisions for your financial
future based on expert
knowledge and experience.

Working
together we apply
our expertise to develop
the best long-term
strategies for
the benefit of members
and pensioners.

Donald D. Weiss
Chairman & CEO

"Our focus is the long-term stability of the Plan."

Through a very difficult investment period, OPB has maintained its disciplined strategy and focus upon real returns over the long run. Our goal is to work together as a team to ensure the long-term stability of the Plan. The 2002 results, included in this Annual Report, demonstrate our continuing performance. Your Board of Directors and senior management stand firm in their belief that we have set the right course for the Plan. We will protect that strategic direction with integrity, transparency and a commitment to the future.

Geoffrey H. Collins
Vice Chairman
Chair, Investment Committee

"We have a highly disciplined approach to asset management."

The Plan was able to achieve a flat, marginally positive return in 2002 under difficult global economic conditions, including declines in most of the world's stock markets. In order to meet our pension liabilities, now and into the future, we focus on long-term investment potential using a conservative approach to managing the Plan's assets. This strategy has served us well in the past and we will continue to implement it steadily and with prudence.

Debbie L. McKenna
Chair,
Pension Policy Committee

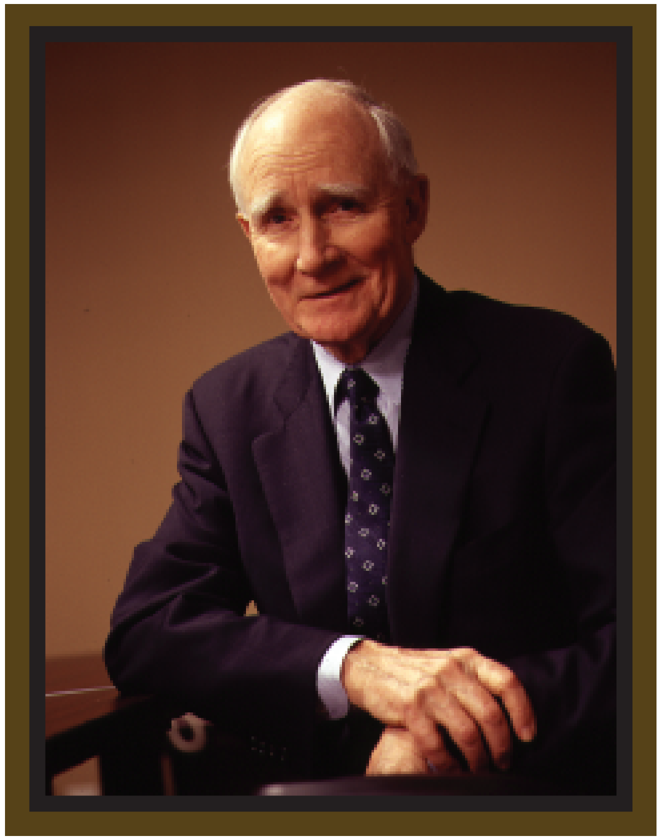
"It is essential to communicate clearly with pensioners and members."

It is not enough just to receive contributions and to distribute pensions. The complexities of pension plans make it essential to communicate clearly with members and pensioners so that they fully understand their personal position. This has to be done fairly, transparently and in a timely fashion to support the integrity of the system. We have in place procedures to make this happen and we continuously review programs and systems to see how we can improve performance in this respect.

John E. Richardson
Chair,
Audit Committee

"Integrity is the foundation for protecting the security of the Plan."

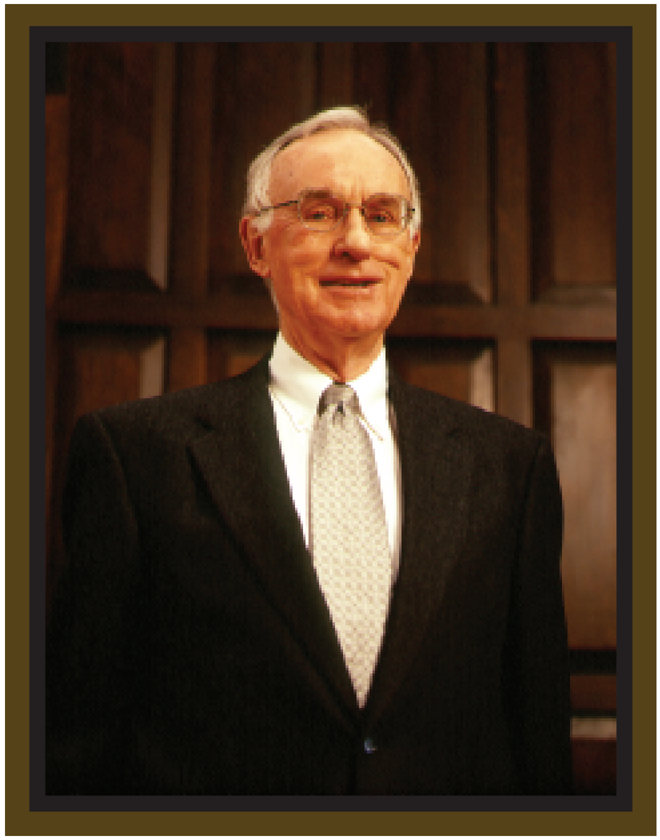
Fiduciary responsibility and accountability are essential to the audit process and to sound corporate governance. Auditing is not simply a matter of checking numbers and balances and identifying the flow of cash and funds. The most fundamental and important factor in handling other people's money is the integrity of the people involved. We are very fortunate at OPB to have built a team of hard-working individuals who are dedicated to their individual tasks and implement them responsibly and with accuracy. This commitment is the foundation for protecting the security of the Plan.



G. Patrick H. Vernon
2003 Chair,
Human Resources Committee

"Accountability exists at all levels of the organization."

It's human nature to want to improve your skills and knowledge and to succeed in your career. At OPB, we try to capitalize on these attributes. We do so by creating a positive working environment and by providing further education to those who wish to participate. It is indeed gratifying that so many employees demonstrate their desire for advancement. This attitude translates into a dedicated work force where each individual takes their job seriously and contributes to the efficiency and integrity of the total operation. Accountability exists at every level of the organization and only stops at the Board.



William J. Fisher
2002 Chair,
Human Resources Committee

"OPB's corporate governance means direct Board accountability."

As a retiring Member of the Board, I have perhaps a longer term perspective than most of my Board colleagues. Over the 12 years that I have had the pleasure of serving, there have been tremendous changes in the way that OPB performs its responsibilities. When I joined the Board, the Plan had an unfunded liability. Today, due to a strategy of diligence, prudence and long-term performance, the Plan is one of the soundest in the country. It has achieved this by astute investment policies and by a focus on corporate governance which translates into direct accountability and responsibility by the Board.

