2003 ANNUAL REPORT

We are committed to securing tomorrow

The full HOOPP 2003 Annual Report is online at www.hoopp.com

HOOPP

Introduction to HOOPP

The Hospitals of Ontario Pension Plan (HOOPP) has a strong history of providing pensions to Ontario's health care community. It's one of the biggest and most respected pension plans in Canada and is an industry leader among multi-employer plans.

HOOPP was established in 1960 to meet the retirement needs of Ontario's health care workers. At the end of 2003, HOOPP had more than 140,000 active members, who work for 337 participating employers, and nearly 64,000 pensioners.

As a defined benefit pension plan, HOOPP provides eligible members with a retirement income based on a formula that takes into account a member's earnings history and length of service in the Plan. Once eligible members start receiving a pension, they receive it for life. The liabilities of promised pension benefits are paid for through a combination of contributions from members and their employers, and investment returns. HOOPP's assets are actively managed using a diversified, long-term investment strategy.

The HOOPP Trust Fund

With $18.6 billion in assets, the HOOPP Trust Fund is one of Canada's largest pension funds. Approximately 70 per cent of the Fund is invested by investment professional staff at HOOPP. The remaining assets are handled by external investment management firms. Investment results are communicated to Plan members, pensioners, and employers each year via HOOPP's annual report.

HOOPP's Board of Trustees sets investment policy and oversees the investment management process, and monitors and evaluates investment performance and investment risk management to ensure the Plan's assets are invested prudently and effectively.

Governance

Board Composition

HOOPP is a jointly governed pension plan administered by a Board of Trustees. The following organizations, that are the settlors of HOOPP's Agreement and Declaration of Trust, appoint trustees to the Board:

- the Ontario Hospital Association (OHA)
- the Ontario Nurses' Association (ONA)
- the Canadian Union of Public Employees (CUPE)
- the Ontario Public Service Employees' Union (OPSEU)
- the Service Employees International Union (SEIU)

There are 16 voting trustees on the HOOPP Board. The OHA appoints eight of the trustees and the four other settlors appoint two trustees each.

Every two years, the Board selects its chair and a vice-chair – a union-appointed trustee, and the other an OHA-appointed trustee. After a year in their respective roles, the chair and vice-chair change positions for the second year of their term.

The Board also appoints external, independent advisors to assist the Board in fulfilling its fiduciary duties. Currently Board advisors include legal and actuarial advisors, an auditor, and four investment advisors.

Trustee Responsibility

The Board of Trustees is responsible for overseeing all aspects of the Plan and the HOOPP Trust Fund. Among its responsibilities, the Board of Trustees:

- approves contribution and benefit payment levels
- makes changes to the Plan and its benefits
- establishes investment policy
- monitors investment performance
- approves annual operating budgets

In addition, as part of their duty the trustees must ensure that the Plan and the Trust Fund are administered in accordance with all relevant Canadian and Ontario legislation. The Plan is registered with both federal and provincial governments. This legislation includes:

- Canada's Income Tax Act
- Canada's Pension Plan Act
- Canada's Bankruptcy and Insolvency Act
- Ontario's Pension Benefits Act, which incorporates the investment regulations under the federal Pension Benefits Standards Act
- Ontario Securities Act
- Ontario Employment Standards Act
- Ontario Family Law Act

As a member of a board governing a trust, each HOOPP trustee is a fiduciary and, as such, acts solely in the best interests of the Plan beneficiaries as a whole. The trustees' obligations arise out of common law trust principles, as well as under Ontario's Pension Benefits Act.

This fiduciary responsibility takes precedence over any allegiance a trustee may have to any other party or interest, including the organization that appointed the trustee to the Board. The fiduciary duty imposed on trustees is the highest standard known to law.

Role of Management

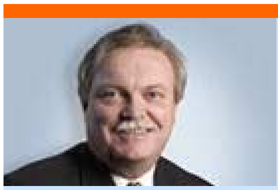
The President & CEO, who is also the Plan Manager, reports directly to the Board of Trustees and has been delegated with the responsibility for overall leadership and management of the organization, in accordance with Board-approved policies.

The CEO ensures that the Plan is administered efficiently and effectively. The CEO is also responsible for developing, implementing, and overseeing – in consultation with the Board – performance measurement programs, long-term strategies, and annual work plans to ensure that the organization best meets the needs of Plan beneficiaries.

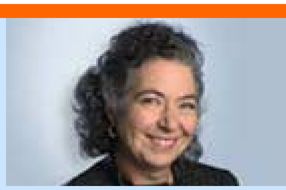
HOOPP Annual Report 2003

Messages

Messages in Brief



Dan Anderson CHAIR



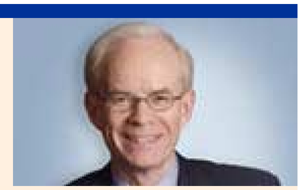
Kelly Butt VICE-CHAIR

Taking Action Today, to Secure Your Tomorrow

HOOPP's overriding mission – providing Ontario health care workers with the valuable retirement benefits they deserve – is still as relevant today as it was when the Plan was founded in 1960. > More

Focused on Your Future

Service improvements for today and tomorrow were a key focus for HOOPP in 2003 while robust investment returns also made for a year of recovery for the HOOPP Trust Fund. > More



John A. Crocker PRESIDENT & CEO

Messages

Chairs' Message

Dan Anderson CHAIR

Taking Action Today, to Secure Your Tomorrow

HOOPP's overriding mission – providing Ontario health care workers with the valuable retirement benefits they deserve – is still as relevant today as it was when the Plan was founded in 1960.

Kelly Butt VICE-CHAIR

2003 Board Initiatives

Long-Term Planning | Difficult, but Prudent, Decisions | Strong Governance

Long-Term Planning

Throughout 2003 – the year HOOPP celebrated its 10th anniversary as an independent organization – pension plans made headlines, as many faced funding problems.

By the end of the year, HOOPP was in better shape than many other plans. The Plan remains fully funded, meaning that there are enough assets in the HOOPP Trust Fund to meet all the Plan's obligations to pensioners and members.

The past few years show just how quickly things can change, underscoring why pension plans must be managed with a view beyond the ups and downs of today, focusing instead well into the future.

Despite a strong investment return of 14.86 per cent in 2003, HOOPP's financial statements show a decline in surplus of $995 million from 2002, as two years of investment losses are reflected in the actuarially smoothed value of assets. The recent period of low interest rates has also increased the Plan's liabilities. A surplus of $15 million contrasts starkly with nearly $3 billion in 1999, and is effectively only a nominal amount for a Plan the size of HOOPP.

The Board regularly reviews and assesses the needs of HOOPP's membership in determining the most appropriate level of pension benefits to provide. When the Plan faced a sizeable surplus in the late '90s, a full range of options was considered before deciding to improve benefits and subsidize contribution rates.

Between 1998 and 2003, a combination of price subsidies, benefit improvements, investment market losses, and growing liabilities have used up HOOPP's surplus. The price subsidies and benefit improvements were implemented partially in response to federal laws limiting pension plan surpluses.

With a change in 2003 to federal laws limiting pension plan surpluses (that HOOPP helped lobby for), very large pension plans can now build up higher levels of surplus, which will help us to better manage the price of the Plan through periods of adverse experience.

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Difficult, but Prudent, Decisions

Late in 2003, the Board confirmed it would implement the second phase of its plan to return to full, unsubsidized contribution rates effective January 1, 2004. For the first time since 1998, members and employers are paying the full cost of their benefits; surplus is no longer being used to lower costs.

These decisions we made in 2002 and 2003 were not easy ones. They were arrived at through much discussion and considerable thought, following extensive consultation with experts in pension plan funding from both inside and outside the organization.

The Board understands the potential hardships increased contribution rates present for many of our members. However, continuing lower investment returns and increasing liabilities left us with few alternatives. In hindsight, these were the right decisions and prudent first steps in the longer-term plan to ensure HOOPP can continue to provide for a secure tomorrow for its members.

Even with these steps, it is not out of the question that, in the next year or two, like other pension plans, HOOPP could find itself projecting an unfunded liability, where estimates of the Plan's long-term liabilities exceed assets. Should this happen, it won't mean that we will be unable to pay pensioners their benefits – but it would mean that adjustments for the long-term health of the Plan may be in order.

The paramount responsibility of HOOPP's Board of Trustees is ensuring benefits remain adequately funded. To this end, the Board is devoting the first half of 2004 to determining what benefits best meet the needs of members at a cost that is affordable – to ensure the Plan can continue to deliver reliable retirement benefits in the decades to come.

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Messages

Strong Governance

In further support of its governance role, the Board took steps in 2003 to ensure that the personal information the Plan holds is protected and secure. Disclosure and non-disclosure policies were introduced to address legal and regulatory requirements, as well as to control and manage the release of information to members and other parties with an interest in the Plan. These build on the privacy policy approved by the Board in 2002.

In Appreciation

Health care workers in Ontario faced many challenges during 2003. The Board salutes those on the front lines for their dedicated and courageous efforts, and offers condolences to the families of those who gave their lives to serve others.

We also extend special thanks to Martha Milcynski, the Board's long-time legal adviser, who is leaving after being appointed to the Federal Court, and to Martin Brown, the Board's actuarial adviser, who is retiring after many years of service. Both have made invaluable contributions to the Board since its inception, and we have benefited from their knowledge and their wise counsel.

The Board's focus on the Plan's long-term health is supported by the day-to-day work of HOOPP staff, to whom we express our gratitude for their tremendous efforts again in 2003.

Dan Anderson
Chair

Kelly Butt
Vice-Chair

Messages

President & CEO's Message

John A. Crocker
PRESIDENT & CEO

Focused on Your Future

Service improvements for today and tomorrow were a key focus for HOOPP in 2003 while robust investment returns also made for a year of recovery for the HOOPP Trust Fund.

2003 Improvements

Financial Picture Improved | Client Service Always in Sight | Business Continuity Plan Well Underway

Financial Picture Improved

For the first time in three years, we generated a positive return of 14.86 per cent, beating our composite benchmark by 48 basis points. This translates into approximately $90 million of value added to the Fund. The Plan's assets – funds available to pay the pension benefits owed to our members – increased from $16.1 billion in 2002 to $18.7 billion at the end of 2003.

Our successful investment year was partly a result of implementing HOOPP's currency hedging policy, which helped protect the foreign investments in the Trust Fund from considerable appreciation of the Canadian dollar during 2003.

These past three years have seen incredible volatility in the financial markets, and no one knows what the markets hold for 2004. Regardless, in 2004 we will continue to exercise our disciplined approach to investing the Trust to achieve the Plan's long-term funding objectives.

top

Client Service Always in Sight

Despite the difficult times for pension plan funding, we made a change early in the year in the way pension contributions are deducted from retroactive pay settlements to better align with the benefits earned under the Plan. This permanent change resulted in a one-time saving of millions of dollars for both members and employers for retroactive settlements that applied to years in which HOOPP contribution rates were lower.

During 2003, we also made significant progress in our multi-year Client Relationship Excellence program. This program supports HOOPP's goal of providing timely, accurate, consistent, and responsive service to our clients.

Administering pension benefits for over 200,000 active and retired members is a complex and high volume business. New automated workflow processes and case management tools were introduced in 2003 which helped us improve our service delivery and reduced the average length of benefit transactions. We also achieved improvements to our call centre operations which meant we handled more calls and significantly speeded up our response times.

Another important accomplishment for 2003 was the completion of the design and development work for a new pension administration system, with further development work and initial implementation being a key objective in 2004. Full implementation is scheduled for completion in 2005.

In the fall, HOOPP conducted province-wide employer seminars that provided updated administrative training for more than 900 participants. A new online employer administration manual and an online pension adjustment calculator were also introduced. These tools, which ease the work of employers, are part of our plan to provide more Web-based services.

In the year ahead, we will manage the development and initial implementation of our new pension administration system with an eye on risk and cost management, keeping sight of our goal of improved service.

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Business Continuity Plan Well Underway

HOOPP's role as the provider of retirement income to the province's health care workers is vital. During 2003 we made considerable progress on our business continuity plan, to ensure that we could continue to invest the Trust Fund and deliver pension benefits to our members in the event of a service disruption at our current offices. In addition to the development of a full continuity and restoration plan, we undertook three successful tests of the plan, including a 24-hour restoration of the business at a backup site.

A View to the Future

Managing a pension plan that provides for a secure tomorrow is a responsibility we take seriously at HOOPP. I pledge to keep this responsibility at the heart of every decision made on behalf of our members, pensioners, and employers.

John A. Crocker
President & CEO

2003 Stories

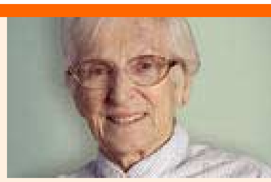
Stories in Brief

Lynn Wendorf

HOOPP Member Profile

Lynn Wendorf is pleased to have been a HOOPP member for the past 14 years because of the strong financial foundation she is building for her future and HOOPP's excellent service.

> More

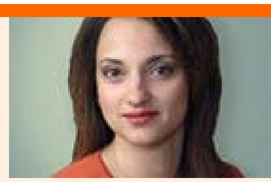


Ketha Nicol

HOOPP Pensioner Profile

Retired for 19 years, Ketha Nicol finds HOOPP's inflation protection feature has made for an enjoyable retirement and a positive outlook on the future.

> More



Vanessa Cimino

HOOPP Employer Profile

HOOPP's user-friendly, online administration manual has been available for only a short time, but has already made a convert of Vanessa Cimino, of the Community Care Access Centre Niagara.

> More

Planning for the Long Term

- HOOPP confirmed a return to unsubsidized contribution rates
- A more integrated funding management program is being developed
- Advocacy efforts were begun to preserve long-term benefit security > More

2003 Services to Members

- HOOPP provided services to 143,700 members and 63,900 pensioners
- We progressed with the multi-year Client Relationship Excellence program
- Improvements were made in call centre operations and benefit processing > More

Strong Governance Is Part of Securing Tomorrow

- HOOPP is led by a Board of Trustees charged with overseeing all aspects of the Plan and the Fund
- In 2003, Board committee mandates were reviewed
- As well, the policies governing the Board's operations were reviewed and augmented > More

2003 Stories

HOOPP Member Profile

Lynn Wendorf

One Member's Financial Foundation for the Future

In her career, Lynn Wendorf has worked for enough employers to know the difference between good and bad pension plans. She's definitely pleased to have been a HOOPP member for the past 14 years.

"There are a lot of pension plans out there where it takes a long time – like up to several years – to become eligible for enrolment," says Lynn, who has been executive assistant to the Assistant Executive Director of Patient Care Services at St. Joseph's General Hospital in Elliot Lake for the past three-and-a-half years. She worked in a number of departments at St. Joseph's over the years before assuming her current position.

"It's important to become part of a pension plan early to begin building a financial foundation for the future," says Lynn. Full-time employees with a HOOPP employer now join the pension plan as soon as they're hired.

A pension plan with good survivor benefits is also important to Lynn. "It helps provide peace of mind for your family," she says. With HOOPP, a qualifying spouse receives a lifetime pension upon the death of a HOOPP member after retirement.
> Read more about planning for the long-term

During 2003, Lynn inquired about HOOPP's past service purchase program to look at buying back service for the short period of time before she joined the Plan back in the late '80s. "I received a response to my request much quicker than I expected," says Lynn. "HOOPP's service has always been excellent."
> Read more about member services

2003 Stories

HOOPP Employer Profile

Vanessa Cimino

Online Administration Manual a Hit in St. Kitts

HOOPP's online administration manual has been available for only a short time, but has already made a convert of Vanessa Cimino, of the Community Care Access Centre Niagara, located in St. Catharines.

