

Auditors' report

To the Board of Directors

Public Sector Pension Investment Board – Public Service Pension Plan Account

We have audited the Balance Sheet and the Statement of Investment Portfolio of the Public Sector Pension Investment Board – Public Service Pension Plan Account (the “Public Service Pension Plan Account”) as at March 31, 2005 and the Statements of Net Income and Accumulated Net Income from Operations and of Changes in Net Assets for the year then ended. These financial statements are the responsibility of the Public Sector Pension Investment Board’s (“PSP Investments”) 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 financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan Account and the investments held as at March 31, 2005 and the results of its operations and of changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of the Public Service Pension Plan Account that have come to our attention during our audit of the financial statements have, in all significant respects, been in accordance with the *Public Sector Pension Investment Board Act* (the “Act”) and the by-laws, with the exception of the foreign property limits set out in the Statement of Investments Policies, Standards and Procedures which were exceeded during the period from March 15 to March 31, 2005 in anticipation of the adoption of the Federal Budget which provides for the elimination of the limits on investments in property that constitutes foreign property for the purposes of the *Income Tax Act* (Canada).

Further, in our opinion, the record of investments kept by PSP Investments’ management pursuant to paragraph 35 (1) (c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario

April 29, 2005

PUBLIC SERVICE PENSION PLAN ACCOUNT

Balance Sheet

As at March 31

(\$000's)

	2005	2004
ASSETS		
Investments – at fair value (Note 2)	\$13,977,850	\$10,204,912
Other assets (Note 3)	1,659	2,284
Due from the Canadian Forces Pension Plan Account (Note 6a)	2,071	1,268
Due from the Royal Canadian Mounted Police Pension Plan Account (Note 6a)	737	452
	13,982,317	10,208,916
LIABILITIES		
Accounts payable and accrued liabilities	7,047	2,994
NET ASSETS	\$13,975,270	\$10,205,922
NET ASSETS REPRESENTED BY		
Accumulated net income from operations	\$ 1,958,743	\$ 1,014,481
Accumulated fund transfers	12,016,527	9,191,441
	\$13,975,270	\$10,205,922

On behalf of the Board of Directors:



Keith Martell

Director and Chair of the Audit and Conflicts Committee

Statement of Changes in Net Assets

For the year ended March 31

(\$000's)

	2005	2004
NET ASSETS, BEGINNING OF YEAR	\$10,205,922	\$ 5,756,832
CHANGES IN NET ASSETS		
Fund transfers (Note 4)	2,825,086	2,708,522
Net income from operations	944,262	1,740,568
NET ASSETS, END OF YEAR	\$13,975,270	\$10,205,922



PUBLIC SERVICE PENSION PLAN ACCOUNT

Statement of Net Income and Accumulated Net Income from Operations

For the year ended March 31

(\$000's)

	2005	2004
INVESTMENT INCOME		
Interest and dividends	\$ 299,283	\$ 214,740
Net realized gains	167,250	126,580
Change in unrealized appreciation in value of investments	502,945	1,414,288
	969,478	1,755,608
EXPENSES		
Operating expenses (Note 6b)	14,905	8,607
External investment management fees	10,311	6,433
	25,216	15,040
NET INCOME FROM OPERATIONS	944,262	1,740,568
ACCUMULATED NET INCOME (LOSS) FROM OPERATIONS, BEGINNING OF THE YEAR	1,014,481	(726,087)
ACCUMULATED NET INCOME FROM OPERATIONS, END OF THE YEAR	\$ 1,958,743	\$ 1,014,481

Statement of Investment Portfolio

As at March 31

(\$000's)

Investments (Note 2)	2005		2004	
	Cost	Fair Value	Cost	Fair Value
PSP Canadian Equities Fund 448,432,869.150611 units (2004 – 339,919,202.635087 units)	\$ 4,488,469	\$ 5,598,410	\$ 3,229,760	\$ 3,822,838
PSP Foreign Equities Fund 410,578,363.410520 units (2004 – 303,562,389.690353 units)	3,765,272	3,810,007	2,767,387	2,816,047
PSP Private Equities Fund 325,111.200140 units (2004 – Nil)	2,599	2,151	—	—
PSP Real Estate Fund 6,523,194.126872 units (2004 – 5,222,027.004991 units)	66,642	70,893	51,590	53,237
PSP Foreign Real Estate Fund 27,120,446.007601 units (2004 – Nil)	279,559	278,113	—	—
PSP Hedging Fund 719,436.777118 units (2004 – Nil)	8,151	11,282	—	—
PSP Fixed Income Fund 379,503,014.686497 units (2004 – see note 2c)	4,009,574	4,077,263	3,350,480	3,450,033
PSP Absolute Return Fund 14,026,130.124790 units (2004 – 8,283,355.378224 units)	134,876	129,731	85,932	62,757
	\$12,755,142	\$13,977,850	\$ 9,485,149	\$10,204,912

PUBLIC SERVICE PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2005

ORGANIZATION

The Public Sector Pension Investment Board (“PSP Investments”) was formed pursuant to the *Public Sector Pension Investment Board Act* (the “Act”) with a mandate to invest in financial markets the contributions to the Public Service, Canadian Forces and Royal Canadian Mounted Police pension plans.