Governance

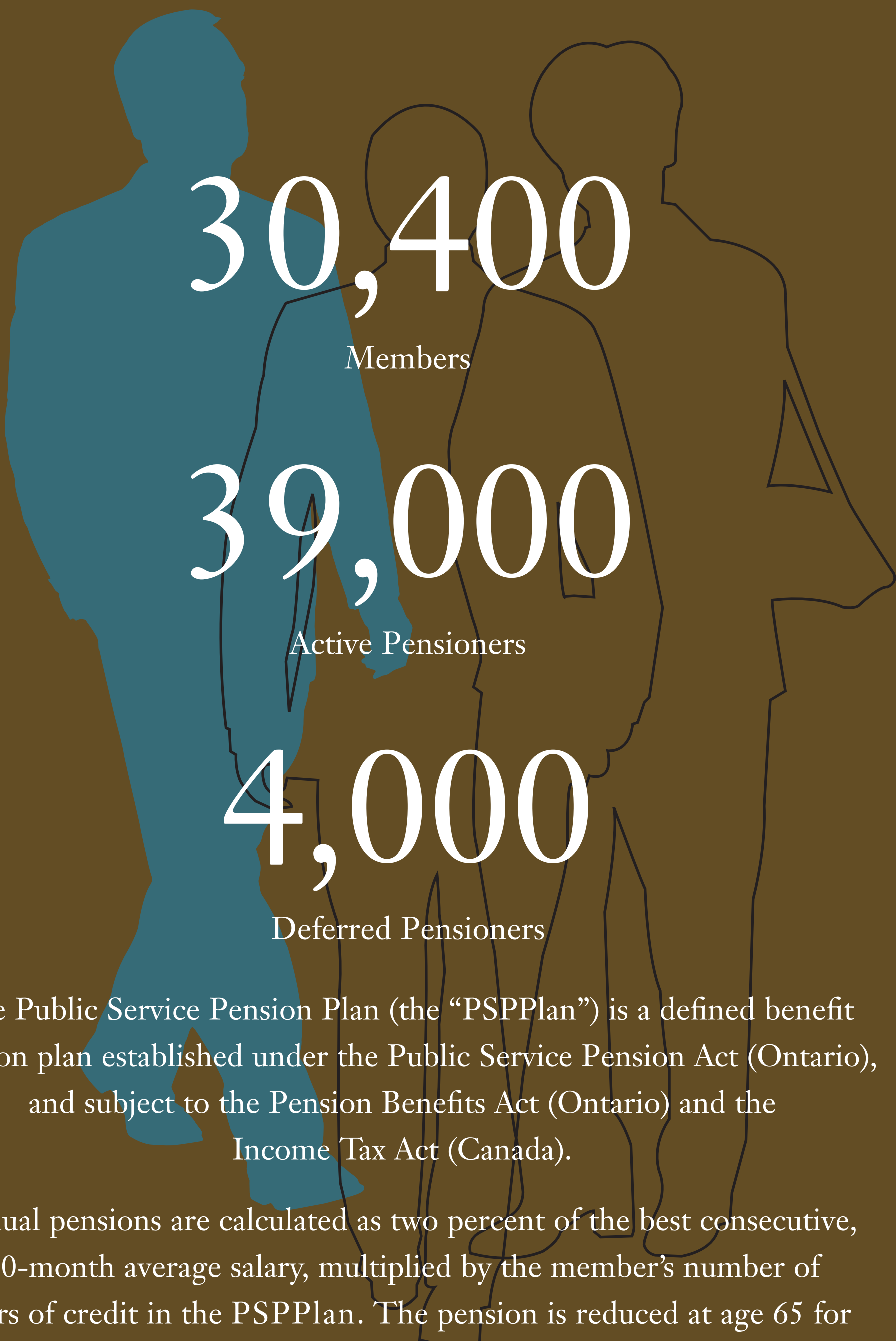
The Ontario Pension Board (OPB) administers the pension plan for more than 73,000 members and pensioners, both active and deferred, who are or were employed by the Province of Ontario ("the Province") and certain of its agencies. Pensions are one hundred percent guaranteed by the Province. The provisions of the Plan are set out in the Public Service Pension Act (the "PSPAct"). As sponsor of the Plan, the Province determines the benefit payments and contribution levels based upon periodic valuations by external actuaries.

The OPB is governed by a Board of Directors ("the Board"). The Board establishes policy and supervises the administration of the Plan and its investment activities. The staff of OPB is responsible for managing and carrying out its daily activities.

The Board has adopted Conflict of Interest guidelines governing the conduct of Board members and OPB staff. Individuals are required to act in the best interests of OPB without reference to any outside responsibilities. Four committees of the Board receive reports from staff and external advisors and make recommendations to the Board as a whole; they address Audit, Investment, Human Resources and Pension Policy.

The Board ensures that the Plan complies with all relevant federal and provincial legislation, principally the PSPAct, the Pension Benefits Act (Ontario) and the Income Tax Act (Canada).

Highlights



30,400

Members

39,000

Active Pensioners

4,000

Deferred Pensioners

The Public Service Pension Plan (the "PSPPlan") is a defined benefit pension plan established under the Public Service Pension Act (Ontario), and subject to the Pension Benefits Act (Ontario) and the Income Tax Act (Canada).

Annual pensions are calculated as two percent of the best consecutive, 60-month average salary, multiplied by the member's number of years of credit in the PSPPlan. The pension is reduced at age 65 for CPP integration.

The PSPPlan is a fully indexed plan, which is subject to a limit of eight percent inflation protection in any one year, with any excess carried forward.

Survivor benefits are payable.

Our investment philosophy has proven to be sound in this difficult economic climate. We take a conservative approach to investing. Our primary focus is on meeting our real return objectives in the long term. These principles have served us well. Since its inception, the Plan has earned a return of 10.34 percent, with no negative returns in our 13-year history.

A Message from Donald D. Weiss, Chairman

I am pleased to report that the Plan achieved a positive rate of return on investment of 0.5 percent during 2002. This puts us within the first quartile of Canadian pension fund performance and well above the industry average return on investment.

Last year was a difficult one for pension fund managers worldwide. Many plans saw millions and some even billions of dollars eliminated from their balance sheets. The median return for all Canadian pension funds was a negative 5.1 percent. Equity markets were the chief culprits as they sank to levels not seen since 1997.

Our investment philosophy has proven to be sound during this economic climate. We take a conservative disciplined approach to investing. Our primary focus is on meeting our real return objectives in the long term and less on short-term benchmarks such as the movement of market indices. We work together to foster a culture that focuses on the long-term stability of our returns that will meet our pension promise.

These principles have served us well. Since its inception, the Plan has earned a return of 10.34 percent. Over the last 10 years, we earned a return of 9.86 percent, with no negative returns in our 13-year history. Our most recent valuation set our surplus at $408 million.

In my message last year, I stated that going forward, returns would be in the single digit range over the next number of years. I continue to believe that returns will be relatively flat over the near term, and as a result, there is always a danger of stumbling into negative territory.

I reiterate that our required minimum real rate of return (after inflation) is 3.75 percent over the long term. Based on current contribution and funding levels, this is the rate that we need to achieve in order to meet our pension promise. Although this number is very conservative in the pension fund industry, it is still above the fixed real return and rates being offered in the market today. The reality is that we will continue to be challenged to meet this minimum return requirement.

Sound governance of a pension plan rests on two pillars. The first is prudent investment policies and the second is sound management of the Plan's day-to-day activities. We take pride in our service to members and pensioners—our goal is accuracy, timeliness and courtesy. The Board takes an active interest in these matters and the internal controls necessary in an organization of this size. Internal control reviews are performed each year based upon critical areas of risk identified in our Risk Management program. Results of the reviews are reported to the Board.