"It's very user-friendly, with simple-to-follow instructions," says Vanessa. "For example, when we were looking to re-hire a retired employee, I used the Index feature to quickly find the information I was looking for."

Vanessa first found out about the online manual at HOOPP's employer seminar in St. Catharines during the fall of 2003. HOOPP conducted these province-wide employer seminars to provide updated administrative training, attracting more than 900 participants. Apart from the online manual, an online pension adjustment calculator also was introduced in 2003 as part of the Plan's progress toward providing more electronic services. > Read more about HOOPP's employer support

Vanessa has been a Human Resources Coordinator with Community Care Access Centre Niagara for two years. She has been a HOOPP member since 1997.

2003 Stories

HOOPP Pensioner Profile

Ketha Nicol

Annual Cost of Living Increase Helps Pensioner Look to the Future – After 19 Years

Eighty-three-year old HOOPP pensioner Ketha Nicol in Ottawa has had many enjoyments in her retirement, particularly spending time with friends and family, and quilting.

She's also enjoying spending time with her grandson from Belleville who's staying with her while attending Carleton University. And, through the 19 years of her retirement, she's never had to worry about the purchasing power of her HOOPP pension.

Ketha retired from the psychiatric ward of the Ottawa Civic Hospital in 1985 following 17 years of full-time employment. She had also previously worked part-time for eight years. Ketha returned to the workforce in 1960 just as her six children were growing up and starting to fend for themselves.

She has been recovering from a fractured pelvic hip after being hit by a car while crossing an Ottawa street in November 2003. "I've never had so much as a broken bone until this accident," says Ketha. "Since I've been so healthy all my life, I also look forward to a healthy recovery."

Ketha has found her pension from HOOPP, along with what she and her late husband saved, has made for a most comfortable retirement. She particularly appreciates HOOPP's inflation protection feature. "The annual cost of living increase is something I believe all pensioners look forward to," says Ketha.

2003 Stories

Long-Term Planning

Looking Forward to the Years Ahead

Advocacy, investment strategy and funding management are all part of HOOPP's planning for the long term.

Long-Term Funding

In 2003, HOOPP's Board of Trustees confirmed it would implement the second phase of its plan to return to full, unsubsidized contribution rates effective January 1, 2004. This marked the first time since 1998 that surplus was not being used to lower the cost of the Plan for members and employers.

In all, contributions for members and employers were subsidized by $1.7 billion during the 1999 to 2003 period. A thorough review of funding, pricing, and benefit design is underway to ensure reliable retirement benefits continue to be offered at a cost that is reasonable. This approach will pave the way for a secure tomorrow for HOOPP's membership.

The Plan's surplus decreased by $995 million to $15 million at the end of 2003. A combination of price subsidies, benefit improvements, investment market losses, and growing liabilities, have effectively used up HOOPP's surplus. > More

Looking forward, the ongoing annual cost of the Plan and HOOPP's overall funded position will depend largely on the retirement trends of active members over the next 10 to 20 years, as well as the rate of new entrants, and the Fund's investment performance.

Demographics Necessitate Full Contribution Rates

HOOPP's full contribution rates reflect the demographics of the health care workforce. A few years ago, HOOPP recognized that the median retirement age for HOOPP members had dropped from 62 to 59. Pensioners were also living longer – on average about two years longer. This means that the Plan will make approximately 60 more monthly pension payments to the average member. This new reality is reflected for the first time in HOOPP's full contribution rates for 2004.

Asset Mix Strategy

Investment diversification among asset classes is essential for HOOPP to meet its fiduciary responsibility to members under a wide range of economic and investment conditions. HOOPP has an asset mix policy of 60 per cent equities and 40 per cent fixed income. This policy reflects a continued expectation that equities will outperform fixed income securities over the long term. This policy decision effectively aligns HOOPP's investment strategy with its long-term pension liabilities. > More

Design of the Plan

In 2003, HOOPP committed to the development of a more integrated funding risk management program to better measure and monitor the Plan's benefit, investment, and funding risks over the short and long terms. A multi-year initiative, this program will help HOOPP better define, monitor, and manage risks, and achieve the Plan's funding targets. > More

When projecting the Plan's financial position forward, consideration is given to the short-term demographic and economic outlook, including expected membership trends and expected Fund performance. As well, the impact of investment gains or losses already incurred – but not yet reflected under the asset smoothing method – is fully recognized in the management valuation projections.

Often the outlook is quite different from the point-in-time valuation. HOOPP's Board of Trustees uses both approaches for decision-making to ensure the focus remains on long-term benefit security, while managing short-term results to minimize price volatility for members and employers. > More

Advocacy

As a result of successful advocacy efforts with other major Ontario pension plans regarding excess surplus limits, new federal tax rules were introduced during 2003 that provide greater funding flexibility for large pension plans such as HOOPP. The new rules will permit the build up of larger surplus in the future, which can be used to better manage the price of the Plan through periods of adverse experience.

Also during 2003, HOOPP, along with other major Ontario pension plans, began advocacy efforts to change provincial solvency rules, again to permit greater funding flexibility to better manage the price of the Plan during periods of short-term volatility, while preserving long-term benefit security. > More

2003 Stories

Member Services

2003 Service Improvements

Service improvements were a key focus in 2003, with new automated workflow processes and case management tools being introduced.

In addition to assisting HOOPP's Board of Trustees in setting the Plan's price and managing the funding and design of the Plan, the Plan management team delivers pension administration services to its more than 143,700 active members, 63,900 current and deferred pensioners, and 337 health care employers.

During 2003, HOOPP made significant progress in the development of the organization's multi-year Client Relationship Excellence program. This program supports HOOPP's goal of providing timely, accurate, consistent, and responsive service to HOOPP's clients. Design and development work for a new pension administration system was completed during the year, with initial implementation being a key objective in 2004. Full implementation is scheduled for completion in 2005.

Improvements were made to call centre operations, including better response times and handling of increased call volumes. Backup teams also were created to add flexibility and continuity to call centre staffing on an ongoing basis.

Services to HOOPP's clients for benefit processing also improved in 2003. Efficiencies were realized through streamlined processes, and productivity gains arose from more proactive workflow and resource management, and enhanced training.
> More

2003 Stories

Governance Summary

Strong Governance Is Part of Securing Tomorrow

As a member of a board governing a trust, each HOOPP Trustee is a fiduciary acting solely in the best interests of the Plan beneficiaries. The fiduciary duty is the highest standard known to law.

Board Composition

HOOPP is led by a Board of 16 Trustees appointed by HOOPP's five settlor organizations. Half of the Trustees are appointed by the OHA and the other half by the four unions, with each union nominating two Trustees. > More

Operating Structure

The Board of Trustees is responsible for overseeing all aspects of the Plan and the HOOPP Trust Fund. Among its responsibilities, the Board of Trustees:

- approves contribution and benefit payment levels
- makes changes to the Plan and its benefits
- establishes investment policy
- monitors investment performance
- approves annual operating budgets

A key feature of the Plan is its cost-sharing provisions. Employer contributions range from 120 to 132 per cent of member contributions, and the costs of future Plan improvements are shared equally between members and employers. > More

Trustee Responsibility

The HOOPP Board of Trustees is the Administrator of the Pension Plan and Trust Fund. HOOPP's Trustees must ensure that any decision they make complies with both the Plan text (the legal document that sets out the detailed Plan provisions), and with the Agreement & Declaration of Trust.

As a member of a board governing a trust, each HOOPP Trustee is a fiduciary and, as such, acts solely in the best interests of the Plan beneficiaries as a whole. The fiduciary duty imposed on Trustees is the highest standard known to law. > More

Trustee Education

Pension plans are complex and technical. To that end, HOOPP invests extensively in Trustee education programs. An increased knowledge of pension and investment matters enables Trustees to make informed decisions, and to subsequently fulfill their fiduciary obligations. > More

Committee Structure

The Board of Trustees has established four Committees to assist it in fulfilling its duties:

- Plan
- Investment
- Governance
- Audit & Finance

During 2003, an extensive review of Committee mandates was completed to ensure that the Committees both support the Board fulfilling its fiduciary responsibility, as well as recognize the authority delegated to management, as efficiently as possible. Each Committee has a Board-approved mandate. The Committees receive information from HOOPP management and from HOOPP's external advisors. They fully analyze and assess the issues before them and then either decide the matter, if the decision has been delegated to the Committee by the Board, or make recommendations to the Board of Trustees. > More

2003 Stories

Policies

HOOPP's Board of Trustees has established and approved more than 30 policies for the pension plan covering governance, financial operations, investment of the Fund, and management of the Plan. These policies are reviewed on a regular basis to ensure their relevancy and effectiveness.

In 2003, the following policies were reviewed/amended:

- statement of investment policies & procedures
- investment policies & guidelines
- delegation of management authority to Plan Manager, President & CEO
- auditor independence
- advocacy

In 2003, the following new policies were approved:

- disclosure
- non-disclosure
- client research
- group past service transfers

Role of Management

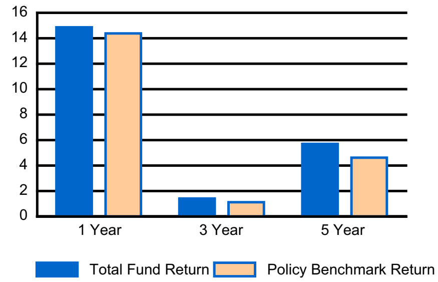
The Plan Manager, as defined under the Agreement & Declaration of Trust, is the President & CEO. The President & CEO reports directly to the Board of Trustees. > More

Financial Highlights

With recovering financial markets in 2003, the Fund's active management style, combined with its asset mix strategy, helped add value of 48 basis points. The Fund generated a return of 14.86 per cent, outperforming the benchmark return of 14.38 per cent. HOOPP's average annual return over the last five years is 5.7 per cent compared to the composite benchmark of 4.62 per cent.

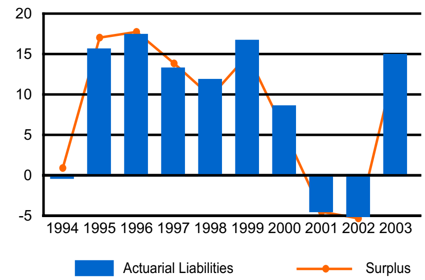
Total Fund vs. Policy Benchmark

Returns (%)



Actual Net Return vs. Benchmark

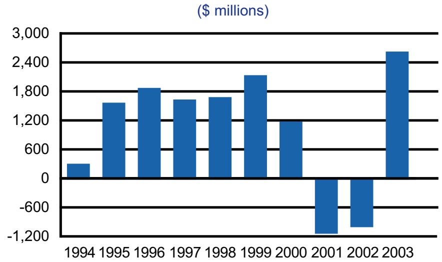
(%)



> Read more about Investment Management
> Read more about Major Portfolio Details (Performance by investment type)

Change in Net Assets

($ millions)



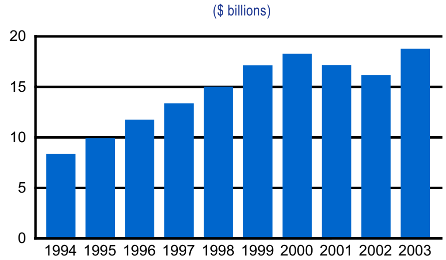
($ Millions)		As at Dec. 31, 2003		As at Dec. 31, 2002		$ change
Net assets	$	**18,657**	$	16,058	$	2,599
Actuarial asset value adjustment		**1,471**		2,766		(1,295)
Actuarial value of net assets		**20,128**		18,824		1,304
Accrued pension benefits		**20,113**		17,814		2,299
Surplus		**15**		1,010		(995)

A combination of price subsidies, benefit improvements, investment market losses, and growing liabilities have effectively used up HOOPP's surplus.

The Plan's surplus decreased by $995 million to $15 million at the end of 2003.

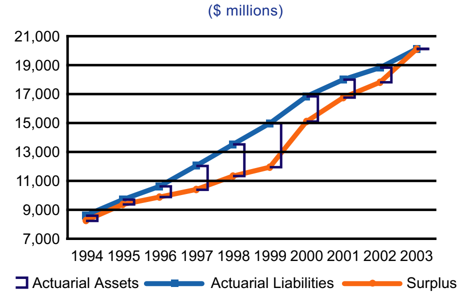
Net Assets

($ billions)



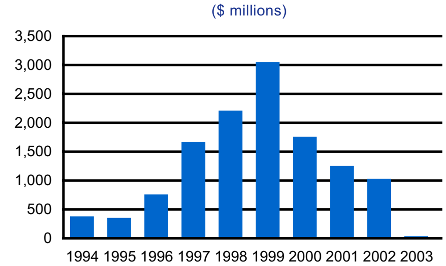
Actuarial Assets and Liabilities

($ millions)



Financial Statement Surplus

($ millions)



> Read more about Valuing the Assets
> Read more about Valuing the Liabilities
> Read more about Determining the Surplus

Overview

Introduction | Year-End Financial Position | Funding Since 1998

Introduction

In a year when single digit investment returns were generally expected, the HOOPP Fund generated a return of 14.86 per cent. The Fund's active management style, combined with its asset mix strategy, helped add value of 48 basis points. This translates into approximately an additional $90 million for the Fund.

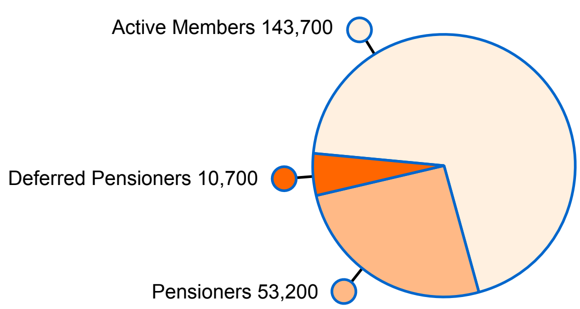
Equity markets were resilient in spite of the war in Iraq, continuing terrorist threats, fears over severe acute respiratory syndrome (SARS), and mad cow disease. Bond markets, despite significant volatility, finished the year essentially where they began. HOOPP's results in 2003 reflect the modest returns on the 40 per cent of its portfolio that is invested in bonds and the strong returns on the Plan's equity investments.

In 2003, HOOPP's Board of Trustees confirmed it would implement the second phase of its plan to return to full, unsubsidized contribution rates effective January 1, 2004. This marked the first time since 1998 that surplus was not being used to lower the cost of the Plan for members and employers.

In all, contributions for members and employers were subsidized by $1.7 billion during the 1999 to 2003 period. A thorough review of funding, pricing, and benefit design is underway to ensure reliable retirement benefits continue to be offered at a cost that is reasonable. This approach will pave the way for a secure tomorrow for HOOPP's membership.

The Plan's surplus decreased by $995 million to $15 million at the end of 2003. A combination of price subsidies, benefit improvements, investment market losses, and growing liabilities have effectively used up HOOPP's surplus.

Membership Profile



Active membership grew by approximately six per cent in 2003. Contributions to the Plan increased by 78 per cent reflecting the new contribution rates and membership growth, while benefit payments grew by 12 per cent due to the cost of living adjustment for 2002, further pensioner growth, and an increase in the average monthly pension.

During 2003, HOOPP moved forward with its multi-year client service delivery program. Services to HOOPP's clients for benefit processing and call centre activity also improved in 2003. Efficiencies were realized through streamlined processes, and productivity gains arose from more proactive workflow and resource management, and enhanced training.

HOOPP also implemented a number of governance and risk management practices, including the introduction of a more integrated process for monitoring operational risk, internal controls, and compliance, along with an expanded business continuity program.