The Public Service Pension Fund was established by amendments to the *Public Service Superannuation Act*, to receive contributions and make benefit payments in respect of member service after April 1, 2000. The excess of contributions over benefits is transferred, by the Public Service Pension Fund, to PSP Investments – Public Service Pension Plan Account for investment. PSP Investments maintains records of the Pension Fund’s net contributions, as well as the allocation of its investments and the results of its operations to each of the Plan Accounts.

PSP Investments is responsible for managing amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Public Service Superannuation Act*. The amounts are to be invested with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the *Public Service Superannuation Act*.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements present the financial position and operations of PSP Investments as they pertain to the investment of the excess funds transferred to it from the Public Service Pension Fund. Accordingly, they do not reflect all of the assets, or the details of the pension contributions, payments and liabilities of the Public Service Pension Fund. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act.

Valuation of investments

Investments consist of the unit interest in PSP Investments’ assets (The “PSP Funds”) that are allocated to this Plan Account. Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value for investments in pooled funds is based on unit values, which reflect the quoted market prices or other generally accepted pricing methodologies for the underlying securities.

Income recognition

The investment income has been allocated by PSP Investments according to the number of units of PSP Funds held by the Public Service Pension Plan Account.

Investment income is recorded on the accrual basis and represents realized gains and losses on the disposal of investments, change in unrealized appreciation (depreciation) on investments held at the end of the year, interest income and dividends. These income items include the related distributions from PSP Funds.

Translation of foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange on the transaction date. Investments denominated in foreign currencies and held at the end of the year are translated at exchange rates in effect at the year end date. The resulting realized and unrealized gains and losses on foreign exchanges are included in investment income.

Fund transfers

Amounts received from the Public Service Pension Fund are recorded on a cash basis.



PUBLIC SERVICE PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

PSP Investments is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

Use of estimates

In preparing these financial statements, management must make certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures. Actual results may differ from estimates.

2. INVESTMENTS

The Statement of Investment Portfolio provides details of investments held as at March 31, 2005.

(a) Investment Policy

PSP Investments has established a Statement of Investment Policies, Standards and Procedures, (the "Investment Policy") which sets out the manner in which the assets shall be invested for the Public Service Pension Plan Account.

Target asset mix policy and benchmarks, as at March 31, 2005, were as follows:

Asset Class	Policy Mix	Benchmark
Cash Equivalents	2%	SC 91 day T-Bill
Bonds		
Fixed Return	20%	SC Universe
Real Return ⁽¹⁾	5%	SC RRB
Public & Private Equities		
Public Equities		
Canadian Equity	30%	S&P TSX
US Equities		
Large Cap	5%	S&P 500
Small Cap	5%	S&P 600
EAFE Equity	8%	MSCI EAFE
Emerging Equity	7%	MSCI EMF
Private Equity ⁽²⁾	8%	S&P 600 ^(1/3) and S&P 400 ^(2/3) + 4%
Real Estate ⁽³⁾	10%	CPI +5.5%

(1) Real Return Bonds ("RRB") target weight is 5%. Until the target weight of 5% is reached, assets destined for RRB's will be invested in Fixed Income and measured against the SC Universe.

(2) Private Equity ("PE") target weight is 8%. Until the target weight of 8% is reached, assets destined for PE will be invested in Public Equities and measured against the corresponding public equity benchmarks.

(3) Real Estate ("RE") target weight is 10%. Until the target weight of 10% is reached, assets destined for RE will be invested in a short-term bond benchmarked to the SM ST Fed. Gov. Index.

PUBLIC SERVICE PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2005

2. INVESTMENTS (continued)

(b) Investment asset mix

The investment asset mix, as at March 31, was as follows:

Asset Class	2005		2004	
	Fair Value (\$000's)	% of Portfolio	Fair Value (\$000's)	% of Portfolio
Cash Equivalents	\$ 316,115	2.3%	\$ 68,602	0.7%
Bonds				
Fixed Return	3,711,173	26.6	3,434,154	33.6
Real Return	158,399	1.1	—	—
Public & Private Equities				
Public Equities				
Canadian Equity	5,598,409	40.1	3,822,838	37.5
US Equities				
Large Cap	1,670,120	12.0	1,523,501	14.9
Small Cap	75,906	0.5	46,632	0.5
EAFE Equity	1,808,483	12.9	1,245,914	12.2
Emerging Equity	255,498	1.8	—	—
Private Equity	2,151	—	—	—
Real Estate	309,616	2.2	53,237	0.5
Absolute Return Strategies	71,980	0.5	10,034	0.1
	\$13,977,850	100.0%	\$10,204,912	100.0%

Direct investments, derivative contracts and investment-related receivables and liabilities are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolios of PSP Investments.