After a dismal year of world economic performance, what lies ahead in 2003? On the brighter side, the fundamentals for the Canadian economy are fairly strong. The country has an excellent job creation record and a good growth rate. All this could lead to inflationary pressures. In fact, the Bank of Canada has signalled an increase in short-term interest rates this year. These factors should assist the pension fund industry in reversing the negative trends of the past several years.

I expect that there will be considerable debate in the coming years over the impact of weak financial markets on actuarial assumptions. Will the markets restore returns to a level sufficient to support current actuarial real return assumptions? Many Plans were enticed into believing that the superior investment returns we experienced in the '90s would continue into the foreseeable future. An increase in future investment return assumptions by pension funds can result in marked reductions in their pension liabilities. However, if the higher assumptions are not achieved, considerable increases in unfunded liabilities will occur. At OPB we will continue to look at our real return assumptions carefully with a conservative long-term perspective which has allowed us to perform at the top of the pension fund industry.

Our Board of Directors is committed to the stewardship of the funds entrusted to us and to providing high quality service to our members and pensioners. Your Board of Directors and senior management stand firm in their belief that we have set the right course for the Plan. We will protect that strategic direction with integrity, transparency and a commitment to the future.

We are very fortunate to have a Board of Directors dedicated to the continuing good governance of our Plan. "You can count on the Board" is the theme of this report. I wish to thank them all for their continuing diligence and support. We were all sorry that Bill Fisher decided to retire from the Board after more than 12 years of constructive service. Bill served as Chairman of the Human Resources Committee of the Board and clearly showed his continuing concern for the well-being of OPB employees. Bill will be missed and we wish him well in his retirement years.

It was a pleasure serving you in 2002. I want to thank all of our management and staff for their dedication to the Plan and their service to our members and pensioners.

Donald D. Weiss
Chairman & CEO

Leonard Lu
President

President's Report

The President's Report addresses OPB's investment and administration activities during the year.

The Investment section includes information on our investing approach, where we invest and our investment returns. Our goal is to produce consistent and steady performance over the long term.

Our commitment is to deliver the highest quality of administration at a reasonable cost. Consequently, we are always seeking new ways to enhance our service delivery. Under Administration, we highlight initiatives and activities and provide information on the demographics of our member and pensioner populations.

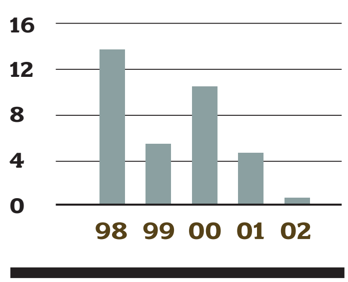
Many thanks to our staff for their dedication to our objectives and for their enthusiastic service to all of our stakeholders.

Investment Performance OPB achieved a positive rate of return in 2002. Our return was 0.5 percent compared with 4.5 percent in 2001.

We have seen extreme equity market volatility during the past few years, with markets at the end of 2002 standing at similar levels to those of 1997. Technology stocks fell from grace and investor confidence plummeted as a result of some notable corporate failures. Even many of the earnings reported were called into question as corporations restated their net income. On the positive side, Canadian bonds continued their strong showing over the past three years.

Total Investment Returns

percent per annum



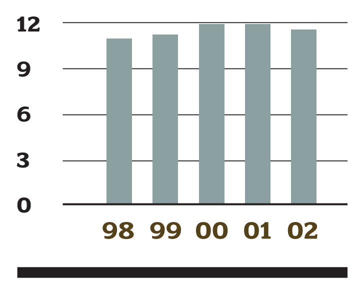
Despite the current challenging market conditions, since the inception of the OPB in 1990, our average annual rate of return has been 10.3 percent. Over the same period the consumer price index increased by 2.2 percent.

Going forward it may be difficult and indeed, unrealistic to maintain the double-digit returns that were experienced in the last 13 years. OPB's investment objective is to optimize return on investments commensurate with an acceptable risk to reward balance and a disciplined approach with an emphasis on capital preservation.

Asset Mix Policy OPB determines its asset mix using various factors such as the design of benefits, the ratio of members to pensioners, long-term capital market prospects and the related risk tolerance levels of Plan participants. OPB does not use derivative instruments to synthesize investment categories. These factors are set out in our Statement of Investment Policies and Procedures. This statement is reviewed and approved annually by the OPB Investment Committee of the Board.

Portfolio Assets

billions of dollars



The Board establishes a statement of investment principles and beliefs including, but not limited to, asset classes the Fund may consider investing in and reasons why. This statement includes portfolio strategies; tactical asset allocation and re-balancing; investment manager structure including mandates, and evaluation of the total Funds and investment managers.

Currently, investments are grouped into three categories:

- Externally Managed
- Special Province of Ontario Debentures
- Real Estate

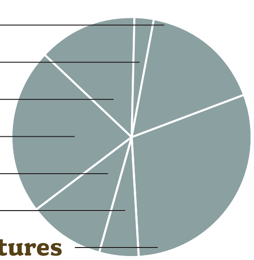
Under Canada Customs and Revenue Agency requirements, the Plan is limited to a foreign content of 30 percent of the book value of its investments. As of December 31, 2002, the foreign content to book value of the portfolio was 26%.

We do not require adherence to the movement of particular indices (commonly referred to as "benchmarks"). The use of benchmarks in managing a portfolio could lead to an over emphasis on short-term results to the detriment of long-term performance to meet future pension liabilities. Although we refer to indices for comparative purposes, neither our investment managers nor staff are compensated for exceeding a benchmark performance.

Asset Mix

as at December 31, 2002

16.3% Canadian Bonds
2.6% Foreign Bonds
13.3% Canadian Equities
22.4% Foreign Equities
10.3% Real Estate
5.3% Cash & Short-Term
29.8% Special Ontario Debentures



Externally Managed Our marketable security portfolio of equities and bonds is managed by eight portfolio managers and represents 59 percent of our investment portfolio.

Fund managers have discretion within their contract guidelines to adjust exposure to particular securities, industries or geographic sectors, and asset classes. Fund managers' mandates closely reflect OPB's approach to long-term value investing and the managers are required to adhere closely to this strategy. OPB staff and the Investment Committee of the Board closely monitor the activities of our fund managers. Fund managers are evaluated on a four-year performance basis. They report semi-annually to the Investment Committee of the Board.

Special Province of Ontario Debentures
The Special Province of Ontario Debentures ("the Debentures") were provided to the Plan as a funding mechanism when it was first formed in 1990. They are not marketable.

It has always been our intention to hold the Debentures to maturity since they provide consistent, secure high rates of return as well as cash flow. Given our intentions, the Debentures are presented at cost in the financial statements and our investment returns are stated on that basis. These Debentures have been a solid core asset for OPB. We have taken the position that we would not swap the cash flows into other asset classes. The Debentures provide excellent cash flow and stability to our portfolio.