In an ever-changing environment, management support is essential to enable staff to adapt to and embrace change. To support management – and achieve HOOPP's long-term service goals – a formal management development program will be introduced in 2004. Through this program, managers will get the training, tools, and resources they need to become more effective communicators, mentors, and motivators.

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Overview

Introduction | Year-End Financial Position | Funding Since 1998

Year-End Financial Position

The market recovery during 2003 contributed to an increase in the Plan's net assets available for benefits to $18.7 billion at the end of December 31, 2003. This represented an increase of $2.6 billion from the $16.1 billion reported at the end of 2002.

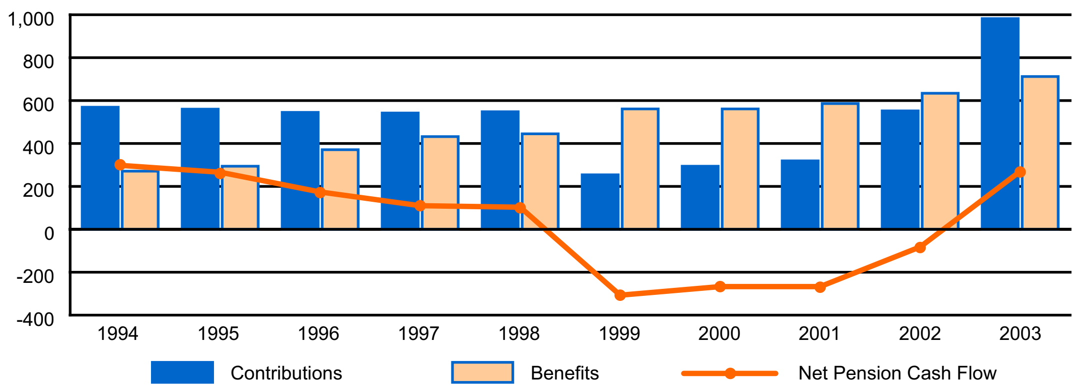
This increase in net assets is comprised primarily of net investment gains and positive net pension cash flow.

Investment gains totalled $2.4 billion in 2003, compared to losses of $845 million for the prior year. The increase attributed to investment gains was comprised of $970 million of investment income, $895 million of unrealized gains, and $529 million of realized gains.

Net pension cash flow, calculated as contributions – less benefit payments paid – was a positive $270 million for 2003, compared to a cash outflow of $82 million for 2002. The positive position was due largely to the reduction of the contribution subsidies for 2003, which resulted in contributions of $982 million in 2003, compared to $552 million in 2002.

Net Pension Cash Flow

($ millions)



Benefits paid also increased in 2003, reflecting the growth in the number of pensioners, as well as an increase in the average monthly pension as a result of the cost of living adjustment and earnings growth. These paid benefits totalled $712 million in 2003, compared to $634 million in 2002.

Net pension cash flow is expected to improve further in 2004 with the elimination of the remaining 10 per cent of contribution subsidies.

Operating expenses increased to $65 million for 2003, compared to $57 million in 2002. This was due primarily to increased professional fees relating to the multi-year client service delivery strategy that includes replacement of the Plan's pension administration system.

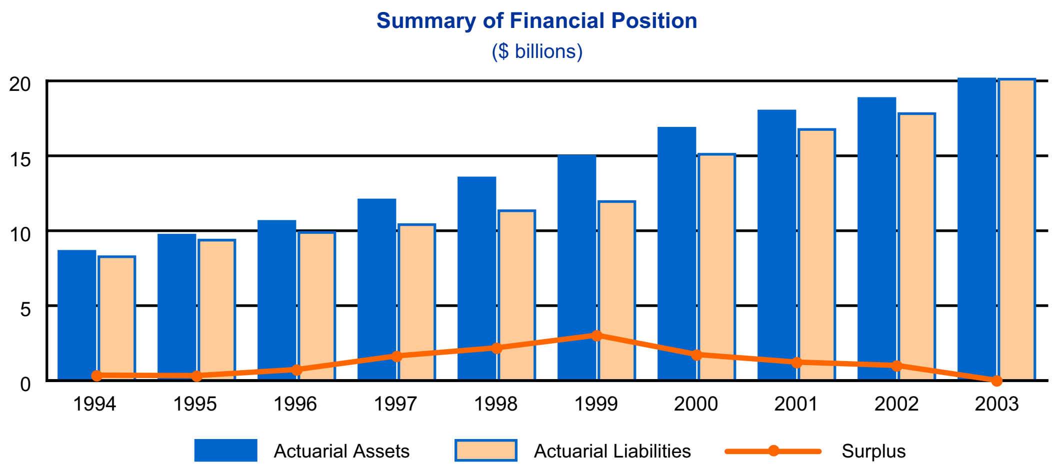
As a result, net assets available for benefits increased by $2.6 billion to $18.7 billion. For actuarial purposes, the net assets available for benefits are adjusted or "smoothed" to reflect an average value over five years, which helps minimize the impact of investment market volatility. This adjustment is referred to as the actuarial asset value adjustment.

Including $1.4 billion for actuarial smoothing, net assets available for benefits at the end of 2003 were $20.1 billion, approximately $1.3 billion higher than in 2002. The actuarial value of net assets available for benefits was $18.8 billion in 2002.

The Plan's accrued pension liabilities for the year ended December 31, 2003 were $20.1 billion, which is $2.3 billion higher than the $17.8 billion reported as at December 31, 2002.

Although net assets increased $2.6 billion over the year, this was offset by increases in accrued liabilities of $2.3 billion, and a decrease in the actuarial asset value adjustment of $1.3 billion. As a result, surplus was reduced to $15 million at December 31, 2003.

Management's Discussion and Analysis of Operations



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Funding since 1998

Strong investment returns for a five year period, beginning in 1996, built a sizeable surplus in the Plan. Federal legislation at the time limited the surplus a registered pension plan could hold to 10 per cent of its liabilities. When this limit was reached, pension plans either had to reduce or suspend contributions, improve benefits, or both.

When HOOPP first hit this limit in 1998, the Board decided that a combination of contribution rate subsidies and benefit improvements would be a prudent way to meet client needs and operate within the legislated limits. (Due to successful lobbying efforts to change the government's surplus limits, pension plans like HOOPP will – when major surpluses occur in the future – be allowed to build up larger surplus to better manage the price of the Plan through periods of adverse experience.)

Beginning in 1999, $2 billion in benefit improvements were made, while another $1.7 billion of surplus was used for contribution rate subsidies. In the first three years alone, members and employers saved $1.3 billion through subsidized contributions. These subsidies were reduced in 2002, starting the move back to the full cost of the Plan.

During this same period, changing demographic and economic conditions increased HOOPP's liabilities, which further drew down the Plan's surplus. Liabilities increased as a result of recognizing changes in longer term outlooks for investment earnings for the Fund, salary increases, and long-term inflation. On the demographic side, the recognition of continued high levels of early retirements and increased life expectancy also contributed to liability growth.

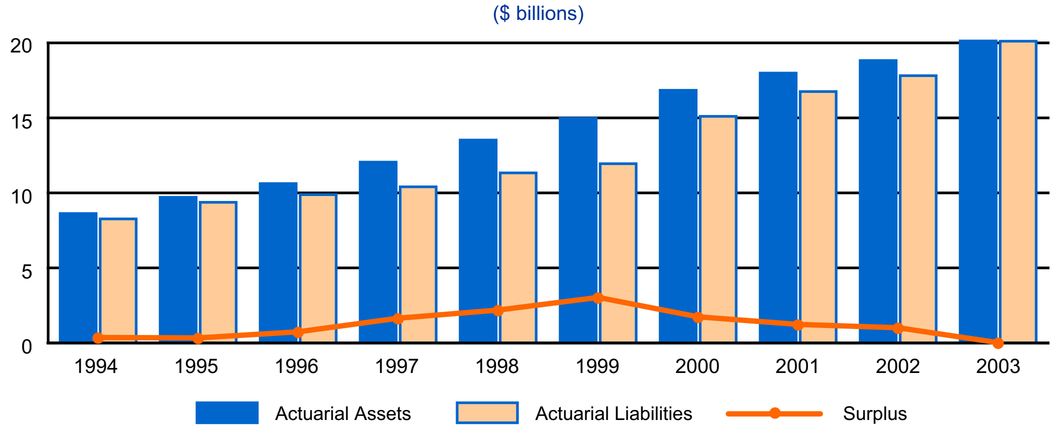
During 2001 and 2002, at a time when liabilities were growing, HOOPP also experienced negative investment returns and significant membership growth. New members were joining the Plan and reaping the benefit of heavily subsidized contribution rates. These two trends also reduced the Plan's surplus.

In response to the combined impact of these events on the financial position of the Plan, the Board of Trustees made the decision in 2002 to reduce the contribution subsidies for 2003 to 10 per cent, and return to full contributions effective January 1, 2004. This meant that, for the first time since 1998, surplus would not be used to lower the cost of the Plan for members and employers.

Over the last five years, a combination of price subsidies, benefit improvements, investment market losses, membership growth, and changes in long-term demographic and economic outlooks have effectively used up HOOPP's surplus.

Summary of Financial Position

($ billions)



Strong investment returns achieved in 2003 could not offset the impact of the negative returns of 2001 and 2002. It is not out of the question that, in the next year or two, HOOPP, like other pension plans, may find itself projecting an unfunded liability where estimates of the Plan's long-term liabilities exceed assets. Should this happen, it will not mean that HOOPP will not be able to pay pensioners their benefits. It would mean, however, that adjustments for the long-term health of the Plan may be in order.

Looking forward, the ongoing annual cost of the Plan and HOOPP's overall funded position will depend largely on the retirement trends of active members over the next 10 to 20 years, as well as the rate of new entrants and the Fund's investment performance.

HOOPP's Board of Trustees is spending the first half of 2004 reviewing the price of the Plan, along with the value of the benefits it offers. Providing for a secure tomorrow is at the heart of this review. The Board's goal will be to determine what, if anything, HOOPP needs to change to continue to be able to deliver reliable, affordable retirement benefits for Ontario health care workers in the years and decades to come.

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Introduction

In addition to assisting HOOPP's Board of Trustees in setting the Plan's price and managing the funding and design of the Plan, the Plan management team delivers pension administration services to its more than 143,700 active members, 63,900 current and deferred pensioners, and 337 health care employers.

HOOPP, like many other plans, has been subsidizing contribution rates. HOOPP returned to the full price of the Plan effective January 1, 2004. This brought an end to a five-year period of price subsidies for members and employers.

Rates for 2003 were slightly subsidized, representing about 90 per cent of the full cost of providing HOOPP benefits. This subsidy saved members and employers approximately $100 million in 2003. (The 2002 rates were approximately 55 per cent of the full cost, while subsidized rates for 1999 through 2001 were about 35 per cent of the full contribution rates.)

HOOPP's full contribution rates reflect the demographics of the health care workforce. A few years ago, HOOPP recognized that the median retirement age for HOOPP members had dropped from 62 to 59. Pensioners were also living longer – on average about two years longer. This means that the Plan will make approximately 60 more monthly pension payments to the average member. This new reality is reflected for the first time in HOOPP's full contribution rates for 2004.

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Contributions versus Pension Benefits

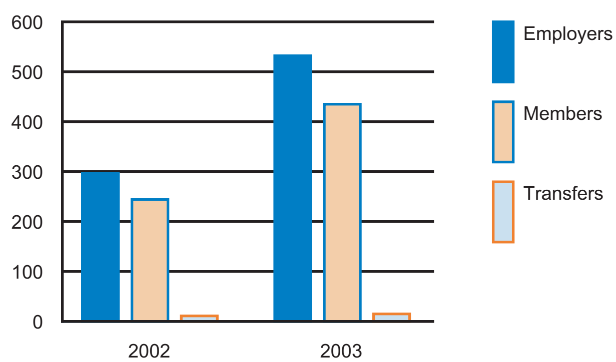
Contributions: Contributions in 2003 increased by $430 million on a year-over-year basis to end at $982 million, compared to $552 million in 2002, representing an increase of 78 per cent.

The increase is due primarily to the reduction in contribution subsidies for 2003, resulting in members contributing 90 per cent of the cost to provide HOOPP. To a lesser extent, contributions also increased as a result of membership and salary growth in 2002 and 2003.

Contributions will increase further in 2004 when the subsidy will be eliminated entirely and HOOPP members and employers will pay the full cost of the Plan. Salary growth is also expected to continue in 2004.

Overall in 2003, employers contributed 54 per cent of the total, members contributed 44 per cent, and transfers from other plans represented two per cent.

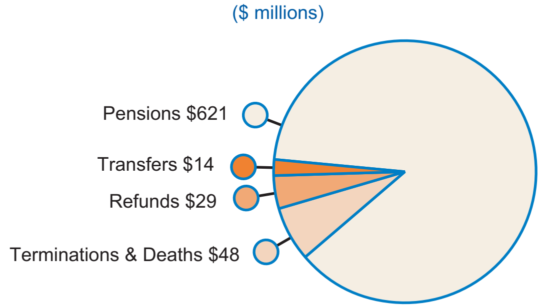
Contributions
($ millions)



Pensions and Benefits Paid: Pensions paid out by HOOPP increased in 2003, the reasons for which are twofold. First, HOOPP experienced growth in the number of pensioners – 53,200 pensioners in 2003, compared to 49,400 pensioners in 2002, representing an increase of approximately eight per cent. Secondly, there was a 2.9 per cent cost of living adjustment to pensions for 2002, which resulted in higher monthly pensions starting April 1, 2003. This trend of increased pension benefits is expected to continue into the foreseeable future as a result of further pensioner growth and an increase in the average monthly pension due to salary increases and inflation protection.

In 2003, benefits totalled $712 million, an increase of 12 per cent from the $634 million paid out in 2002. Of the total payments, 87 per cent represented retirement pension payments, seven per cent commuted value transfers and death benefits, four per cent refunds, and the remainder was from transfers.

Benefits Paid
($ millions)



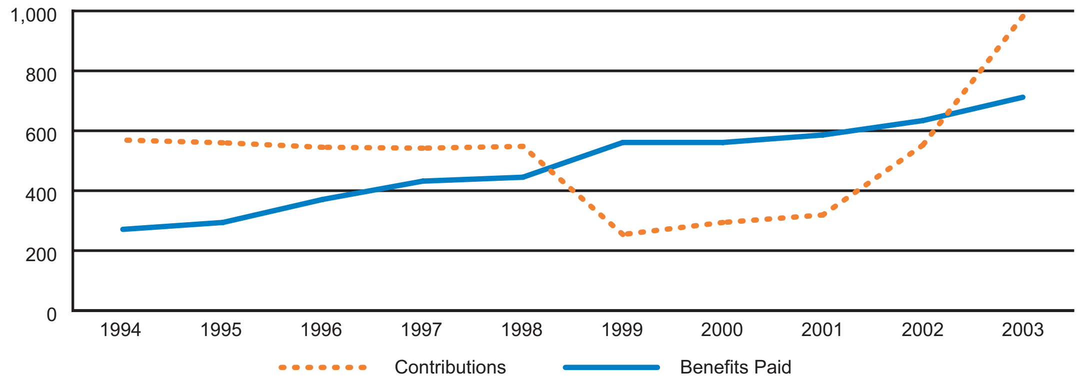
Management's Discussion and Analysis of Operations

Net Pension Cash Flow: In 2003, HOOPP experienced the first positive net pension cash flow since 1998, totalling $270 million. This compared to the $82 million cash outflow experienced in 2002.

