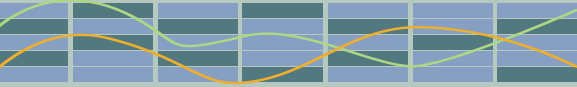


Financial Statements and Notes to the Financial Statements



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Public Sector Pension Investment Board ("PSP Investments") have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management is responsible for the contents of the financial statements and the financial information contained in the annual report.

PSP Investments maintains records and systems of internal control and supporting procedures to provide reasonable assurance that PSP Investments' assets are safeguarded and controlled, and that transactions are in accordance with the *Public Sector Pension Investment Board Act*, the accompanying regulations, the by-laws, and the Statement of Investment Policies, Standards and Procedures.

The Audit and Conflicts Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Committee meets regularly with both management and the external auditors to discuss the scope and findings of audits and other work that the external auditors may be requested to perform from time to time, to review financial information, and to discuss the adequacy of internal controls. The Committee reviews the annual financial statements and recommends them to the Board of Directors for approval.

PSP Investments' external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the Audit and Conflicts Committee to discuss findings related to the integrity of PSP Investments' financial reporting and the adequacy of internal control systems.



Paul G. Haggis
Director and Chair of the Management Committee
May 8, 2003



Danielle G. Morin
Chief Financial Officer
May 8, 2003

INVESTMENT CERTIFICATE

The Public Sector Pension Investment Board Act (the "Act") requires that a certificate be signed by a director on behalf of the Board of Directors, stating that the investments of the Public Sector Pension Investment Board ("PSP Investments") held during the year were in accordance with the *Act* and PSP Investments' investment policies, standards and procedures. Accordingly, the Investment Certificate follows:

"The investments of PSP Investments held during the year ended March 31, 2003, were in accordance with the Act and PSP Investments' Statement of Investment Policies, Standards and Procedures."



Paul Cantor
Chairperson
May 8, 2003

ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ACCOUNT**Auditors' Report**

To the Board of Directors of
Public Sector Pension Investment Board — Royal Canadian Mounted Police Pension Plan Account

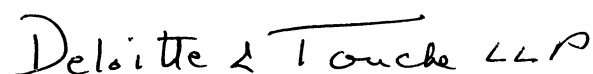
We have audited the Balance Sheet and the Statement of Investment Portfolio of the Public Sector Pension Investment Board - Royal Canadian Mounted Police Pension Plan Account (the "Royal Canadian Mounted Police Pension Plan Account") as at March 31, 2003 and the Statements of Net Income (Loss) and Accumulated Net Income (Loss) 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 Royal Canadian Mounted Police Pension Plan Account and the investments held as at March 31, 2003 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 Royal Canadian Mounted Police 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.

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*.



Chartered Accountants

Montréal, Québec
May 1, 2003

ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ACCOUNT

Balance Sheet*As at March 31*

	2003 (\$,000)	2002 (\$,000)
ASSETS		
Investments - at fair value (Note 2)	615,460	435,587
Cash	—	26
Other assets	99	—
	615,559	435,613
LIABILITIES		
Accounts payable and accrued liabilities	172	56
Due to the Public Service Pension Plan Account (Note 5a)	442	182
	614	238
NET ASSETS	614,945	435,375
NET ASSETS REPRESENTED BY		
Accumulated net income (loss) from operations	(78,812)	(7,153)
Accumulated fund transfers	693,757	442,528
	614,945	435,375

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*

	2003 (\$,000)	2002 (\$,000)
NET ASSETS, BEGINNING OF YEAR	435,375	188,818
CHANGES IN NET ASSETS		
Fund transfers (Note 3)	251,229	236,018
Net income (loss) from operations	(71,659)	10,539
NET ASSETS, END OF YEAR	614,945	435,375

ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ACCOUNT

**Statement of Net Income (Loss) and
Accumulated Net Income (Loss) from Operations**

For the year ended March 31

	2003 (\$,000)	2002 (\$,000)
INVESTMENT INCOME AND GAINS (LOSSES)		
Interest and dividends	15,913	10,791
Net realized gains (losses) (Note 2c)	165	(28,493)
Change in unrealized appreciation (depreciation) in value of investments	(86,740)	28,807
	(70,662)	11,105
EXPENSES (Note 5)		
Operating expenses (Note 5b)	693	508
External investment management fees	304	58
	997	566
NET INCOME (LOSS) FROM OPERATIONS	(71,659)	10,539
ACCUMULATED NET INCOME (LOSS) FROM OPERATIONS, BEGINNING OF THE YEAR	(7,153)	(17,692)
ACCUMULATED NET INCOME (LOSS) FROM OPERATIONS, END OF THE YEAR	(78,812)	(7,153)

Statement of Investment Portfolio

As at March 31

	2003			2002		
	Cost (\$,000)	Fair Value (\$,000)	% of Portfolio (At Fair Value)	Cost (\$,000)	Fair Value (\$,000)	% of Portfolio (At Fair Value)
Investments (Note 2)						
CANADIAN EQUITIES						
PSP Canadian Equities Fund 28,388,906.696673 units (2002 - 14,455,756.369672 units)	265,380	240,461	39.0	140,267	153,250	35.2
FOREIGN EQUITIES						
PSP Foreign Equities Fund 21,884,145.223347 units (2002 - 12,356,845.579382 units)	206,605	157,772	25.7	126,052	130,994	30.0
FIXED INCOME						
PSP Fixed Income Fund 19,471,215.478186 units (2002 - 14,126,327.385281 units)	200,467	198,660	32.3	145,114	138,362	31.8
CASH EQUIVALENTS						
PSP Cash Equivalents Fund 1,856,127.916565 units (2002 - 1,297,875.834010 units)	18,576	18,567	3.0	12,982	12,981	3.0
	691,028	615,460	100.0%	424,415	435,587	100.0%

ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2003

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. Prior to the implementation of the provisions of the Act, the balances of the plans were credited with a rate of interest based on long-term Government of Canada bonds.