The difference between the book value and the market value of the Debentures is included in actuarial assets for funding and accounting purposes and is included as part of the "actuarial asset value adjustment" (see financial statements note 8). For Debenture maturities, see page 35.

The return on the Special Province of Ontario Debentures was 11.8 per cent in 2002.

Real Estate OPB invests primarily in income-producing real estate to provide stable long-term returns.

Our real estate portfolio includes wholly owned regional shopping centres and office buildings in eight major Canadian cities. These properties total approximately 6.4 million square feet of gross leasable area. Early in 2002, we added significantly to our office portfolio with the acquisition of One Queen Street East in Toronto.

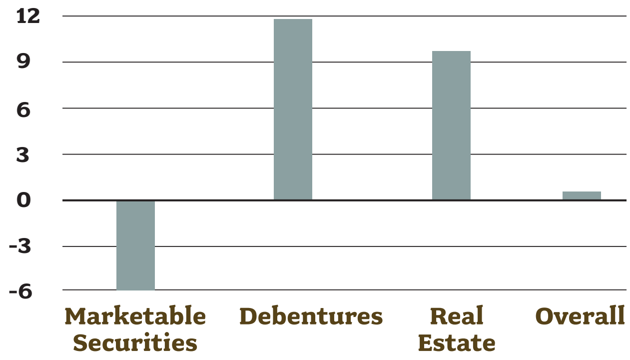
OPB is required under Canadian generally accepted accounting principles to have an external appraisal for its real estate at least once every three years. We appraise the properties annually to provide an up-to-date measurement of annual returns.

Our real estate portfolio has provided OPB with a steady return on invested capital. Since 1994, when we first invested in real estate, we have achieved a return of 9.5 percent on invested capital.

All properties are managed externally, including day-to-day operations, leasing and development. OPB staff and external consultants supervise these activities. External auditors perform a separate audit of the financial statements of the real estate subsidiary that holds all of our retail and office properties.

Returns by Asset Class

percent: Year 2002



Administration OPB is committed to delivering a high quality of service to our members, pensioners and employer sponsors at a reasonable cost. We work diligently to continuously improve our processes for efficiency and effectiveness. Our aim is to meet our customer requirements on an accurate and timely basis and our customer satisfaction rate remains high.

Recent Events/Initiatives By January 1, 2004, OPB will be covered by new privacy legislation requiring it to adopt a series of measures that will govern how personal information is collected, how it is used and when it can be disclosed. When enacted, the legislation will regulate the collection, use and disclosure of personal information by all private sector organizations in Ontario.

OPB will spend 2003 completing an extensive review of its policies and procedures to establish privacy practices that comply with the legislation. A formal privacy policy and consent process will be developed. Communications materials will be produced to inform members and pensioners as to why information is collected, what it is used for and when it is shared with third parties. Training programs will be developed and implemented for all OPB staff to ensure their familiarity with the new policy. Some of our existing processes and forms will be changed in order to ensure compliance.

Overall, the practice at the OPB has always been to treat personal information with the utmost care and consideration to ensure that it is accurate and well protected.

The OPB was the first major public service pension fund in Canada to seek registration of a business process to the International Standard ISO9001:2000 Quality Management Systems requirements.

In 2002, the OPB enhanced its quality management systems (QMS) and successfully achieved certification of the Member Enrolment process to the International Standard ISO9001:2000. This builds upon our e-communications (web site services) certification in 2001. All companies currently registered to one of the 1994 series standards are required to migrate to the current standard, ISO9001:2000 by December 15, 2003. The OPB is already registered to this new standard, demonstrating commitment to current management systems practices in support of our stakeholder services.

At the beginning of 2002, we established formal quality objectives aligned to our Quality Policy. All executives, managers and staff worked throughout 2002 to successfully accomplish these objectives.

We continue to strengthen our information technology infrastructure. Our strategy is to upgrade our software and hardware to stay current with technology. We stay with proven technology and are not pioneers. In particular, we have a three-year desktop replacement strategy. A continuing initiative is to upgrade our services so that our PRISM database will run more effectively.

As a result of "9/11," the Federal Government enacted regulations requiring the identification and freezing of assets of suspected terrorists and terrorist organizations. In accordance with the Federal Government regulations, we complete monthly comparisons of our member, pensioner and investment databases. To date, we have not found any legitimate match to a suspected terrorist or terrorist organization.

Members	2002	2001
Active Membership at beginning of year	26,800	25,300
Additional Members	4,900	3,300
Retirements, Immediate and Deferred	(700)	(800)
Terminations	(600)	(1,000)
Active Members at end of year	30,400	26,800

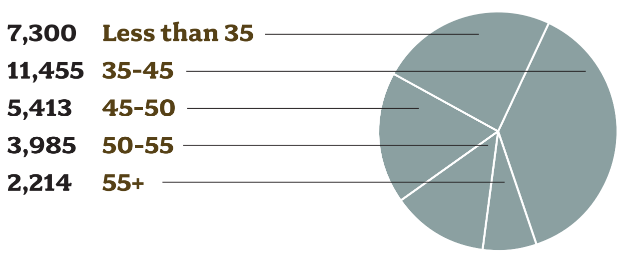
The members of the Plan consist of eligible employees from Ministries and Agencies, Boards and Commissions of the Province of Ontario.

During 2002, 1,600 OPP support personnel joined our Plan increasing our total Ontario Provincial Police Association membership, both officers and civilians, to 7,000. Some 19 percent of our members are employed by the Ontario Lottery and Gaming Corporation, with approximately 1,000 of these members joining us in 2002.

Our Service to Members	2002	2001
Telephone Calls	15,013	21,589
Buybacks of Service	1,458	3,841
Pension Estimates	918	1,490
Services Presented	11	46
Other Cases	30,907	25,355

Age Distribution of Members

as at December 31, 2002



We continue to have a substantial number of transfers between the OPSEU Pension Trust (OPT) Plan and the PSPPlan. Both Plans draw their members from substantially the same employer groups. Typically, many of our members have been employed by the Public Service by the same employer group in a union represented position. These personnel were previously members of the OPT Plan. These individuals transfer their past service credit to the OPB. Some 994 incoming transfers from the OPT were processed in 2002 and $69 million was received by the OPB.

Pensioners	2002	2001
Number of Active Pensioners at beginning of year	39,300	39,400
Additions, including new retirees, previously deferred and survivors of deceased pensioners	1,400	1,500
Deceased pensioners	(1,100)	(1,200)
Deceased survivors of original pensioner	(600)	(400)
Active pensioners at end of year	39,000	39,300

Our Service to Pensioners	2002	2001
Telephone Calls	24,054	32,918
Information Changes	13,832	11,820

Under the terms of the Plan, every year our pensioners receive an adjustment for inflation (the "Escalation Factor"). Effective January 1, 2003, pensions were adjusted by an Escalation Factor of 1.6 percent. Pensioners who retired in 2002 receive a pro-rated adjustment based on the number of months they were on pension in 2002.