The major reason for the increase is the reduction of the contribution subsidies to 10 per cent, effective January 1, 2003. This meant HOOPP members were responsible for paying 90 per cent of the cost of HOOPP, a 66 per cent increase in member contributions compared to 2002. HOOPP expects the positive cash flow position to continue into 2004 when the contribution subsidies will be eliminated altogether.

Contributions vs. Benefits Paid

($ millions)



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Funding and Design

The cost of all current and expected future pensions is monitored regularly to ensure the Plan has sufficient funding to pay, over the long term, benefit obligations as they become due.

The Plan management team works closely with HOOPP's actuarial advisor to prepare financial estimates at least annually, that are extrapolated over decades. The information and analysis derived from this work assists HOOPP's Board of Trustees in making decisions about the price and benefits under the Plan, and the level of funding reserves that should be established and maintained for periods of adverse experience.

A funding valuation is used to determine the amount of money the Plan needs to fund benefits as they continue to be earned. Assets to pay pensions come from two sources – contributions and investment returns. Over time, approximately 80 per cent of pension benefits are paid from investment returns, while the other 20 per cent are paid from contributions.

In 2003, HOOPP committed to the development of a more integrated funding risk management program to better measure and monitor the Plan's benefit, investment, and funding risks over the short and long terms. A multi-year initiative, this program will help HOOPP better define, monitor, and manage risks, and achieve the Plan's funding targets.

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Determining the Surplus

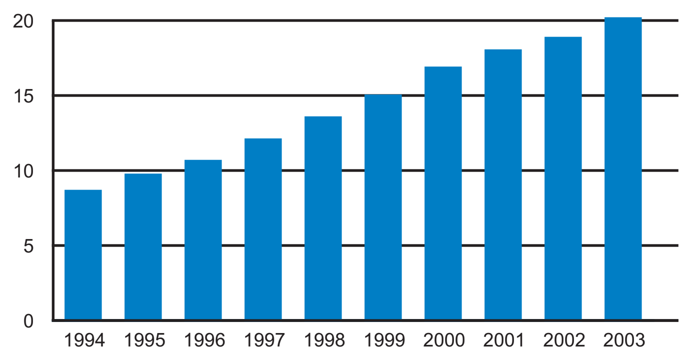
Valuing the Assets: Defined benefit pension plans such as HOOPP must be able to meet financial obligations – in the form of benefits owed to members – that may not be paid for many years. This means assets and liabilities must be assessed with a long-term view.

Like most pension plans, HOOPP uses market prices to determine the current value of its assets. An actuarial asset adjustment is then applied to the Fund market value based on a five-year average of investment return rates, or a "smoothing" method.

This smoothing method allows decision-making based on long-term investment return trends and objectives, while avoiding inappropriate short-term reactions to market events. This is a common actuarial technique and is used to maintain price stability during periods of short-term market volatility.

Actuarial Value of Net Assets

($ billions)

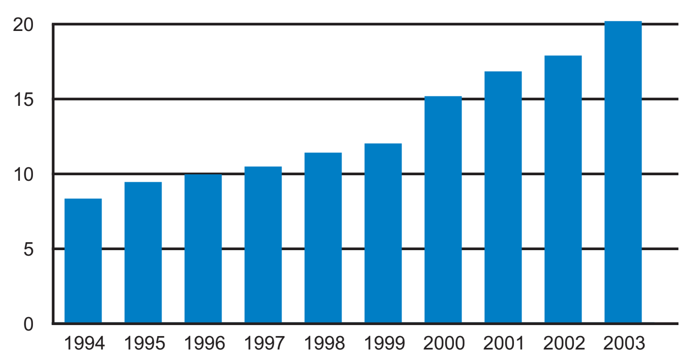


Valuing the Liabilities: The value of HOOPP's future liabilities is calculated using the projected accrued benefit method, prorated on service. This method determines the actuarial present value of pension benefits based on service accrued as of the reporting date, and also reflects anticipated events, such as salary increases, as well as active members "growing" into benefit entitlements as they earn more service.

To determine liabilities, HOOPP must forecast future economic, market, and demographic conditions. Based on these forecasts, certain assumptions are made about various factors, such as when members will retire, terminate, and die, as well as future rates of interest, inflation, and salary increases in the health care field. HOOPP reviews its economic forecasts annually, and conducts sensitivity analyses to determine whether these assumptions are still appropriate.

Present Value of Accrued Pension Benefits

($ billions)



Management's Discussion and Analysis of Operations

Surplus Result: The actuarial surplus or deficit at a point in time is determined by deducting the present value of accrued liabilities from the actuarial value of assets. To effectively manage the Plan's financial position, as measured by long-term benefit security and short-term price stability, it is important to look at both the present and the future.

When projecting the Plan's financial position forward, consideration is given to the short-term demographic and economic outlook, including expected membership trends and expected Fund performance. As well, the impact of investment gains or losses already incurred – but not yet reflected under the asset smoothing method – is fully recognized in the management valuation projections.

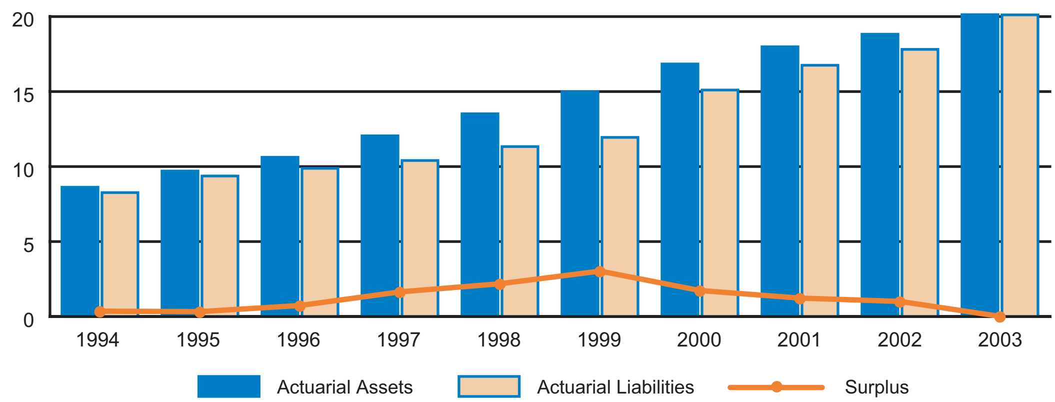
Often the outlook is quite different from the point-in-time valuation. HOOPP's Board of Trustees uses both approaches for decision-making to ensure the focus remains on long-term benefit security, while managing short-term results to minimize price volatility for members and employers.

On a year over year basis, the surplus decreased to $15 million at the end of 2003 from approximately $1.0 billion a year earlier.

Approximately $1.4 billion of investment losses have not yet been reflected in the 2003 financial position as a result of the asset smoothing method. What remains of the surplus will likely disappear over the next few years as the Plan absorbs the full impact of the negative market returns in 2001 and 2002 in its smoothed asset value.

Summary of Financial Position

($ billions)



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Retirement Compensation Arrangement

HOOPP has a seamless Retirement Compensation Arrangement (RCA), which allows all members to build benefits on full earnings, despite limits set out under the *Income Tax Act* for registered pension plans. This unique arrangement allows for the most tax-effective funding of the total Plan. Further details can be found in note 11 to the consolidated financial statements.

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Client Service

During 2003, HOOPP made significant progress in the development of the organization's multi-year Client Relationship Excellence program. This program supports HOOPP's goal of providing timely, accurate, consistent, and responsive service to HOOPP's clients. Design and development work for a new pension administration system was completed during the year, with initial implementation being a key objective in 2004. Full implementation is scheduled for completion in 2005.

Service improvements were a key focus in 2003, with new automated workflow processes and case management tools being introduced. Improvements were made to call centre operations, including better response times and handling of increased call volumes. Backup teams also were created to add flexibility and continuity to call centre staffing on an ongoing basis.

During 2003, HOOPP's annual data collection process with employers experienced improvements in both data timeliness and accuracy over previous years. As well, 69 per cent of the data reports were e-filed back to HOOPP this year, representing an increase of more than 15 per cent from the first year this service was offered in 2002.

These improvements meant that HOOPP was better positioned to handle the increased workload resulting from growing numbers of new members. More timely and accurate data reporting from employers also led to improved annual statement delivery.

Greater emphasis on client service skills enhancement also contributed to a better service experience for HOOPP's members and employers in 2003.

In the fall, HOOPP conducted province-wide employer seminars that provided updated administrative training for more than 900 participants. A new online employer administration manual and an online pension adjustment calculator were also introduced, as part of the Plan's progress toward providing electronic services to employers. As well, HOOPP increased its visits to employers in 2003 to strengthen the critical business partnership HOOPP needs with participating employers for the overall administration of the Plan.

Management's Discussion and Analysis of Operations

Investment Management

Introduction | Active Management | Asset Mix | Asset Mix vs. Policy | Derivatives | Currency Hedging

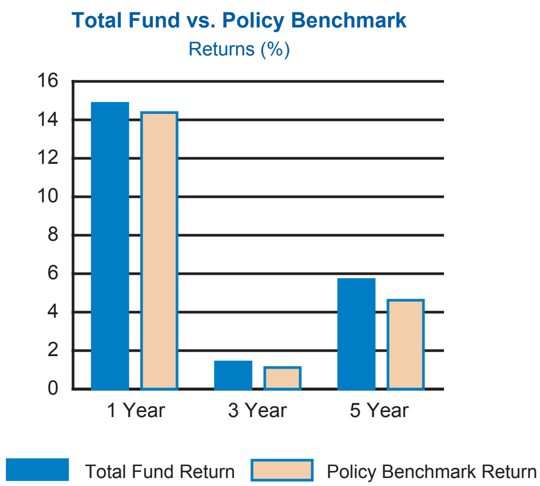
Introduction

The HOOPP Fund nominal long-term funding target for 2003 was 7.75 per cent, with a target real rate of return after inflation of 5.50 per cent. The Fund's 60/40 per cent equity/fixed income asset mix is expected to earn five per cent real return over the long term, with active management contributing an additional 0.5 per cent.

The two basic active investment strategies that HOOPP employs to achieve this target are:

- varying the Fund's asset mix, and
- active management within each asset class.

In 2003, stimulative monetary and fiscal policies, low interest rates and low inflation, and the resolution of the military conflict in Iraq contributed to recovery of the global economy. Corporate profits also demonstrated sharp increases, with the recovery in profits being broadly based.



While companies were focusing on expense reduction and inventory management early in the year, improvements in economic growth as the year progressed forced many companies to replenish inventories. This increase in production helped fuel hiring, ultimately raising income levels and, in turn, increasing consumer spending, further contributing to the recovery.

Reflecting these market conditions, the return of HOOPP's composite benchmark was 14.38 per cent. The actual Fund ended the year with an overall return of 14.86 per cent, or 48 basis points above the benchmark. With the Canadian inflation rate being 1.99 per cent, the Fund's real return was 12.87 per cent.

Active management and asset mix strategies have added value to the Fund averaging 29 basis points annually over the past three years, and 108 basis points annually over the last five years.

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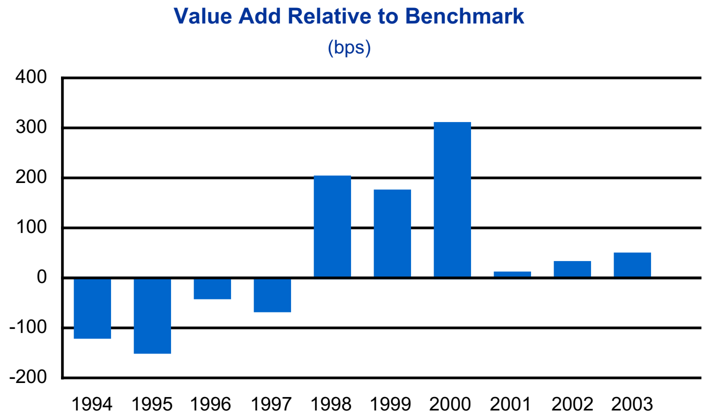
Active Management

Most of the Fund assets are actively managed, with 27 per cent invested in passive strategies. Approximately 73 per cent of the Fund is managed directly by investment professionals employed by HOOPP. External managers invest the rest of the Fund's assets, primarily in international equity investments.



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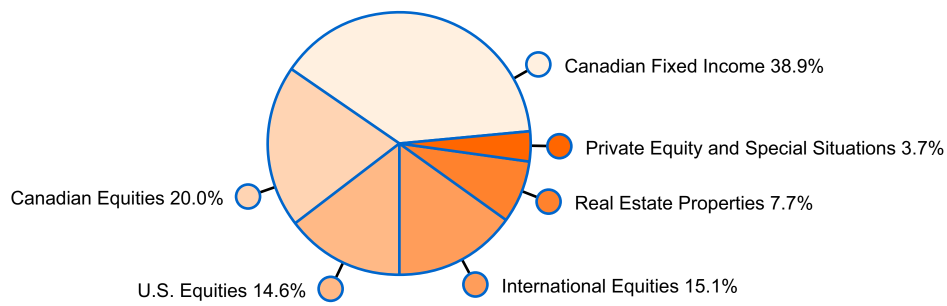
Asset Mix Strategy

Investment diversification among asset classes is essential for HOOPP to meet its fiduciary responsibility to members under a wide range of economic and investment conditions. HOOPP has an asset mix policy of 60 per cent equities and 40 per cent fixed income. This policy reflects a continued expectation that equities will outperform fixed income securities over the long term. This policy decision effectively aligns HOOPP's investment strategy with its long-term pension liabilities.

The Plan's policy permits the asset mix to deviate from the 60/40 ratio by plus or minus three percentage points. This allows for minor shifts in asset mix caused by changing values within the portfolio, as well as small deviations for strategic purposes.

Fund Mix

(%)



Throughout 2003, HOOPP maintained an overweight position in equity markets with an underweight position in fixed income. Although fixed income markets provided positive returns for the year, these returns were clearly overshadowed by equity returns in the period, with most major global and domestic equity market indices up by over 20 per cent by year-end.

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Asset Mix versus Policy

As at Dec. 31, 2003	Actual Mix* %	Policy Mix* %
Fixed Income	38.9	40.0
Equity	61.1	60.0

* After derivatives have been taken into account

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Derivatives

The HOOPP Fund employs derivative strategies to:

- manage risk
- manage foreign exchange exposures
- achieve asset mix changes more efficiently
- enhance individual portfolio investment returns

Rather than following the traditional method of changing asset mix by selling one asset class and purchasing another, derivative contracts are purchased or sold to overlay and counter balance the associated underlying asset class. This allows the Fund to change the economic exposure of an asset without conducting transactions in the underlying asset classes.

Derivatives have significantly lower transaction costs, and have much greater liquidity than the underlying assets, so the Fund can make asset mix changes more quickly and cost-effectively. Derivative contracts are fully backed by money market assets to prevent the use of leverage. As a result, the size of the HOOPP money market backing assets has grown significantly.

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Currency Hedging

As part of its diversification and performance strategies, HOOPP invests 30 per cent of the total Fund in foreign securities. This also subjects the Fund to foreign currency exposure. To reduce this risk, HOOPP maintains a 50 per cent hedge policy which is managed through the use of various currency derivatives.

This policy produced enhanced returns for the Fund in 2003 in response to the significant appreciation of the Canadian currency.

Management's Discussion and Analysis of Operations

Major Portfolio Details

North American Equities | International Equities | Real Estate | Private Equity | Fixed Income

North American Equities

Canadian Equities: Following a disappointing first quarter, Canadian markets rebounded to finish the year strongly. Stock valuations increased throughout the remainder of the year as the market benefited from global economic recovery, the relatively quick conclusion of the Iraq war, stimulative fiscal and monetary policies, and interest rate reductions. The Toronto Stock Exchange S&P/TSX composite index finished the year up 25.51 per cent.