The Royal Canadian Mounted Police Pension Fund was established by amendments to the *Royal Canadian Mounted Police 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 Royal Canadian Mounted Police Pension Fund, to PSP Investments – Royal Canadian Mounted Police 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 *Royal Canadian Mounted Police 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 *Royal Canadian Mounted Police 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 Royal Canadian Mounted Police Pension Fund. Accordingly, they do not reflect all of the assets, or the details of the pension contributions, payments and liabilities of the Royal Canadian Mounted Police 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 of 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 Royal Canadian Mounted Police 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 Royal Canadian Mounted Police Pension Fund are recorded on a cash basis.

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.

ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2003

2. INVESTMENTS

The Statement of Investment Portfolio provides details of investments held as at March 31, 2003.

(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 Royal Canadian Mounted Police Pension Plan Account. Asset mix policy and benchmarks as at March 31, 2003 were as follows:

Asset Class	Policy Mix	Benchmark
Canadian Equities	35.0%	S&P/TSX
Foreign Equities	30.0%	S&P 500, MSCI EAFE
Fixed Income	32.0%	SC Bond Universe
Cash Equivalents	3.0%	SC 91-day T-bill

Effective April 1st 2003, an amendment to the Investment Policy enables PSP Investments to hedge part of the foreign currency exposure.

(b) Foreign currency exposure

This Plan Account is exposed to currency risk through holdings of units in PSP Funds of non-Canadian equities where investment values will fluctuate due to changes in foreign exchange rates. The underlying foreign currency exposures by currency as at March 31 were as follows:

Currency	2003		2002	
	Fair Value (\$,000)	% of Total	Fair Value (\$,000)	% of Total
US Dollars	92,821	58.9	75,238	57.4
Euro	23,942	15.2	20,934	16.0
British Pound	14,995	9.5	13,861	10.6
Yen	13,407	8.5	11,414	8.7
Others	12,485	7.9	9,547	7.3
	157,650	100.0%	130,994	100.0%

In accordance with the Investment Policy, foreign currency exposures are not hedged.

The fair value of PSP Foreign Equities Fund includes \$122 thousand of Canadian dollars (2002 - Nil) which are not included in the foreign currency exposure.

In April 2003, a program was initiated to hedge up to 50% of the fair value of all US dollar denominated investments held in the PSP Foreign Equities Fund.

(c) Transfer of SSgA Pooled Fund units to PSP Funds

On October 2nd 2001, PSP Investments created the PSP Funds and the units in SSgA pooled funds previously held in the name of this Plan Account, were transferred to the PSP Funds. This deemed disposition caused previously *Change in unrealized depreciation in value of investments* to become realized losses in the *Statement of Net Income (Loss) and Accumulated Net Income (Loss) from Operations* for this Plan Account. This had no impact on the Plan Account, except for bringing the investments cost values closer to their fair values at that time.

Further details of Investments are shown in the PSP Investments Financial Statements.

3. FUND TRANSFERS

During the year, PSP Investments received \$251.2 million (2002 - \$236.0 million) of transfers from the Royal Canadian Mounted Police Pension Fund. The transfers result from net current employer and employee contributions to the Royal Canadian Mounted Police Pension Plan.

ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2003

4. INVESTMENT PERFORMANCE

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

	2003		2002		
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns	
Canadian Equities	(18.6)%	(17.6)%	4.8%	4.9%	S&P/TSX
Foreign Equities	(30.5)%	(29.9)%	(3.3)%	(2.6)%	S&P 500 & MSCI EAFE
Fixed Income	9.4%	9.2%	5.3%	5.1%	SC Bond Universe
Cash Equivalents	3.2%	2.7%	4.0%	3.7%	SC 91-day T-bill
Total Return	(13.5)%	(12.9)%	2.7%	2.8%	

The total benchmark return aggregates the asset class benchmark returns according to the weights specified in the Investment Policy, as disclosed in Note 2 (a).

Returns have been calculated in accordance with the mandatory requirements set forth by the Association for Investment Management and Research (AIMR). Returns are presented gross of expenses.

5. 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:

	2003	2002
Public Service Pension Plan Account	70.4%	70.6%
Canadian Forces Pension Plan Account	21.9%	21.7%
Royal Canadian Mounted Police Pension Plan Account	7.7%	7.7%

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

(b) Operating expenses

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

	2003	2002
	(\$,000)	(\$,000)
Salaries and benefits	350	212
General operating expenses	245	181
Professional and consulting fees	98	115
	693	508

Further details of Operating expenses are shown in the PSP Investments Financial Statements.