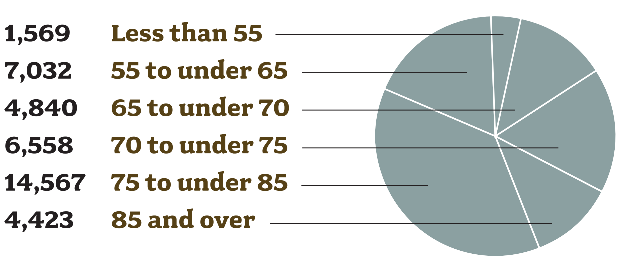
The Escalation Factor is calculated based upon changes in the Consumer Price Index for the 12-month period ending in November the preceding year. This formula is required by the Statute governing our Plan.

In some cases, our pensioners marry or establish a common-law relationship after they retire. Last November, pensioners were sent a Bulletin reminding them that, under the terms of the Plan, the new spouse is not automatically entitled to a survivor pension. An application is required and any survivor benefit requires that there be a reduction of the pension currently being received.

Deferred Pensioners	2002	2001
Deferred pensioners at end of year	4,000	3,700

Age Distribution of Pensioners

as at December 31, 2002



Prior to age 55 members who terminate from the Plan are provided an option of receiving a pension at a future date. Those 55 and over are required to take this entitlement. A deferred pension is calculated according to the normal retirement pension formula as payable from the normal retirement date (age 65).

Financial Position of the Plan There are different measurements of the financial position of the Plan. These measurements are implemented for different purposes.

If we were to wind up the Plan immediately, and satisfy the obligations to members and pensioners by purchasing annuities, we would be able to provide a definitive statement of assets and liabilities since all factors would be known. A pension plan does not work this way. There are ongoing future obligations, the member and pensioner composition is changing continually, and there is a need to provide sufficient asset returns to meet those obligations.

There is a statutory obligation to perform an independent actuarial valuation of assets and liabilities to determine how well the Plan is funded. This is required at least every three years. An excess of assets over liabilities indicates a surplus. An excess of liabilities over assets indicates a deficit. The objective is to provide that over the long term there will be sufficient assets in the fund to meet the Plan's obligations.

The process involves making assumptions and estimates about a variety of demographic and economic data, such as how long members will live and the estimate of how investments will perform in excess of inflation. Variances from these long-term estimates are treated as experience gains and losses, and increase or reduce surpluses at each valuation. They may result in a re-evaluation of assumptions used.

Our funding surplus was $408 million at December 31, 2001, the date of our last actuarial valuation. As at December 31, 1999, we reported a funding surplus of $335 million.

In August 2000, our sponsor extended certain plan enhancements to members at a cost of $329 million. Enhancements included contribution rate reductions that expired in November 2002, the planned date of expiry.

The vagaries of making assumptions was well demonstrated last year when some pension plans were forced to end their contribution rate reductions prior to the planned expiry. Investment losses quickly ate up their surpluses.

Each year, OPB is required to calculate its actuarial liabilities on a best estimate basis for the purposes of financial statement presentation. The Canadian Institute of Chartered Accountants (CICA) prescribes the methodology as part of generally accepted accounting principles. There are significant differences in the methodology used in the financial statement valuation as opposed to the funding valuation that is prescribed by statute. The CICA prescribed method bases the liability only on service accrued to date. On the other hand, the funding valuation provides for future services and contributions. Prudence dictates a long-term view in the funding valuation using more conservative assumptions providing margins for adverse deviations. This is particularly true of the estimate of "real" investment returns. That is the amount our investment return is estimated to exceed the effects of inflation. Our real rate of return assumption for funding purposes is 3.75 percent as compared with four percent for financial statement purposes.

Our real rate of return assumptions for accounting purposes have remained stable for a number of years. Further, the economic assumptions are at the low end of the spectrum when compared to the assumed returns employed by other pension plans. This builds an element of conservatism into the Plan.

Five Year Review

(in millions of dollars)	1998	1999	2000	2001	2002
Opening Assets	10,037.3	10,973.9	11,196.0	11,951.2	11,945.1
Investment Income	1,309.9	569.0	1,111.0	517.7	41.8
Regular Contributions	199.4	200.8	176.5	130.2	135.2
Unfunded Liability Payments	114.7	121.3	106.1	—	—
Transfers	8.5	38.1	143.2	103.0	144.5
	1,632.5	929.2	1,536.8	750.9	321.5
Pension Payments	630.2	648.9	669.6	695.9	721.2
Terminations	55.3	47.0	100.3	45.7	42.1
Operating Expenses	10.4	11.2	11.7	15.4	13.7
	695.9	707.1	781.6	757.0	777.0
Closing Assets	10,973.9	11,196.0	11,951.2	11,945.1	11,489.6
Rate of Return:					
Annual Percent	13.4	5.4	10.2	4.5	0.5

Actuaries' Opinion
To the Directors of the Ontario Pension Board

We have prepared an actuarial valuation on a funding basis of the Public Service Pension Plan (the "PSPPlan") as of December 31, 2001 as described in Note 8(a) of these consolidated financial statements.

We hereby certify that, in our opinion:

- the data provided to us by the Ontario Pension Board (OPB) are sufficient and reliable for the purposes of the December 31, 2001 valuation;
- the actuarial assumptions used are, in aggregate, appropriate for the purposes of a valuation for funding purposes of the PSPPlan;
- the methods employed in the valuation are appropriate for the purposes of the valuation and are consistent with the requirements of the Pension Benefits Act, the Public Service Pension Act, and the Income Tax Act (Canada); and
- the valuation was prepared and our opinion given in accordance with accepted actuarial practice.

Using the same data as provided by the OPB for the funding basis valuation, we also prepared an estimate of the assets and liabilities on an actuarial basis following the accounting methodology required by The Canadian Institute of Chartered Accountants Handbook, Section 4100, as disclosed in Note 8(b). These amounts are set out in the consolidated statement of net assets available for benefits and accrued pension benefits and surplus. The valuation for accounting purposes was prepared in accordance with accepted actuarial practice and is based on assumptions set out in Note 8(b), which in our opinion are in accordance with accepted actuarial practices.

Michael D. Banks, F.I.A., F.C.I.A.   Amy Pun, F.S.A., F.C.I.A.

MERCER HUMAN RESOURCE CONSULTING
February 7, 2003

Management's Responsibility for Financial Reporting

The consolidated financial statements of the Ontario Pension Board ("OPB") have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these consolidated financial statements are in accordance with generally accepted accounting principles. Of necessity, many amounts in the financial statements must be based on the best estimates and judgement of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded against unauthorized use or disposition, and proper records maintained. The system includes careful hiring and training of staff, the establishment of an organizational structure that provides for a well-defined division of responsibilities and the communication of policies and guidelines of business conduct throughout the OPB.

The Board of Directors ("Board") is ultimately responsible for the consolidated financial statements of the OPB. The OPB's Audit Committee assists in this responsibility by reviewing the consolidated financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of audits, to review their findings and suggestions for improvements in internal control, and to satisfy themselves that their responsibilities and those of management have been properly discharged.