Against this background, HOOPP's portfolio return – including both internal and external management – was 25.45 per cent, underperforming the benchmark by six basis points.

The internally-managed portfolio returns benefited from strong stock selection in energy and financials. The portfolio also benefited from being underweight in health care stocks, and from good investments in commodity stocks, particularly gold and base metals.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Canadian equities – internal	26.22	25.51	S&P/TSX60 Total Return Index
Canadian equities – external	21.35	25.51	S&P/TSX60 Total Return Index

U.S. Equities: The S&P 500 was up for the first time in four years during 2003, rising more than 28 per cent in U.S. dollar terms. However, because of U.S. dollar weakness, this translated into a gain of just 5.26 per cent for Canadian investors.

HOOPP's internally managed portfolio return was 5.28 per cent, outperforming the benchmark by two basis points.

The externally managed U.S. Mid-Cap portfolio returned 3.65 per cent, underperforming the benchmark by 11 per cent.

Exposure to commodity stocks, particularly gold and base metals, benefited portfolio returns, as did an overweighting in industrial stocks.

Throughout most of 2003, stocks of lower quality companies with smaller market capitalizations tended to outperform the large capitalization growth stocks, which are HOOPP's investment focus.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
U.S. equities – internal	5.28	5.26	S&P 500 Total Return Index
U.S. Mid-Cap equities – external	3.65	14.56	Russell Mid-Cap Total Return Index

Equity Market Outlook: Economic expansion is expected to continue in 2004, a view supported by U.S. statistics released during the fourth quarter of 2003 which showed a stronger manufacturing sector and improving employment levels. As a result, both the Canadian and U.S. portfolios will maintain a bias towards attractively valued, economically sensitive stocks.

HOOPP sees potential for the North American stock markets to move higher in 2004, due to cyclical factors such as strong earnings growth, as well as expansionary monetary and fiscal policy. However, total returns are likely to be somewhat limited, given generally high current stock valuations. There are also concerns regarding the sustainability of the economic recovery as we move into the second half of 2004, and into 2005.

Major Portfolio Details

North American Equities | International Equities | Real Estate | Private Equity | Fixed Income

International Equities *(all performance numbers are in Canadian dollars)*

Global equity markets posted strong double digit returns in 2003, both in developed and emerging economies. Returns for the HOOPP portfolio were dampened somewhat by the strong Canadian dollar. As in the U.S. market, international returns in 2003 were driven by small capitalization companies with low earnings.

The six external managers who manage this portfolio on behalf of HOOPP provided a total return of 12.82 per cent, outperforming the benchmark by 21 basis points.

During the first quarter of 2003, international markets, particularly in Europe, fell due to economic weakness, uncertainty about the war in Iraq, and higher oil prices.

Markets rallied strongly in the second quarter as investors focused on the resolution of the war, interest rate cuts in both Europe and the U.S., and the tax stimulus package in the U.S. All regions in which HOOPP has international equity investments recorded positive returns for 2003, with emerging markets outperforming developed regions.

The global market recovery is expected to continue in 2004. While Europe was a laggard in the global economy in 2003, business indicators show that a recovery is imminent in this region as well.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
International equities – external	12.82	12.61	MSCI ACWI Blend Total Return Index

Management's Discussion and Analysis of Operations

Major Portfolio Details

North American Equities | International Equities | Real Estate | Private Equity | Fixed Income

Real Estate

For many investors, real estate in 2003 remained an attractive alternative to continuing volatility in equity and fixed income markets. HOOPP's real estate portfolio had another strong year in 2003, with a total return of 8.86 per cent, outperforming its benchmark by 103 basis points.

Portfolio returns were mainly attributable to cash flow distributions from HOOPP's property holdings, along with gains on the sale of several non-core assets. Strong market demand from institutional advisors, real estate income trusts, and private and foreign investors meant that many non-core assets were sold at prices exceeding cost.

Real estate investments added during 2003 included increasing HOOPP's stake in existing HOOPP-owned properties, or value added limited partnerships where there was the potential for boosting portfolio returns. An office building in downtown Montreal was also acquired.

General weakness in the economy made for a difficult leasing environment, particularly in the office sector, until signs of improvement were noted during the third quarter. Office markets in all major Canadian cities showed increasing occupancy rates by year-end. Generally, the improvements were more noticeable in downtown than in suburban markets.

In the industrial sector, all markets except for Montreal were registering increasing occupancy rate trends by the end of 2003. This is important to HOOPP because of our significant investments in industrial properties and development projects.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Real estate	8.86	7.83	Investment Property Databank (IPD)

Major Portfolio Details

North American Equities | International Equities | Real Estate | Private Equity | Fixed Income

Private Equity and Special Situations

Despite the effect net foreign exchange translation losses had on this portfolio, private equity and special situations had a return of 8.94 per cent, outperforming the benchmark by 119 basis points. The return before the effect of foreign exchange was 15.84 per cent.

At December 31, 2003, the fair value of the portfolio was $690 million, with unfunded commitments to various limited partnerships of $350 million. During the year, $110 million was generated through investment realizations, while cash draw downs for new investment were $137 million. Private equity and special situations has been a significant net provider of cash to HOOPP since 1999, at the same time that the portfolio has been growing systematically according to its longer-term plan.

HOOPP's private equity and special situations portfolio is built around a limited partnership fund business model, with a complementary capacity to invest directly in operating companies. This is a typical way for an institution of HOOPP's size and expertise to gain diversified investment exposure to global private equity opportunities. The portfolio focuses primarily on investments in Canada, the United States, and the U.K./Eurozone.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Private equity and special situations	8.94	7.75	Total Plan funding target

Management's Discussion and Analysis of Operations

Major Portfolio Details

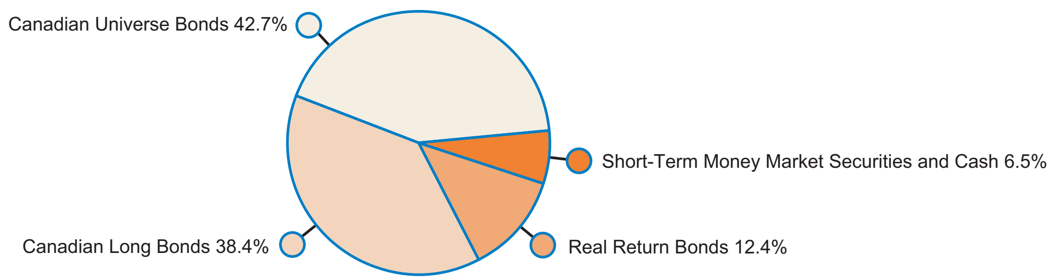
North American Equities | International Equities | Real Estate | Private Equity | Fixed Income

Fixed Income

HOOPP's fixed income investments are divided into four mandates:

- Canadian universe bonds,
- Canadian long bonds,
- Real return bonds, and
- Short-term money market.

Fixed Income Effective Asset Mix
(%)



Canadian Universe and Canadian Long Bonds: Fixed income markets were extremely volatile in 2003, but nonetheless posted reasonable returns.

Early in 2003, the pace of economic recovery was expected to moderate, lending support to bond prices. Despite this outlook, significant negative longer-term factors tempered HOOPP's enthusiasm.

In the U.S., increased government spending, currency devaluation, and extremely low interest rates were all expected to cap any significant bond market upside potential. Longer-term, a solid economic foundation remained in place, with growth expected to resume later in 2003. As a result, HOOPP maintained a neutral duration position throughout the first half of the year.

As 2003 progressed, the anticipated economic slowdown materialized, sending bond prices soaring. HOOPP used this opportunity to establish a defensive posture, reducing its long-bond exposure. Although bond prices headed lower into the third quarter, they recovered towards year-end.

In 2003, the Universe mandate provided a 6.74 per cent return, exceeding the benchmark by five basis points. The Long-bond mandate provided a 9.05 per cent return, slightly underperforming the benchmark.

For 2004, global economic recovery appears on the horizon, placing upward pressure on inflation and ultimately interest rates. In this environment, HOOPP will maintain a defensive duration stance.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Canadian bonds	6.74	6.69	SCM Universe Bond Index
Long bonds	9.05	9.07	SCM Long Bond Index

Real Return Bonds: Real return bonds provided an 11.53 per cent return for the year. This component is designed to provide a hedge against pension liabilities and is passively managed.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Real return bonds	11.53	11.53	Equal to portfolio return

Management's Discussion and Analysis of Operations

Short-Term Money Market Securities and Cash: The money -market component provided a 3.05 per cent return for the period, compared to the benchmark of 2.91 per cent.

Extremely low interest rates and a fairly flat short-term yield curve presented little opportunity for HOOPP's short-term money market to add value. In addition, corporate credit spreads were extremely narrow.

Anticipating interest rate increases during the first quarter, the portfolio maintained a defensive stance, with an average maturity shorter than the 91-day Treasury Bill benchmark. Strong performance from the Canadian economy saw the 91-Day Canada Treasury Bill rate move from 2.66 per cent at the end of 2002 to 3.14 per cent by March 31, 2003.

The portfolio established a slightly longer average term than that of the benchmark at the beginning of the third quarter in anticipation of a further interest rate reduction by the Bank of Canada. Following the Bank's interest rate reduction, a neutral position was maintained for the remainder of the year.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Short-term money market securities and cash	3.05	2.91	SCM 91-Day T-Bill Index

Management's Discussion and Analysis of Operations

Investment and Plan Expenses

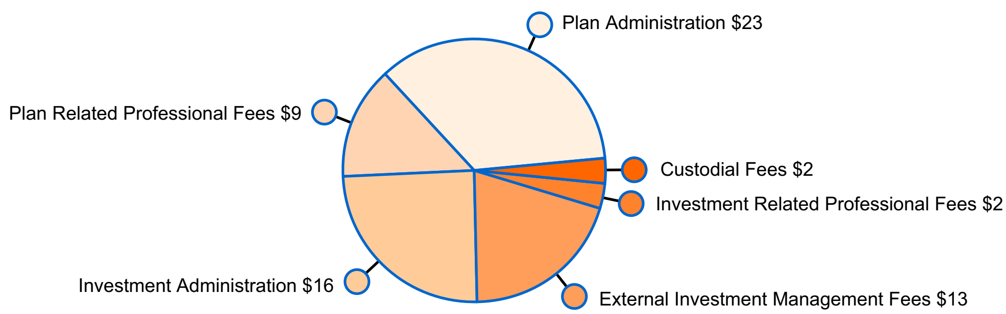
Total expenses were $65 million in 2003, compared to $57 million in 2002, representing an increase of 14 per cent. As in previous years, HOOPP continues to manage its expenses according to its two major lines of business – Plan expenses and Investment expenses.

On the Plan side of the business, HOOPP incurred expenses of $32 million, compared to $27 million in 2002. This increase was due primarily to professional fees relating to the multi-year Client Relationship Excellence program, which is designed to provide the tools and resources required to meet HOOPP's longer-term membership needs.

In 2003, HOOPP spent approximately $12 million on this long-term plan, and expects to spend another $18 million in 2004. Costs for 2004 will be largely to begin implementing the new technology for improving the administration of pension benefits.

Investment and Plan Expenses

($ millions)



Throughout 2003, HOOPP continued to focus on improving service levels and timely delivery of information to members, pensioners, and employers, while controlling operating costs.

Investment expenses also were higher in 2003 by approximately $3 million, or 10 per cent. This increase was mostly attributed to higher external management fees, which are directly related to the higher market values on HOOPP's externally managed investments. Custodial fees also were slightly higher in 2003.

Management's Discussion and Analysis of Operations

Risk Management

As a defined benefit pension plan, HOOPP faces a variety of risks associated with all areas of its operations. The following accomplishments highlight HOOPP's management of risk in 2003:

Operations

- HOOPP committed to the development of a more integrated funding risk management program to better measure and monitor the Plan's benefit, investment, and funding risks over the short and long terms. This multi-year initiative will help HOOPP better define, monitor, and manage risks, and achieve the Plan's funding targets.
- HOOPP's business continuity program was expanded to include an organization-wide test, systems disaster recovery test, and independent, third-party program audit. HOOPP's main computer operations were also relocated to a more modern, risk-controlled environment.
- A new, integrated process for monitoring operational risk, internal controls, and compliance was introduced.
- A balanced scorecard system for measuring and managing organizational performance was officially launched after a trial year in 2002. Clear objectives and performance targets for 2003 helped keep the organization focused and aligned to the achievement of longer term goals.
- Internal controls for benefit processing were strengthened through process enhancements and expanded documentation and training.
- In support of federal and provincial initiatives relating to privacy, HOOPP introduced privacy guidelines based on client services procedures and precedents, and human resources practices.

Credit Risk

HOOPP's increased use of derivatives has resulted in a larger money market portfolio. The Canadian money market is dominated by a few large issuers, resulting in significant industry concentration.

During 2003, HOOPP's derivative activities included the use of asset swaps, credit default swaps, and structured credit to manage credit risk through enhanced diversification. This approach has provided access to more efficient capital markets for corporate credit.

Management's Discussion and Analysis of Operations

Advocacy

There are occasions where it is appropriate for HOOPP to represent the interests of its membership through advocacy efforts. Through advocacy, HOOPP seeks to:

- better serve the Plan's beneficiaries and, where appropriate, its stakeholders;
- play a role, when appropriate, in the development of public policy affecting the Plan and Fund; and
- bring to light areas where pension, investment, or other reform is needed.

As a result of successful advocacy efforts with other major Ontario pension plans regarding excess surplus limits, new federal tax rules were introduced during 2003 that provide greater funding flexibility for large pension plans such as HOOPP. The new rules will permit the buildup of larger surplus in the future, which can be used to better manage the price of the Plan through periods of adverse experience.

Also during 2003, HOOPP, along with other major Ontario pension plans, began advocacy efforts to change provincial solvency rules, again to permit greater funding flexibility to better manage the price of the Plan during periods of short-term volatility, while preserving long-term benefit security.

Management's Discussion and Analysis of Operations

Outlook

Funding issues affecting defined benefit pension plans made the news regularly throughout 2003. To ensure the long-term viability of the Plan, a thorough review of the Plan's funding requirements over the next 10–20 years is underway. Recommendations will be reviewed by the Board of Trustees in June, 2004.

This review is being driven by funding, pricing, and benefit principles approved by HOOPP's Board of Trustees, including HOOPP's ability to pay, over the long term, benefit obligations as they become due. Benefit security, affordability and price stability remain the Plan's top priorities.

On the investment front, both interest rates and inflation are expected to rise slightly in 2004. Global economic recovery is anticipated to continue, but investment returns are not expected to be as robust, likely in single digits. The high U.S. current account deficit remains a concern to markets.

It is also uncertain how the Canadian economy will adjust to a combination of world growth, rising commodity prices, and the strong dollar. The extent to which Canadian exporters will continue to be affected by the strong Canadian dollar is a further concern.

On the service front, HOOPP will begin the implementation of the technology for the new pension administration system supporting HOOPP's longer-term client service delivery strategy in 2004. Full implementation is scheduled for completion in 2005. The immediate focus will be on determining the best approaches for delivering reliable, affordable retirement benefits and services to HOOPP's clients for many years to come.

Consolidated Financial Statements

Management's Responsibility for Financial Reporting

The consolidated financial statements of the Hospitals of Ontario Pension Plan (HOOPP) have been prepared by management and approved by the Board of Trustees. Management is responsible for the contents of the consolidated financial statements and other sections of the annual report.