(c) Changes in PSP Funds

On November 30, 2004, PSP Investments restructured its funds.

The nature of the PSP Fixed Income Fund has changed to include cash equivalent investments. As a result, the investments previously held in the PSP Cash Equivalents Fund were transferred into the PSP Fixed Income Fund. For comparative purposes, the amount shown as PSP Cash Equivalents Fund for the prior year has been reclassified. As at March 31, 2004, this Plan Account held 1,600,319.402448 units of the PSP Cash Equivalents Fund and 319,551,329.862296 units of the PSP Fixed Income Fund.

The PSP Foreign Real Estate Fund was created to hold foreign real estate investments.

The PSP Absolute Return Fund was created and investments previously held in the PSP Currency Overlay Fund were transferred to it. For comparative purposes, the amount shown as PSP Currency Overlay Fund for the prior year has been reclassified.

(d) Foreign currency exposure

This Plan Account is exposed to currency risk through holdings of units in PSP Funds of non-Canadian assets where investment values will fluctuate due to changes in foreign exchange rates.

PUBLIC SERVICE PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2005

2. INVESTMENTS (continued)

(d) Foreign currency exposure (continued)

The underlying net foreign currency exposures, as at March 31, were as follows:

Currency (in Canadian \$)	2005		2004	
	Fair Value (\$000's)	% of Total	Fair Value (\$000's)	% of Total
US Dollars	\$ 1,984,909	49.8%	\$ 1,575,025	55.8%
Euro	691,634	17.3	469,649	16.6
British Pound	376,349	9.4	233,156	8.3
Yen	358,723	9.0	309,453	11.0
Others	576,948	14.5	235,262	8.3
	\$ 3,988,563	100.0%	\$ 2,822,545	100.0%

Further details of Investments are shown in the PSP Investments financial statements.

3. OTHER ASSETS

Other assets as at March 31 consist of the following:

	2005	2004
(\$000's)		
Fixed assets	\$ 1,623	\$ 1,524
Other assets	36	760
	\$ 1,659	\$ 2,284

4. FUND TRANSFERS

During the year, PSP Investments received \$2,825.1 million (2004 – \$2,708.5 million) of transfers from the Public Service Pension Fund. The transfers result from net current employer and employee contributions to the Public Service Pension Plan.

5. INVESTMENT PERFORMANCE

Portfolio and benchmark returns for the year ended March 31 were as follows:

	2005		2004	
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns
Cash Equivalents	2.9%	2.2%	3.2%	3.0%
Fixed Income	5.0%	4.7%	10.9%	10.8%
Canadian Equities	15.7%	13.9%	36.1%	37.7%
Foreign Equities	1.7%	1.5%	30.7%	28.8%
Real Estate	7.9%	6.7%	3.6%	2.5%
Total Return	7.9%	7.2%	26.1%	25.4%

PUBLIC SERVICE PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2005

5. INVESTMENT PERFORMANCE (continued)

The total benchmark return aggregates the asset class benchmark returns according to the weights specified in the Investment Policy. The total return includes the impact of the PSP Hedging Fund and the PSP Absolute Return Fund. Returns have been calculated in accordance with the methodology recommended by the CFA Institute. Returns are presented gross of expenses.

6. EXPENSES

(a) Allocation of expenses

The Act requires that the costs of operation of PSP Investments be charged to the three plans for which it provides investment services. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Solicitor General of Canada. An allocation policy has been developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, and allocates, on a quarterly basis, operating expenses excluding custodial fees, based upon the asset value of each Plan Account.

Operating expenses, excluding custodial fees, have been allocated as follows:

	2005	2004
Public Service Pension Plan Account	71.7%	71.1%
Canadian Forces Pension Plan Account	20.9%	21.3%
Royal Canadian Mounted Police Pension Plan Account	7.4%	7.6%
	100.0%	100.0%

Expenses are financed by the Public Service Pension Plan Account, which are reimbursed by the other Plan Accounts on a quarterly basis.

(b) Operating expenses

Operating expenses allocated to this Plan Account consist of the following:

(\$000's)	2005	2004
Salaries and benefits	\$ 7,579	\$ 3,969
General operating expenses	5,142	3,291
Professional and consulting fees	2,184	1,347
	\$ 14,905	\$ 8,607

Further details of Operating expenses are shown in the PSP Investments financial statements.

7. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year presentation.