Darla S. Sycamore

Leonard Lu, President
February 7, 2003

Darla S. Sycamore, CA, Director, Finance

Auditors' Report
To the Directors of the Ontario Pension Board

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and surplus of the Ontario Pension Board (the "OPB") as at December 31, 2002, and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus for the year then ended. These consolidated financial statements are the responsibility of the OPB's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the OPB as at December 31, 2002 and the results of its operations and the changes in its financial position, accrued pension benefits and surplus for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
February 7, 2003

Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Surplus

As at December 31	2002	2001
(in thousands of dollars)		
Assets		
Investments (Note 4)	$ 11,491,227	$ 11,949,541
Contributions receivable (Note 7)	19,973	16,981
Capital assets (Note 5)	1,097	805
Total assets	11,512,297	11,967,327
Liabilities		
Income taxes withheld on pension payments	8,977	8,567
Accounts payable and accrued charges	12,616	13,104
Contributions payable	1,130	589
Total liabilities	22,723	22,260
Net Assets Available for Benefits	11,489,574	11,945,067
Actuarial asset value adjustment (Note 8(b))	1,729,362	1,183,956
Actuarial Value of Net Assets Available for Investments	13,218,936	13,129,023
Accrued Pension Benefits and Surplus		
Accrued pension benefits	12,186,535	11,573,932
Surplus (Note 8(b))	1,032,401	1,555,091
Total Benefits and Surplus	$ 13,218,936	$ 13,129,023

See accompanying notes

Donald D. Weiss
Director

Geoffrey H. Collins
Director

Consolidated Statement of Changes in Net Assets Available for Benefits

For the year ended December 31	2002	2001
(in thousands of dollars)		
Increase in Net Assets		
Net investment income (Note 6)	$ 41,848	$ 517,672
Contributions (Note 7)	135,197	130,230
Transfers from other plans	144,478	102,975
Increase in net assets	321,523	750,877
Decrease in Net Assets		
Pensions paid	721,225	695,880
Termination payments and transfers	42,057	45,706
Operating expenses (Note 10)	13,734	15,463
Decrease in net assets	777,016	757,049
Net Decrease in Net Assets for the Year	(455,493)	(6,172)
Net Assets, at Beginning of Year	11,945,067	11,951,239
Net Assets, at End of Year	$ 11,489,574	$ 11,945,067

See accompanying notes

Consolidated Statement of Changes in Accrued Pension Benefits

For the year ended December 31	2002	2001
(in thousands of dollars)		
Accrued Pension Benefits, at Beginning of Year	$ 11,573,932	$ 11,212,152
Increase in Accrued Pension Benefits		
Interest on accrued pension benefits	809,150	770,544
Benefits accrued	399,512	332,822
Total increase	1,208,662	1,103,366
Decrease in Accrued Pension Benefits		
Benefits paid	763,307	741,586
Experience	(167,248)	—
Total decrease	596,059	741,586
Net Increase in Accrued Pension Benefits	612,603	361,780
Accrued Pension Benefits, at End of Year	$ 12,186,535	$ 11,573,932

Consolidated Statement of Changes in Surplus

For the year ended December 31	2002	2001
(in thousands of dollars)		
Surplus, at Beginning of Year	$ 1,555,091	$ 1,660,367
Decrease in net assets available for benefits	(455,493)	(6,172)
Change in actuarial asset value adjustment	545,406	262,676
Increase in actuarial value of net assets available for benefits	89,913	256,504
Net Increase in Accrued Pension Benefits	612,603	361,780
Surplus, at End of Year	$ 1,032,401	$ 1,555,091

See accompanying notes

Notes to Consolidated Financial Statements
December 31, 2002

Note 1. Public Service Pension Act

Effective January 1, 1990, the Province of Ontario (the "Province") enacted the Public Service Pension Act, 1990 (the "PSPAct") to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan (the "PSPPlan") are stated in Schedule 1 to the PSPAct. The Ontario Pension Board (the "OPB") is the administrator of the PSPPlan.

Note 2. Description of PSPPlan

The following is a brief description of the PSPPlan. For more complete information, reference should be made to the PSPAct.

a) General The PSPPlan is a contributory defined benefit pension plan and membership is mandatory for most employees who satisfy the eligibility requirements provided in the PSPAct. Under the PSPPlan, contributions are made by the members and the employers. The PSPPlan is registered with the Financial Services Commission of Ontario and the Canada Customs and Revenue Agency as required (Registration Number 0208777).

b) Contributions The PSPPlan is integrated with the Canada Pension Plan ("CPP"). Member contributions are 6.2% of the salary on which contributions to CPP are made and 8% on the balance of salary. The employers contribute matching amounts. The Province, as plan sponsor, had amended the PSPPlan to provide for a contribution reduction of 4% of salary for members and a corresponding reduction for employers. This reduction ended November 30, 2002. For most members, the reduction took effect on August 1, 2000.

Ontario Provincial Police officers ("OPP") are required to contribute to the PSPPlan an additional 2% of salary which is matched by the employer. These additional contributions are used to fund the 50/30 unreduced early retirement provision available to police officers. Under amendment to the PSPPlan, the OPP were not required to contribute this additional amount from August 1, 2000 until March 31, 2002. However, employer contributions continued at the normal level during that period.

c) Pensions A pension is payable at age 65 (or at age 60 for some members with pre-1966 pension credits) based on the number of years of credit in the PSPPlan multiplied by 2% of the average salary during the best consecutive 60 month period, less an offset for amounts received under the CPP at age 65. An unreduced pension can be received before age 65 if the member's age and years of credit total 90 (the "Factor 90") or when the member reaches age 60 and has 20 or more years of credit. The Province amended the PSPPlan to provide for an enhanced early retirement opportunity for members of the Plan whose age and service in the Plan equals at least 80 years (the "Factor 80"). The Factor 80 program ended on March 31, 2002. The PSPPlan was again amended to permit those members who are deemed to be surplus by their employer to retire upon attaining the 80 Factor. To qualify certain conditions must be satisfied by both the employer and the member. The program is scheduled to expire March 31, 2004. OPP officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

d) Death Benefits Benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or pensioner's estate on the death of a member or a pensioner.

e) Disability Pensions Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the PSPPlan. The amount of the disability pension is dependent on years of credit and average salary.

f) Termination Payments Members terminating employment before age 55, who are eligible for a deferred pension, may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to another pension plan or to purchase a life annuity.

g) Escalation of Benefits Current pensions and deferred pension benefits are increased for inflation based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

Note 3. Summary of Significant Accounting Policies

a) Basis of Presentation The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, and present the position of the PSPPlan as a separate entity independent of the employers and plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

b) Principles of Consolidation The accounts of the wholly-owned subsidiary are included on a consolidated basis.

c) Investments Traded Investments are stated at fair value based on year-end market prices. Short-term investments are carried at amortized cost which approximates their aggregate fair value. Special Province of Ontario Debentures, which are non-marketable, are recorded at face value (see Note 4). Gains and losses realized on the disposal of investments are credited or charged to investment income. Withholding tax refunds from foreign jurisdictions are recorded on a cash basis. Investment transactions are presented on a trade date basis.

Real estate investments are stated at appraised values as established by independent annual appraisals. Changes in valuation due to appraisal adjustments are included in unrealized gains.

d) Contributions Contributions from members and employers which are due to the PSPPlan at year end are recorded as receivable. Transfers and purchases of prior service are recorded after cash is received and the case is processed.

e) Pensions Payments of pensions, refunds and transfers are recorded in the year in which they are made.

f) Capital Assets Capital assets are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

Computer equipment	3 years
Leasehold improvements	Remaining term of lease
Furniture and fixtures	10 years

g) Foreign Currency Translation Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions.