HOOPP maintains appropriate processes to ensure the integrity and fairness of the data presented and that relevant and reliable information is produced. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and comply with the financial reporting requirements of the *Pension Benefits Act* of Ontario. These consolidated financial statements include certain amounts that are based on management's estimates and judgments. The significant accounting policies used and which management believes are appropriate for HOOPP are described in note 1 to the consolidated financial statements. The financial information presented throughout the annual report is consistent with that found in the consolidated financial statements.

HOOPP has developed and maintains systems of internal control, as well as supporting procedures, to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include an organizational structure that provides a well-defined division of responsibilities, accountability for performance and the timely communication of policies and guidelines throughout the organization.

The Audit & Finance Committee assists the Board of Trustees in discharging its responsibilities of approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. Prior to recommending approval of the audited consolidated financial statements, the Audit & Finance Committee reviews the consolidated financial statements, the adequacy of internal controls and the audit and financial reporting process with both management and the external auditors.

PricewaterhouseCoopers LLP was appointed the independent external auditors by the Board of Trustees upon the recommendation of the Audit & Finance Committee. The auditors have conducted an independent examination of the consolidated 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 & Finance Committee to discuss any findings related to the integrity of the Plan's financial reporting and the adequacy of internal control systems.

John A. Crocker
President & Chief Executive Officer
February 9, 2004

G. Douglas Carr
Senior Vice-President, Finance and Chief Financial Officer

Auditors' Report

To the Members of the Hospitals of Ontario Pension Plan

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and surplus of the Hospitals of Ontario Pension Plan as at December 31, 2003, 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 management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and surplus of the Plan as at December 31, 2003 and the changes in its net assets available for benefits, changes in accrued pension benefits and changes in surplus for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Canada
February 9, 2004

Actuaries' Opinion

Watson Wyatt & Company was retained by the Board of Trustees for the Hospitals of Ontario Pension Plan (the Plan) to perform an actuarial valuation of the assets and the going concern liabilities of the Plan as at December 31, 2003. This valuation is for the purpose of inclusion in the Plan's consolidated financial statements, prepared in accordance with Section 4100 of the Canadian Institute of Chartered Accountants Handbook.

We have prepared and have provided to the Board our actuarial report as at December 31, 2003, prepared for the purpose of the Plan's consolidated financial statements under Section 4100 of the Canadian Institute of Chartered Accountants Handbook.

The valuation of the Plan's going concern actuarial liabilities was based on:

- projected membership data provided by the Hospitals of Ontario Pension Plan as at December 31, 2003;
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- assumptions about future events (for example, future rates of inflation and future rates of return on the pension fund) which have been developed by Plan management and Watson Wyatt & Company and are the same as those adopted for the funding valuation of the Plan at December 31, 2003.

Changes have been made to the actuarial assumptions since the previous valuation for the purpose of the Plan's consolidated financial statements at December 31, 2002. These changes, and their financial impact, are described in our actuarial report.

The valuation of the Plan's assets was based on financial information provided by the Hospitals of Ontario Pension Plan.

The objective of the consolidated financial statements is to fairly present the financial position of the Plan as at December 31, 2003 as a going concern. While the actuarial assumptions used to estimate liabilities for the Plan's consolidated financial statements are reasonable in our opinion, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any difference between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have reviewed the data used for the valuation, and have made tests of reasonableness and consistency with the data used in prior years, and in our opinion, the data is sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation and the assumptions are, in aggregate, appropriate for the purposes of the valuation.

Our opinions have been given, and our valuation has been performed, in accordance with the accepted actuarial practice.

Respectfully Submitted,

Watson Wyatt & Company

Nancy A. Yake

Marshall Posner

Nancy A. Yake, FSA	Marshall Posner, FSA
Fellow, Canadian Institute of Actuaries	Fellow, Canadian Institute of Actuaries

February 9, 2004

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

As at December 31

($ Millions)		**2003**		**2002**
NET ASSETS AVAILABLE FOR BENEFITS				
Assets				
Investments [note 2]	**$**	**19,757**	$	16,836
Amounts receivable [note 4]		**124**		76
Total assets		**19,881**		16,912
Liabilities				
Amounts payable [note 5]		**1,224**		854
Total liabilities		**1,224**		854
Net assets available for benefits		**18,657**		16,058
Actuarial asset value adjustment [note 1(e)]		**1,471**		2,766
Actuarial value of net assets available for benefits	**$**	**20,128**	**$**	18,824
ACCRUED PENSION BENEFITS AND SURPLUS				
Accrued pension benefits [note 10(a)]	**$**	**20,113**	$	17,814
Surplus		**15**		1,010
Accrued pension benefits and surplus	**$**	**20,128**	**$**	18,824

See Description of Plan and accompanying notes to financial statements

On Behalf of the Board of Trustees

Dan Anderson
Chair of the Board

Kelly Butt
Vice-Chair of the Board

Consolidated Statement of Changes in Net Assets Available for Benefits

Year ended December 31

($ Millions)	**2003**	**2002**
CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS		
Increase in net assets		
Net investment income/(loss) [note 6]	**$ 2,394**	$ (845)
Contributions [note 7]	**982**	552
Total increase/(decrease)	**3,376**	(293)
Decrease in net assets		
Benefits [note 8]	**712**	634
Investment and Plan administration expenses [note 9]	**65**	57
Total decrease	**777**	691
Net increase/(decrease) in net assets available for benefits	**2,599**	(984)
Net assets available for benefits, beginning of year	**16,058**	17,042
Net assets available for benefits, end of year	**$ 18,657**	$ 16,058

See Description of Plan and accompanying notes to financial statements

Consolidated Statement of Changes in Accrued Pension Benefits

Year ended December 31

($ Millions)	2003	2002
CHANGES IN ACCRUED PENSION BENEFITS		
Accrued pension benefits, beginning of year	**$ 17,814**	$ 16,756
Increase in accrued pension benefits		
Accrued interest on benefits	**1,271**	1,167
Benefits accrued	**1,076**	931
Changes in actuarial assumptions [note 10(c)]	**109**	–
Data adjustment experience (gain)/loss [note 10(e)]	**433**	(81)
Estimated experience (gain)/loss [note 10(f)]	**122**	(325)
Total increase	**3,011**	1,692
Decrease in accrued pension benefits		
Benefits paid [note 8]	**712**	634
Total decrease	**712**	634
Net increase in accrued pension benefits	**2,299**	1,058
Accrued pension benefits, end of year	**$ 20,113**	$ 17,814

See Description of Plan and accompanying notes to financial statements

Consolidated Statement of Changes in Surplus

Year ended December 31

($ Millions)	**2003**	2002
CHANGES IN SURPLUS		
Surplus, beginning of year	**$ 1,010**	$ 1,232
Increase/(decrease) in net assets available for benefits	**2,599**	(984)
Increase/(decrease) in actuarial asset value adjustment	**(1,295)**	1,820
Increase in actuarial value of net assets available for benefits	**1,304**	836
Net increase in accrued pension benefits	**(2,299)**	(1,058)
Surplus, end of year	**$ 15**	$ 1,010

See Description of Plan and accompanying notes to financial statements

Notes to Consolidated Financial Statements

Description of Plan

The following description of the Hospitals of Ontario Pension Plan Trust Fund (HOOPP or the Plan) is a summary only. An exact and complete description of the Plan provisions can be found in the *Hospitals of Ontario Pension Plan Text*, the official Plan document.

a. General

The Plan is a contributory defined benefit multi-employer pension plan, established under an *Agreement and Declaration of Trust* (as amended) for the benefit of eligible employees of participating employers.

HOOPP is registered with the Financial Services Commission of Ontario (FSCO), and with the Canada Customs and Revenue Agency (CCRA), Plan Registration Number 0346007.

In conjunction with its Registered Pension Plan (RPP), HOOPP operates a Retirement Compensation Arrangement (RCA). The RCA is administered as part of the overall Plan, but its assets are held in a segregated account.

b. Funding

Plan benefits are funded by contributions and investment earnings. The Plan's funding policy aims to achieve long-term stability in contribution rates for both employers and members. Actuarial funding valuations are conducted to determine pension liabilities and the funded position and price of the Plan.

Under the terms of the Plan, contributions are set to cover the total annual cost of benefits. This includes the current service cost of benefits (with recognition of the administrative expenses of HOOPP), plus special payments required to amortize unfunded liabilities and solvency deficiencies, less any surplus amortization amounts.

c. Contributions

Contributions are determined in accordance with provisions of the Plan Text, and on the recommendation of the Plan's actuary. During 2003, HOOPP contribution rates were partially subsidized. Members contributed 6.23 per cent of their annualized earnings up to the 2003 year's maximum pensionable earnings (YMPE), and 8.3 per cent of their annualized earnings above the 2003 YMPE. The YMPE is a figure that is set annually by the federal government and used to calculate Canada Pension Plan (CPP) contributions and benefits. Employers contributed 126 per cent of member contributions during the period.

The contribution rates will increase in 2004 to their full cost as subsidies come to an end. In 2004, members will contribute 6.9 per cent of their annualized earnings up to the 2004 YMPE, and 9.2 per cent of their annualized earnings above the 2004 YMPE, while employers will contribute 126 per cent of what their members contribute.

d. Pensions

The formula used to calculate a HOOPP retirement pension takes into account a member's contributory service, average annualized earnings, and the average YMPE. Members can receive an unreduced pension at the earlier of age 60 or as soon as they have completed 30 years of Plan membership, provided they are at least 55 years old. Members are eligible to retire at age 55, usually with a reduced pension.

Members who retire early will receive a bridge benefit until age 65 or death, whichever occurs first. The bridge benefit is designed to supplement a member's basic HOOPP pension until age 65 when CPP benefits normally begin. An early retirement transition benefit, which provides an additional supplement, payable until age 65, is also available to retiring members who meet eligibility requirements until December 31, 2005.

Members who choose to retire after the normal retirement age of 65 receive an upward adjustment in recognition of the fact that they have chosen to retire later.

Notes to Consolidated Financial Statements

e. Disability Pensions

A disability pension is available at any age to a disabled member who has at least two years of Plan membership and meets other eligibility requirements. A disability pension is based on the projected contributory service a member would have earned, to a maximum of 35 years or age 65, had the member not become disabled, but is capped at the YMPE for the year the pension commences.

f. Death Benefits

Death benefits may be available to a surviving spouse or designated beneficiary upon the death of a member. Depending upon eligibility requirements, the benefit may be paid in the form of a surviving pension or lump sum payment.

g. Portability from the Plan

A vested member terminating their employment can move their commuted value benefit out of HOOPP to another pension plan or registered retirement vehicle, subject to locking-in provisions and certain age restrictions. Non-vested members terminating their employment would be entitled to a refund of contributions with interest. Members wanting to transfer their contributions or benefits from another registered pension plan to HOOPP can do so providing HOOPP is able to accept the transfer.

h. Inflation Protection

Retirement pensions are annually adjusted by an amount equal to 75 per cent of the previous year's increase in the consumer price index (CPI), to a maximum CPI increase of 10 per cent. The Board has the ability to increase this to 100 per cent depending on the Plan's financial status as well as other factors.

On April 1, 2003, pensions and deferred pensions received a cost of living adjustment of 2.9 per cent representing 75 per cent of the 2002 increase in CPI.

i. Income Taxes

HOOPP is a seamless plan offering both an RPP and RCA, as defined by the *Income Tax Act (Canada)* (ITA). The RCA is designed to provide members of the Plan with benefits in excess of what an RPP can provide, due to ITA limits. No taxes are paid on the contributions made to the Plan under the RPP or on the investment income it earns. However, funds earned in or contributed to HOOPP's RCA are taxable. Depending on the contributions received, benefit payments made, and investment income earned through the RCA, a portion of taxes may be refundable and are disclosed in note 4 as recoverable refundable withholding tax on contributions. From the member's perspective, they contribute to a seamless plan. Required contributions to both the RPP and RCA are tax-deductible.

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

The consolidated financial statements of the Plan reflect the financial position and the changes in its net assets available for benefits. These consolidated statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and comply with the requirements of CICA Handbook Section 4100, for a multi-employer pension plan such as HOOPP. Certain comparative amounts have been reclassified to conform to the current year's presentation. The significant accounting policies followed in the preparation of these consolidated financial statements are summarized below:

a. Principles of Consolidation

The consolidated financial statements include the assets, liabilities and the changes in net assets of HOOPP and its wholly owned subsidiaries, as well as its proportionate share of assets, liabilities, and other results stemming from real estate joint ventures, after elimination of all intercompany transactions and balances.

b. Investments

i. Valuation of Investments

Fair values of investments are determined as follows:

a. Short-term money market securities are recorded at cost or amortized cost which, together with accrued interest or discount earned, approximates fair value.

b. Bonds are valued on the basis of market quotes using the average of the bid and ask prices. Where quoted year-end prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

c. Equities are valued at year-end quoted market prices.

d. Private equities are valued based on estimated fair values determined using appropriate valuation techniques, and management's best estimates.

e. Real estate, consisting primarily of income-producing properties, is generally valued based on appraisal values determined at least once every three years by accredited external appraisers.

f. All derivative financial instruments which include foreign exchange forward contracts, bond and equity futures contracts, equity index swaps, asset swaps, equity and bond option contracts, and credit default swaps are recorded at fair value using year-end market prices. Where quoted market values are not readily available, appropriate valuation techniques are used to determine fair value.

ii. Investment Transactions and Income

Investment transactions are recognized on a trade-date basis. Investment income, comprising interest income, and real estate operating income net of expenses, is recorded on an accrual basis; dividend income is recognized on the ex-dividend date. Realized gains and losses on the sale of investments include gains and losses on disposition, and investment write-offs that reflect other than temporary declines in market value. Unrealized gains and losses on investments represent the change in the difference between the cost-based values and the fair values of investments at the beginning and end of each year. Gains and losses on derivative financial instruments are included in realized and unrealized gains and losses on investments.

c. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year-end date. Income and expenses related to these transactions, and the purchase and sale of investments, are translated at the rate of exchange prevailing at the dates of the transactions. The realized gains and losses arising from these transactions are included in realized gains and losses on the sale of investments in the period incurred. Unrealized gains and losses on translation are included in the change in unrealized gains and losses on investments.

Notes to Consolidated Financial Statements

d. Accrued Pension Benefits

Accrued pension benefits are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. The year-end valuation of accrued pension benefits is based on data extrapolated to the current valuation date of December 31, 2003. The valuation uses the projected accrued benefit actuarial cost method pro-rated on service and management's estimate of certain future events.

e. Actuarial Asset Value Adjustment

The actuarial value of net assets available for benefits has been determined in a manner that reflects long-term market trends consistent with assumptions underlying the actuarial present value of accrued pension benefits.

This value has been determined by taking an average of the current market value and the market values for the four preceding years brought forward with interest at the asset valuation rate and adjusted for contributions, benefit payments, and administrative expenses.

The impact of this adjustment is to increase the net assets available for benefits by $1,471 million (2002: increase $2,766 million). This is a common actuarial practice and is used to help stabilize the price of the Plan during periods of short-term market volatility.

f. Contributions

Contributions from members and employers due to the Plan as at year-end are recorded on an accrual basis. Contributions for voluntary contributions, past service purchases and transfers are recorded when received.

g. Benefits

Benefit payments to members and pensioners are recorded in the period in which they are paid. Any benefit payment accruals not paid are reflected in the accrued pension benefits.

h. Use of Estimates

In the preparation of these consolidated financial statements management uses estimates and assumptions based on current available information. Such estimates and assumptions may affect the reported amounts of assets and liabilities, revenue and expenses and related disclosures. Actual results could differ from those estimates.