The fair value of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year end.

Note 4. Investments

As of December 31	2002 Fair Value	2002 Cost	2001 Fair Value	2001 Cost
(in thousands of dollars)				
Cash and short-term investments				
Canadian	$ 546,409	$ 545,803	$ 587,106	$ 586,356
Foreign	64,619	63,104	77,287	76,964
	611,028	608,907	664,393	663,320
Fixed Income				
Special Province of Ontario Debentures	3,233,173	3,233,173	3,363,221	3,363,221
Bonds				
Canadian	1,848,615	1,772,875	1,817,694	1,781,135
Foreign	291,894	237,556	295,190	283,082
	5,373,682	5,243,604	5,476,105	5,427,438
Equities				
Canadian	1,527,583	1,381,518	1,598,301	1,453,840
Foreign	2,566,451	2,584,346	2,986,158	2,554,353
	4,094,034	3,965,864	4,584,459	4,008,193
Real estate	1,151,019	1,067,546	955,699	886,453
Investments	11,229,763	10,885,921	11,680,656	10,985,404
Accrued income	261,464	261,464	268,885	268,885
Total	$ 11,491,227	$ 11,147,385	$ 11,949,541	$ 11,254,289

The Special Province of Ontario Debentures, which are non-marketable, are recorded at their aggregate face value of $3.23 billion. By discounting cash flows based on year-end market yields of comparable bonds, a value of $4.67 billion could be determined.

There are currently 16 Special Province of Ontario Debentures maturing over the next 12 years with a weighted average interest rate of 11.86%.

As Administrator of the Fund, the OPB has adopted a Statement of Investment Policies and Procedures. This Statement provides investment objectives, performance expectations and guidelines for the management of the Fund. To reduce risk and enhance returns, equity and fixed income investments may be allocated to different asset classes. The proportion allocated at any point in time is determined based on an assessment of economic and financial market conditions.

To provide the ability to respond to fundamental changes, the Fund's asset mix is maintained within the following ranges:

Canadian equity	10% to 20%
Non-Canadian equity	20% to 30%
Real estate	5% to 15%
Total equity and real estate	35% to 65%
Bonds	35% to 65%
Short term	0% to 10%
Total fixed income	35% to 65%

The Fund's long-term asset mix policy is as follows:

Equity	50%
Fixed income	50%

This policy was adopted after evaluating the risk characteristics of alternative policies, considering the liquidity requirements of the Fund and the economic assumptions employed in the PSPPlan's actuarial valuation.

The OPB invests in high-grade bonds and common shares. The fair value of foreign investments will fluctuate with moves in exchange rates.

The carrying value of the real estate assets was increased by $14 million to reflect the results of an independent appraisal conducted as at December 31, 2002.

See the schedules of Fixed Income Maturities and Investments Over $35 Million Market Value for further information.

Note 5. Capital Assets

As at December 31	Cost	Accumulated Amortization	2002 Net Book Value	2001 Net Book Value
Computer equipment	$ 1,348	$ 818	$ 530	$ 316
Leasehold improvements	1,478	1,148	330	316
Furniture and fixtures	758	521	237	173
Total capital assets	$ 3,584	$ 2,487	$ 1,097	$ 805

Note 6. Net Investment Income

For the year ended December 31	2002	2001
(in thousands of dollars)		
Interest income		
Cash and short-term investments		
Canadian	$ 12,963	$ 25,403
Foreign	902	4,066
Fixed income		
Special Province of Ontario Debentures	389,972	401,913
Bonds		
Canadian	114,840	114,156
Foreign	15,613	19,383
Total interest income	534,290	564,921
Dividend income		
Canadian	30,402	31,805
Foreign	56,734	53,849
Total dividend income	87,136	85,654
Real estate income	89,233	74,610
Realized gain (loss)	(303,837)	88,599
Unrealized (loss)	(351,419)	(284,548)
Total investment income	55,403	529,236
Investment management and custodial fees	13,555	11,564
Net investment income	$ 41,848	$ 517,672

Note 7. Contributions

For the year ended December 31	2002	2001
(in thousands of dollars)		
Members		
Current service	$ 60,753	$ 49,322
Prior service	12,956	14,113
	73,709	63,435
Employers		
Current service	55,391	54,462
Prior service	6,097	12,333
	61,488	66,795
Total contributions	$ 135,197	$ 130,230

The contribution requirements are set out in the PSPAct and summarized in Note 2.

Contributions receivable represent members' and employers' contributions due as well as estimated receivables for members receiving benefits on LTIP and for the matching portion of buybacks billed to the employer.

Note 8. Accrued Pension Benefits

a) Funding Basis The funding of the PSPPlan is based on a method of valuation required under the PSPAct. An actuarial valuation of the PSPPlan, prepared on a funding basis, was completed by the OPB's actuaries, Mercer Human Resource Consulting ("Mercer") as at December 31, 2001. This valuation disclosed an actuarial surplus of $408 million based on an actuarial liability of $12.693 billion and an actuarial value of assets of $13.101 billion at the end of 2001.

The Pension Benefits Act (Ontario) and the Income Tax Act (Canada) require an actuarial valuation for funding purposes to be performed at least every three years.

b) Accounting Basis The consolidated financial statements include the actuarial value of net assets and accrued pension benefits as at December 31, 2002 and 2001, which are based on actuarial calculations as of these dates in accordance with the recommendations of The Canadian Institute of Chartered Accountants. These standards require the obligation for accrued pension benefits be calculated using the projected benefit method pro-rated on services and management's best estimate assumptions. The key assumptions used for this estimation are long-term and are reviewed annually in the light of economic conditions. For 2002 and 2001, the following estimate assumptions were used:

	2002	2001
Interest	7.0%	7.0%
Inflation	3.0%	3.0%
Real rate of return	4.0%	4.0%
Salary	4.0% +promotional scale	4.0% +promotional scale

The actuarial asset value adjustment of $1,729 million is comprised of a fair value adjustment for the Special Province of Ontario Debentures and $494 million of unrealized net losses related to marketable securities (2001– $4 million of unrealized gains) which are amortized over a four-year period for actuarial purposes.

Note 9. Ontario Provincial Police Force Early Retirement Benefit

Under the PSPPlan, the OPB is required to report annually on the early retirement benefit provided by the PSPPlan to police force officers who are employed by the Ontario Provincial Police (OPP). This early retirement benefit is available to OPP officers who are 50 years of age and have 30 years of credit in the PSPPlan. OPP police officers contribute 2% of their salary to the PSPPlan in addition to the regular contribution amount. This contribution is matched by the employer.

The liability in respect of OPP police force members who qualify and elect to retire under the Factor 80 provision is not reported under the OPP early retirement benefit. When the Province's program expires, the liability for all OPP officers who attain 50 years of age and have 30 years of credit in the PSPPlan will be reported under the OPP police force early retirement benefit.

The position of the OPP early retirement benefit was included in the actuarial valuation as at December 31, 2001. The value of projected future contributions and benefits included in the December 31, 2001 actuarial valuation was updated to reflect actual contributions received and benefit payments made during the period to December 31, 2002. This method produces a reasonable estimate of the financial position of this benefit according to the OPB's actuaries.

The additional obligation and assets related to the OPP early retirement benefit as at December 31, 2002 were as follows:

(in thousands of dollars)

Assets allocated to payment of OPP early retirement benefit	$	93,605
Actuarial value of future additional contributions from OPP officers and employer		83,310
		176,915
Actuarial value of future OPP early retirement benefit		183,688
Actuarial value of future OPP early retirement benefit in excess of assets and actuarial value of future additional contributions available	$	(6,773)

Note 10. Operating Expenses

For the year ended December 31		2002		2001
(in thousands of dollars)				
Salaries and benefits	$	7,028	$	7,310
Agency services		344		1,038
Office premises and operations		2,420		1,992
Computer and professional services		2,880		4,030
Depreciation and amortization		332		337
Communications		480		544
Audit		114		62
Travel		86		68
Publications, registration and filing fees		50		82
Total operating expenses	$	13,734	$	15,463

Note 11. Executive Compensation

The compensation table represents disclosure of the compensation and taxable benefits earned in the year by the CEO and the four other most highly compensated executives.

		Compensation		Taxable Benefits
Donald D. Weiss, Chairman & CEO	$	207,795	$	330
Leonard Lu, President		273,993		450
Mark J. Fuller, Executive Vice President		248,674		418
Robert F. Kay, Senior Vice President, Investments		218,195		370
Linda J. Bowden, Vice President, Corporate Services		154,160		285

Schedule of Fixed Income Maturities

As of December 31	2002 Fair Value	2002 Effective Yield%	2001 Fair Value	2001 Effective Yield%
(in thousands of dollars)				
Cash and short-term investments				
Canadian:				
0–1 year	$ 546,409	2.56–2.79	$ 587,106	1.91–2.16
Foreign:				
0–1 year	64,619	1.12–3.25	77,287	1.65
	$ 611,028		$ 664,393	
Special Province of Ontario Debentures				
0–1 year	$ 100,898	9.51–14.65	$ 96,416	9.81–16.95
1–5 years	739,773	9.82–15.38	655,941	9.51–14.65
5–10 years	1,531,886	10.38–13.33	1,375,769	11.55–15.38
> 10 years	860,616	11.10–11.19	1,235,095	10.38–11.19
	3,233,173		3,363,221	
Bonds				
Canadian:				
0–1 year	142,862	5.17–10.56	50,427	5.38–9.64
1–5 years	317,902	3.02–9.10	487,705	4.74–9.91
5–10 years	852,921	4.36–7.72	832,695	4.78–8.58
> 10 years	415,095	3.68–7.99	336,081	5.32–7.90
PH&N Bond Fund: 1–47 years	119,835	4.91	110,786	5.55
	1,848,615		1,817,694	
Foreign:				
0–1 year	30,939	4.47–7.93	4,826	8.14
1–5 years	89,513	4.30–7.41	65,255	4.48–7.72
5–10 years	117,896	3.74–5.71	184,596	3.98–7.38
> 10 years	53,546	5.07–5.47	40,513	5.45–5.90
	291,894		295,190	
	$ 5,373,682		$ 5,476,105	

Investments Over $35 Million Market Value*

As at December 31	Maturities	Coupon %	Market Value*
(in thousands of dollars)			
Cash and Short-term Investments			
Canadian			
Government of Canada			$ 330,371
Fixed Income			
Special Province of Ontario Debentures	2003–2014	9.51–15.38	3,233,173
Canadian			
Government of Canada	2003–2029	4.25–10.25	501,262
Province of Ontario	2003–2029	5.70–9.50	173,192
Phillips Hager & North High Grade Corporate Bond Fund	2003–2049	4.60–11.80	119,835
Woodbine Entertainment Group	2011	8.58	57,409
NHA Mortgage Backed Securities	2008–2011	5.45–5.50	54,995
Royal Bank of Canada	2008–2016	5.45–7.29	48,955
Sun Life Assurance Company	2011–2028	5.80–6.87	44,911
Toronto-Dominion Bank	2009–2012	6.00–7.60	43,178
Manulife Financial Corporation	2011–2016	5.70–6.70	41,916
Province of British Columbia	2008–2012	5.75–6.38	36,075
Canada Housing Trust	2007–2008	4.40–4.75	35,339
Foreign			
Government of France	2005–2025	4.00–6.00	129,419
Germany Federal Republic Bonds	2003–2028	3.75–5.63	93,501
UK Treasury	2008	5.00	40,678
Real Estate			1,151,524

*Except for Special Province of Ontario Debentures

(in thousands)	Shares	Market Value
Equities		
Canadian		
Royal Bank of Canada	1,894	$ 109,556
Encana Corp	1,787	87,174
Toronto-Dominion Bank	2,144	72,921
Canadian Imperial Bank of Commerce	1,590	69,184
Bank of Montreal	1,413	58,916
The Bank of Nova Scotia	1,081	56,941
Manulife Financial Corporation	1,604	55,162
Sceptre Small Cap Section Pooled Fund	162	54,703
Suncor Energy	1,961	48,442
BCE Inc.	1,689	48,128
Canadian National Railway	673	43,946
Petro-Canada	869	42,503
Power Financial Corporation	1,127	40,896
Transcanada Pipelines Ltd	1,688	38,694
Alcan Inc	812	37,615
Foreign		
U.S.		
Pfizer Inc.	1,189	57,431
Merck & Co Inc.	578	51,719
Philip Morris	756	48,425
Microsoft Corporation	575	46,947
Exxon Mobil Corp	798	44,075
General Electric Company	1,013	38,953
Citigroup Inc.	669	37,220
Fannie Mae	359	36,474
France		
Total Fina Elf	156	35,309

Board Committees

Audit
John E. Richardson*
Geoffrey H. Collins
Donald D. Weiss

Investment
Geoffrey H. Collins*
Debbie L. McKenna
Donald D. Weiss

Human Resources
William J. Fisher*
Debbie L. McKenna
G. Patrick H. Vernon
Donald D. Weiss

Pension Policy
Debbie L. McKenna*
William J. Fisher
Donald D. Weiss

* Chair

Officers

Donald D. Weiss
Chairman & CEO

Leonard Lu
President

Mark J. Fuller
Executive Vice President

Robert F. Kay
Senior Vice President
Investments

Linda J. Bowden
Vice President
Corporate Services

Antonia Evagelou
Vice President
Plan Administration

Peter Shena
Vice President
Pension Policy & Research

Darla S. Sycamore
Treasurer & Director,
Finance

Senior Management

Joseph A.P. Farrugia
Director, Planning &
Information Technology

Sheila A. Fish
Director, Member & Pensioner
Services

Mark A. Henry
Director, Operational Policy

Peter M.T. Johnson
Controller

Karen Kojima
Manager, Treasury & Investment
Accounting

Ontario Pension Board

One Adelaide Street East, Suite 1100
Toronto, Ontario
M5C 2X6

Telephone 416-364-8558
www.opb.on.ca