Note 2: Investments

The investment objective of the Plan is to earn an average rate of return that exceeds its long-term funding target by employing appropriate asset mix policies and risk diversification strategies. The nominal long-term return target of the Plan for 2003 was 7.75 per cent.

a. Summary of Investments Before Allocating the Market Exposure of Derivative Financial Instruments

The following schedule summarizes the fair value and cost of the Plan's investments before allocating the market exposure related to derivative financial instruments, as at December 31:

($ Millions)	2003 Fair Value	2003 Cost	2002 Fair Value	2002 Cost
Fixed Income				
Cash and short-term securities	**$ 1,564**	**$ 1,564**	$ 927	$ 926
Bonds				
Canadian	**8,943**	**8,516**	7,227	6,898
Other global	**324**	**348**	254	253
	10,831	**10,428**	8,408	8,077
Equities				
Canadian	**1,874**	**1,656**	2,117	2,277
United States	**1,733**	**1,617**	1,779	1,870
Other global	**1,941**	**1,895**	1,622	1,806
Real estate properties	**1,914**	**1,814**	1,799	1,695
Private equity	**694**	**679**	607	627
	8,156	**7,661**	7,924	8,275
Investment related receivables				
Receivables from derivative financial instruments	**559**	**–**	294	3
Accrued investment income	**154**	**154**	147	147
Pending trades	**57**	**57**	63	63
	770	**211**	504	213
TOTAL INVESTMENTS	**$ 19,757**	**$ 18,300**	$ 16,836	$ 16,565
Investment related liabilities [note 5]				
Accrued liabilities for derivative financial instruments	**(592)**	**–**	(305)	–
Real estate mortgages	**(533)**	**(531)**	(415)	(415)
Pending trades	**(85)**	**(85)**	(119)	(119)
	(1,210)	**(616)**	(839)	(534)
NET INVESTMENTS	**$ 18,547**	**$ 17,684**	$ 15,997	$ 16,031

Notes to Consolidated Financial Statements

b. Risk Management

Fundamental to the risk management process is the understanding of risks associated with all areas of the Plan's business and its operating environment, and the articulation of strategies for dealing with those risks.

The Plan's investment portfolio is subject to risks that could adversely affect its cash flows, net assets available for benefits, and income.

The Plan controls these risks through its Statement of Investment Policies and Procedures (SIP&P) and Investment Policies and Guidelines (IP&G), which prescribe a long-term debt-equity asset mix policy; require portfolio investment diversification; set guidelines on investment categories; and limit exposure to individual investments, major asset classes, geographic markets and currency.

i. Interest Rate Risk

Interest rate risk is the risk that the market value of the Plan's investments will fluctuate due to changes in market interest rates. It arises from the potential variation in the timing and amount of cash flows related to the Plan's assets and liabilities.

The value of the Plan's investments is affected by short-term changes in nominal interest rates and equity markets. Pension liabilities are influenced by expectations of long-term inflation and salary escalation, as well as long-term rates of return on investments.

To properly manage the Plan's interest rate risk, appropriate guidelines on the weighting and duration for the fixed income portfolio are set and monitored. Derivatives are also used to hedge against the Plan's exposure to interest rate risk.

The remaining terms to contractual maturity of interest-bearing investments before derivatives as at December 31 are as follows:

($ Millions, except %)	2003					2002	
Interest Bearing Instruments	**Within 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**	**Effective Yield**	**Total**	**Effective Yield**
Short-term securities	**$ 1,511**	**$ –**	**$ –**	**$ 1,511**	**2.55%**	$ 875	2.68%
Government of Canada bonds	**20**	**1,683**	**1,843**	**3,546**	**4.21%**	2,311	4.43%
Provincial and municipal bonds	**303**	**567**	**1,454**	**2,324**	**4.50%**	2,203	4.60%
Real return bonds	**–**	**–**	**893**	**893**	**2.75%**	816	3.24%
Corporate bonds	**180**	**1,107**	**893**	**2,180**	**4.44%**	1,897	4.90%
Other global bonds	**97**	**14**	**213**	**324**	**3.20%**	254	2.09%
	$ 2,111	**$ 3,371**	**$ 5,296**	**$ 10,778**	**3.94%**	$ 8,356	4.22%

ii. Currency Risk

Currency risk is the risk that the value of the Plan's investments will fluctuate due to changes in foreign exchange rates. The Investment Policies and Guidelines require 50 per cent of the Plan's foreign currency exposure to be hedged, which it accomplishes by entering into foreign currency forward contracts or swaps for the purchase or sale of foreign currencies.

The Plan's investments by currency of risk including related derivative financial instruments, as at December 31, are as follows:

(Canadian dollar, Millions)	2003			2002
Currency	**Currency Exposure**	**Net Foreign Currency Hedge [1]**	**Net Currency Exposure**	**Net Currency Exposure**
Canadian dollar	**$ 12,718**	**$ 3,067**	**$ 15,785**	$ 13,486
United States dollar	**3,597**	**(1,920)**	**1,677**	1,763
Euro	**912**	**(458)**	**454**	351
Other European currencies	**908**	**(419)**	**489**	422
Japanese Yen	**483**	**(236)**	**247**	162
Emerging Market currencies	**198**	**(2)**	**196**	40
Other Pacific currencies	**138**	**(32)**	**106**	97
	$ 18,954	**$ –**	**$ 18,954**	$ 16,321

[1] *The fair value of foreign currency hedges is $(9.1) million and is included with the Derivative Financial Instruments* (note 3).

Notes to Consolidated Financial Statements

iii. Credit Risk

Credit risk is the risk that a loss could arise from a securities issuer being unable to meet its financial obligations. Credit risk is mitigated by adherence to investment policy limits on exposure to individual corporate entities, and derivative counterparties. Credit risk arising from derivative financial instruments is discussed in note 3.

iv. Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual investment or its issuer, or factors affecting all securities traded in the market. The Plan's policy is to invest in a diversified portfolio of investments, based on criteria established in the SIP&P and to utilize derivative financial instruments to mitigate the impact of market risk.

v. Securities Lending

To enhance the portfolio return, the Plan has entered into a securities lending agreement with its custodian, State Street Bank and Trust Company. The securities lending program operates by loaning the Plan's available securities to approved borrowers. Credit risk associated with the securities lending program is mitigated by requiring the borrower to provide daily collateral with market values exceeding the market value of the loaned securities.

Notes to Consolidated Financial Statements

Note 3: Derivative Financial Instruments

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, interest rates, indices, or exchange rates. Fair value represents the amount of consideration at which derivative financial instruments could be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

a. Derivative Product Types

Types of derivative contracts transacted by HOOPP, either directly with counterparties or on regulated exchange markets, include:

i. **Foreign exchange forwards**

A foreign exchange forward contract is a customized agreement negotiated between two parties to buy or sell a specific amount of a foreign currency at a price specified at origination of the contract, with delivery and settlement at a specified future date. Forward currency contracts are used to modify the Plan's exposure to currency risk.

ii. **Bond and equity futures**

Futures contracts involve an agreement to buy or sell a standardized amount of bonds or equity indices, at a predetermined future date and price in accordance with terms specified by a regulated futures exchange, and are subject to daily cash margining. These types of derivatives are used to efficiently modify exposures without actually purchasing or selling the underlying asset.

iii. **Equity index swaps**

An equity index swap is a contractual agreement between two parties to exchange a series of cash flows based on an equity index return. One party typically agrees to pay a floating interest rate in return for receiving a return on specified equity indices. Equity index swaps are used to adjust exposures to particular indices without directly purchasing or selling the securities.

iv. **Asset and credit default swaps**

An asset swap is a contractual agreement between two parties to exchange a series of cash flows. Under an asset swap agreement, one party typically agrees to pay a floating interest rate in exchange for a fixed return. A credit default swap is a contractual agreement between two parties where typically one party pays the other a premium over a specified term and the other party makes no payment unless a specified credit event such as a default occurs, at which time a payment is made and the swap terminates. Asset and credit default swaps are used to manage credit diversification and interest rate exposures.

v. **Equity and bond options**

An option contract is a contractual agreement under which the seller grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) at or until a specified future date a specified amount of a particular financial instrument at a predetermined price. The seller receives a premium from the purchaser for this right. Options are used to manage the exposures of market risk to a particular financial instrument without directly purchasing or selling the underlying security.

b. Investment Objectives for Derivatives

The Plan's investment objectives for the use of derivatives are to enhance returns by facilitating changes in the investment asset mix, both within and across certain asset classes, to enhance equity and fixed income portfolio returns, and to manage foreign content exposures. As a risk management tool, derivatives are used to reduce the market exposures related to holding certain investments. Provisions within the SIP&P and IP&G dealing with derivatives specify that the Plan cannot use leverage or create effective net short security positions through its use of derivatives. In addition, derivatives are only permitted if their value is based on some component of equities, bonds, or money market instruments, and not on any other asset class. To mitigate credit risk associated with derivative financial instruments, contracts can only be transacted with counterparties that have a credit rating of A or higher.

c. Derivative Related Credit Risk

Credit risk is the risk of loss in the event the counterparty to a transaction defaults, or otherwise fails to perform under the terms of a contract. Credit risk exposure for derivative financial instruments is measured by the positive fair value of the contractual obligations with the counterparties, less any collateral or margin received, as at the reporting date. For futures contracts, credit risk exposure is limited, as the contracts are transacted over an exchange as opposed to with a counterparty. All derivative contracts currently held by HOOPP have daily, quarterly or semi-annual resets, most of which settle within one year.

The following schedule summarizes the notional, fair value and credit exposure of the Plan's derivatives position, as at December 31:

i. Notional value

Notional values represent the contractual amount to which a rate or price is applied for computing the cash flows to be exchanged, and are therefore not recorded as assets or liabilities in these consolidated financial statements. Notional amounts do not represent the potential gain or loss associated with the market risk or credit risk of such instruments.

ii. Fair value

Fair value is based on quoted market prices for exchange traded derivatives. For over-the-counter derivatives, fair value is determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

iii. Credit risk

Credit risk represents the replacement cost of all contracts that have a positive fair value at current market rates.

($ Millions)	2003				2002			
	Notional Value	**Gross Asset**	**Gross Liability**	**Credit Risk**	**Notional Value**	**Gross Asset**	**Gross Liability**	**Credit Risk**
Foreign Currency Management								
Foreign exchange forward contracts	**$ 1,874**	**$ 25.0**	**$ (34.1)**	**$ 25.0**	$ 1,542	$ 1.0	$ (37.9)	$ 1.0
Return Enhancement Strategy								
Equity swaps	**16,227**	**400.3**	**(320.7)**	**400.3**	11,078	238.5	(182.7)	238.5
Asset swaps	**2,551**	**44.4**	**(141.8)**	**44.4**	1,410	50.3	(83.2)	50.3
Credit default swaps	**997**	**85.6**	**(92.4)**	**85.6**	356	0.9	(1.6)	0.9
Covered written bond options	**57**		**(2.3)**					
Asset Mix Management								
Futures	**2,557**	**3.3**	**(0.3)**		1,750	2.8		
TOTAL		**$ 558.6**	**$ (591.6)**	**$ 555.3**		$ 293.5	$ (305.4)	$ 290.7

The Plan has purchased credit protection of $636.2 million and sold credit protection of $360.9 million (2002: $356 million) on fixed income securities primarily as components of derivative strategies to efficiently manage credit exposure. Credit default swaps do not change the effective market exposure by asset class within the Plan but change the credit rating profile of the securities within an asset class. The Plan manages counterparty credit risk by viewing through credit default swaps to where the economic risk resides.

Notes to Consolidated Financial Statements

d. Summary of Investments After Allocating the Market Exposure of Derivative Financial Instruments

The following schedule summarizes the fair value of the Plan's investments before and after the allocation of market exposure of derivative financial instruments:

($ Millions, except %)	2003			2002		
	Fair Value	**Effective Exposure**	**Effective Asset Mix**	**Fair Value**	**Effective Exposure**	**Effective Asset Mix**
Fixed Income						
Cash and short-term securities	**$ 1,564**	**$ 473**	**2.6%**	$ 927	$ 415	2.6%
Bonds						
Canadian	**8,943**	**6,735**	**36.3%**	7,227	5,514	34.5%
Other global	**324**	**–**		254	–	
	10,831	**7,208**	**38.9%**	8,408	5,929	37.1%
Equities						
Canadian	**1,874**	**3,724**	**20.0%**	2,117	3,176	19.9%
United States	**1,733**	**2,698**	**14.6%**	1,779	2,484	15.5%
Other global	**1,941**	**2,804**	**15.1%**	1,622	2,417	15.1%
Real estate properties	**1,914**	**1,423**	**7.7%**	1,799	1,384	8.6%
Private equity	**694**	**690**	**3.7%**	607	607	3.8%
	8,156	**11,339**	**61.1%**	7,924	10,068	62.9%
Investment related receivables						
Receivables from derivative financial instruments	**559**	**–**		294	–	
Accrued investment income	**154**	**–**		147	–	
Pending trades	**57**	**–**		63	–	
	770	**–**		504	–	
TOTAL INVESTMENTS	**$ 19,757**	**$ 18,547**		$ 16,836	$ 15,997	
Investment related payables [note 5]						
Accrued liabilities from derivative financial instruments	**(592)**	**–**		(305)	–	
Real estate mortgages	**(533)**	**–**		(415)	–	
Pending trades	**(85)**	**–**		(119)	–	
	(1,210)	**–**		(839)	–	
NET INVESTMENTS	**$ 18,547**	**$ 18,547**		$ 15,997	$ 15,997	

All accrued investment income and pending trades have been included in cash in calculating effective asset mix.

To properly match the pension liabilities against investment assets, the Plan has established a policy asset mix of approximately 60 per cent equities and 40 per cent fixed income instruments, which can deviate plus or minus 3 per cent.

Note 4: Amounts Receivable

($ Millions)	2003	2002
Contributions receivable		
Employers	$ 43	$ 25
Members	33	21
Recoverable refundable withholding tax on contributions	37	21
Other assets	11	9
	$ 124	$ 76

Notes to Consolidated Financial Statements

Note 5: Amounts Payable

($ Millions)	**2003**	2002
Accrued liabilities for derivative financial instruments	**$ 592**	$ 305
Real estate mortgages	**533**	415
Pending trades	**85**	119
Other liabilities	**14**	15
	$ 1,224	$ 854

Note 6: Investment Income

Investment income is summarized in the schedule below. Income from individual portfolios is presented, before allocating the effect of derivative contracts and prior to allocating the realized and unrealized gains and losses for the year ended December 31. Gains from derivative financial instruments of $738 million (2002: losses of $628 million) are included as part of the net change in realized and unrealized gains and losses on investments. As the Plan uses various strategies which hedge exposures to fixed income, equity securities and currencies, these strategies may increase or decrease investment income and create corresponding losses and gains, which may be either realized or unrealized.

($ Millions)	**2003**	**2002**
Fixed Income		
Cash and short-term securities	**$ 48**	$ 39
Bonds		
Canadian	**499**	474
Other global	**14**	6
	561	519
Equities		
Canadian	**27**	40
United States	**39**	39
Other global	**231**	201
Real estate properties [1]	**100**	101
Private equity	**12**	17
	409	398
	970	917
Net Realized Gains/(Losses) on Investments	**529**	(873)
Net Change in Unrealized Gains/(Losses) on Investments	**895**	(889)
TOTAL	**$ 2,394**	$ (845)

[1] *Net of interest expense of $27 million (2002: $26 million)*

Note 7: Contributions

($ Millions)		**2003**		**2002**
Employers	**$**	**532**	$	297
Members				
Regular		**422**		238
Others		**13**		6
Transfers from other plans		**15**		11
	$	**982**	$	552

Notes to Consolidated Financial Statements

Note 8: Benefits

($ Millions)	**2003**	2002
Retirement pensions and bridge benefits	**$ 621**	$ 559
Commuted value transfers and death benefits	**48**	48
Refunds	**29**	21
Transfers to other plans	**14**	6
	$ 712	$ 634

Note 9: Investment and Plan Administration Expenses

($ Millions)	2003	2002
Operating expenses		
Investment:		
Administration	**$ 16**	$ 16
External investment fees	**13**	11
Legal, actuarial and other professional fees	**2**	2
Custodial Fees	**2**	1
Total	**33**	30
Plan:		
Administration	**23**	22
Legal, actuarial and other professional fees	**9**	5
Total	**32**	27
	$ 65	$ 57

Statutory audit fees $180,000 (2002: $175,000)

Notes to Consolidated Financial Statements

Note 10: Accrued Pension Benefits

a. Accrued Pension Benefits

Accrued pension benefits are based on management's estimate assumptions as described in note 10(c) and include an implicit provision for expenses. In the determination of the accrued pension benefits, the estimated impact of the temporary transition benefit, the additional experience expected from the cessation of this benefit on December 31, 2005, and other actuarially determined liability amounts payable as at December 31, 2003 have been recognized.

b. Actuarial Methodology for Financial Reporting

For the determination of the actuarial present value of accrued pension benefits as at December 31, 2003 an actuarial valuation was conducted by Watson Wyatt & Company. The valuation uses the projected accrued benefit method (pro-rated on service) with respect to all benefits and assumes that the Plan will continue on a going-concern basis. For each individual member, the projected accrued benefit cost method results in a cost that increases each year. For a Plan with a stable demographic profile, the cost tends to remain stable over time. The data used in the valuation was based on actual membership data as at December 1, 2003 projected forward to the valuation date using management's estimates. The earnings estimates were determined based on 2002 experience and estimate assumptions.

Using this method and data, the accrued pension benefits at December 31, 2003 were $20,113 million (2002: $17,814 million).

c. Actuarial Assumptions

Estimates used for financial reporting purposes reflect management's expectations of long-term economic and demographic conditions. For accrued pension benefits determined as at December 31, 2003, the following economic assumptions were analyzed and reviewed by management and the Plan's actuarial advisors for reasonability and were determined to be appropriate for financial reporting purposes:

	2003	2002
Rate of return	**6.75%**	6.75%
Inflation rate	**2.50%**	2.25%
Real interest rate [1]	**4.25%**	4.50%
Salary escalation rate	**5.00%**	5.50%

[1] *Includes 0.25% reduction for expenses*

Changes from actuarial assumptions used for the previous year resulted in an actuarial loss of $109 million.

d. Plan Provisions

Permanent Plan provisions were considered up to date on the valuation date and no changes to provisions have been made in the period from the prior valuation date to December 31, 2003.

e. Data Adjustment Experience Gains and Losses

Data adjustment experience gains and losses represent the difference in accrued pension benefits based on using projected data versus actual data, including any change in pension benefits payable on a year over year basis. Projected data is used for determining the accrued pension benefits. Once actual data is available a subsequent valuation is conducted on the same basis. The difference in results is the data adjustment experience gain or loss and is recorded in the year in which it is measured. The 2003 data adjustment resulted in an experience loss of $433 million (2002: experience gain of $81 million).

f. Estimated Experience Gains and Losses

Estimated experience gains and losses represent the change in accrued pension benefits due to the difference between actual economic and demographic experience and expected experience. During 2003, there was an estimated experience loss of $122 million (2002: experience gain of $325 million).

Note 11: Retirement Compensation Arrangement (RCA)

The RCA was established by the Plan effective January 1, 1996, to formalize the funding and payment of supplementary pension benefits in excess of the benefits that can be paid under the RPP. The RCA is registered with CCRA, Registration Number RC8100724, and is administered in accordance with the requirements of the *Income Tax Act (Canada) and Regulations*. A 50 per cent refundable tax is paid to CCRA in respect of contributions and investment earnings. However, based on the benefit payments paid from the RCA, a portion of the tax will be refunded at the end of each taxation year.

The RCA is a seamless arrangement and is administered as part of the overall investment portfolio of the Plan, but assets are segregated under a separate account from the assets of the RPP. It allows members to accrue pension benefits that exceed those amounts permitted under the *Income Tax Act (Canada)* for a registered pension plan.

The RCA is partially funded from employer contributions that have not been allocated to the RPP, and from investment earnings on those contributions. The allocation of contributions to the RCA and RPP is based on a rate determined periodically by management in a manner that is expected to be sufficient to pay the benefits as they fall due. The pension benefits are payable under the terms and conditions of the Plan, without distinguishing between the portion payable from the RPP account and the portion payable from the RCA account.

Note 12: Funding Valuation (Regulatory Filing Valuation)

In accordance with the *Pension Benefits Act of Ontario* and the *Income Tax Act (Canada) and Regulations*, an actuarial valuation is required to be filed at least every three years to estimate the Plan's surplus or deficit, and to determine the Plan's funding requirements. The last actuarial valuation for regulatory funding purposes was prepared by our external actuary, Watson Wyatt & Company, as at December 31, 2002, and a copy of this valuation was filed with the Financial Services Commission of Ontario and CCRA.

The funding valuation method used to determine the Plan's pension liabilities is the projected accrued benefit actuarial cost method (pro-rated on service). Under this method, pension liabilities are determined by calculating the actuarial present value of benefits based on the projected final average earnings. The actuarial present value of benefits is then pro-rated to determine the actuarial current service cost of benefits, a portion of which is covered by member contributions.

The economic and demographic assumptions used for regulatory funding valuations can vary from those used to determine amounts disclosed for financial statement purposes. The funding valuation may use actuarial assumptions that are more conservative since the primary purpose of the funding valuation is to promote benefit security. These actuarial assumptions are recommended by the external actuary, in consultation with management, to ensure there is sufficient funding to meet all long-term liability requirements. The economic assumptions used for the December 31, 2002 regulatory funding valuation are as follows:

Rate of return	6.75%
Inflation rate	2.50%
Real interest rate	4.25%
Salary escalation rate	5.00%

The most current regulatory funding valuation conducted as at December 31, 2002 disclosed actuarial assets of $18,824 million with accrued pension liabilities of $18,505 million, resulting in a surplus of $319 million. The funding valuation also confirmed that the Plan is fully funded on a solvency basis.

Notes to Consolidated Financial Statements

Note 13: Commitments

The Plan has committed to purchase limited partnership units, which will be funded over the next several years in accordance with the terms and conditions agreed to. The Plan has also made commitments to purchase real estate. As at December 31, 2003, these commitments totalled $350 million and $20 million respectively (2001: $397 million). The Plan has also committed to purchase additional technology in 2004 totalling approximately $4 million.

Notes to Consolidated Financial Statements

Note 14: Guarantees

Effective 2003, HOOPP adopted, on a prospective basis, the new accounting guideline on the disclosure of guarantees. This new accounting guideline includes contracts requiring the guarantor to make payment where the guaranteed party fails to perform under an obligating agreement; indirect guarantees of the indebtedness of another party whereby that party has failed to pay its indebtedness; and indemnification agreements that require the indemnifying party (guarantor) to make payments to the indemnified party (guaranteed party).

A guarantee is defined as a contract that contingently requires the guarantor to make payments to the guaranteed party based on the changes in the underlying interest rate, foreign exchange rate, equity or commodity instruments, index of prices or rates, or any other variables relating to an asset, liability or equity security of the guaranteed party.

In the normal course of its business, HOOPP may, from time to time, provide guarantees to various counterparties which may be considered material within the context of the Fund. The significant guarantees made to third parties would include the following:

Indemnification Agreements

According to the *Agreement and Declaration of Trust* (ADT), HOOPP indemnifies its directors against certain claims that may be made against them.

Derivative Instruments (note 3)

HOOPP enters into written credit derivative contracts under which a counterparty is compensated for losses on a specified referenced asset, typically a bond, if a default or other defined triggering event occurs. Typically, a rated regulated entity is the counterparty to the written credit derivatives contracts which meet the characteristics of guarantees described above.

Significant Investments

Investments with market value exceeding $25 million as at December 31, 2003 (excluding derivatives):

($ Millions)	Maturity Date	Coupon Rate %	Fair Value	Cost-based Value
Fixed Income				
Bonds				
Government of Canada and guaranteed	2004–2033	4.00 – 12.75	$ 3,443	$ 3,372
Real return	2031–2032	4.00 – 4.50 plus CPI*	808	631
Corporate	2005–2032	1.72 – 11.80	1,579	1,555
Provincial and Municipal	2004–2032	2.76 – 11.00	1,997	1,906
Global	2013–2027	1.73 – 6.79	123	137
Short-term Securities	2004	2.58	1,368	1,368

**CPI – Consumer Price Index*

Significant Investments

($ Millions)	No. of Shares (in millions)		Fair Value
Equities			
Canadian Equities			
Agrium Inc.	1.2	$	25.4
Alcan Inc.	1.6		98.0
BCE Inc.	3.8		110.6
Bank of Montreal	0.8		43.4
Bank of Nova Scotia (The)	0.9		59.8
Barrick Gold Corporation	2.2		63.1
Canadian Imperial Bank of Commerce	0.8		50.0
Canadian National Railway Company	0.9		72.3
Canadian Natural Resources Limited	0.4		27.3
EnCana Corporation	1.8		89.4
Husky Energy Inc.	1.1		25.5
Inco Ltd.	0.6		30.4
Loblaw Companies Limited	0.5		30.8
Magna International Inc.	0.4		46.1
Manulife Financial Corp.	0.9		38.4
Nexen Inc.	0.8		39.1
Nortel Networks Corp.	16.8		92.2
Petro Canada	1.3		79.9
Placer Dome Inc.	1.6		37.1
Royal Bank of Canada	0.6		36.7
Sun Life Financial Services of Canada Inc.	0.9		28.6
Suncor Energy Inc.	1.4		46.2
Talisman Energy Inc.	0.6		44.5
Telus Corp.	1.5		37.9
Thomson Corp.	0.7		33.5
Toronto Dominion Bank	0.8		35.9
TransCanada Corporation	2.4		66.3
U.S. Equities			
Cisco Systems Inc.	1.1	$	34.6
Citigroup Inc.	0.8		50.4
Exxon Mobil Corp.	0.5		27.5
General Electric Co.	1.2		47.6
Intel Corp.	0.8		32.3
Microsoft Corp.	1.4		51.6
Pfizer Inc.	1.0		47.0
Wal-Mart Stores Inc.	0.4		27.2
International Equities			
Nestle SA	0.1	$	30.4
Vodafone Group PLC	13.7		43.8
UBS AG	0.3		27.8
Private Equities			
Accantia Limited			
BC European Capital VII – 1			
Clayton, Dublier & Rice Fund V Ltd.			
Commodore Group			
MG Stratum Fund II LP			
Perkins Food plc.			
Teramira Holdings Inc.			

Significant Investments

	Ownership
Real Estate Properties	
Pensionfund Realty Inc.	
Coquitlam Shopping Centre	42.39%
CN Hotel and Office Complex	17.26%
Penlea Investments Ltd	
1500 West Georgia	100.0%
HOOPP Realty Inc.	
141 Adelaide Street West	100.0%
4711 Yonge Street	75.0%
Monterey Park	50.0%
Telus	100.0%
Vancouver Centre	50.0%
Whistler Market place	100.0%
Other Properties	
200 Kent	50.0%
Exchange Tower	25.0%
Foothills Equities	100.0%
Place Rosemere	33.33%
Sussex Place	100.0%

Ten-Year Review

for the year ended December 31

($ Millions)	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
CHANGE IN NET ASSETS										
Increase in net assets										
Net investment income/(loss)	**$ 2,394**	$ (845)	$ (799)	$ 1,471	$ 2,463	$ 1,586	$ 1,520	$ 1,695	$ 1,295	$ –
Contributions										
Employers	**532**	297	172	158	138	316	313	314	322	326
Members	**435**	244	137	130	109	227	224	226	231	236
Transfers	**15**	11	10	6	7	5	5	5	7	7
Total Increase/(Decrease)	**3,376**	(293)	(480)	1,765	2,717	2,134	2,062	2,240	1,855	569
Decrease in net assets										
Benefits	**712**	634	586	561	561	445	432	371	294	271
Investment and Plan administration expenses	**65**	57	54	52	46	33	23	22	20	20
Total Decrease	**777**	691	640	613	607	478	455	393	314	291
NET INCREASE/ (DECREASE) IN NET ASSETS	**$ 2,599**	$ (984)	$ (1,120)	$ 1,152	$ 2,110	$ 1,656	$ 1,607	$ 1,847	$ 1,541	$ 278
NET ASSETS										
Investments										
Fixed Income										
– Canadian	**$10,507**	$ 8,154	$ 9,490	$ 8,301	$ 5,739	$ 5,753	$ 5,669	$ 4,879	$ 3,803	$ 3,262
– Other global	**324**	254	318	141	160	130	107	82	74	74
Equities										
– Canadian	**1,874**	2,117	2,739	4,324	6,180	4,823	4,304	3,929	3,122	2,556
– Other global	**3,674**	3,401	2,587	3,372	3,478	2,840	1,987	1,657	1,743	1,390
Real estate properties, private equity & resource properties	**2,608**	2,406	2,265	2,033	1,542	1,287	1,018	965	911	837
Investment related receivables	**770**	504	353	293	3	–	–	–	–	–
	19,757	16,836	17,752	18,464	17,102	14,833	13,085	11,512	9,653	8,119
Other assets	**124**	76	51	39	126	209	167	132	141	133
Total Assets	**19,881**	16,912	17,803	18,503	17,228	15,042	13,252	11,644	9,794	8,252
Liabilities										
Investment related liabilities	**(1,210)**	(839)	(747)	(330)	(207)	(137)	–	–	–	–
Other liabilities	**(14)**	(15)	(14)	(11)	(11)	(5)	(8)	(7)	(4)	(3)
Total Liabilities	**(1,224)**	(854)	(761)	(341)	(218)	(142)	(8)	(7)	(4)	(3)
NET ASSETS	**18,657**	16,058	17,042	18,162	17,010	14,900	13,244	11,637	9,790	8,249
Actuarial asset value adjustment	**1,471**	2,766	946	(1,322)	(2,033)	(1,378)	(1,193)	(1,016)	(86)	375
Actuarial value of net assets	**20,128**	18,824	17,988	16,840	14,977	13,522	12,051	10,621	9,704	8,624
Accrued pension benefits	**20,113**	17,814	16,756	15,102	11,946	11,333	10,405	9,882	9,372	8,265
SURPLUS	**$ 15**	$ 1,010	$ 1,232	$ 1,738	$ 3,031	$ 2,189	$ 1,646	$ 739	$ 332	$ 359
INVESTMENT PERFORMANCE										
Investment rate of return – net	**14.86%**	(5.02)%	(4.41)%	8.50%	16.61%	11.77%	13.18%	17.34%	15.54%	(0.29)%
Benchmark return	**14.38%**	(5.33)%	(4.51)%	5.41%	14.87%	9.75%	13.84%	17.74%	17.03%	0.90%
Long-term return target	**7.75%**	7.75%	7.75%	7.25%	7.25%	7.25%	8.00%	8.00%	8.00%	8.00%

Schedule of Investment Returns vs. Benchmark Returns

The one-year returns for investment and the related benchmark, by investment portfolio, are as follows:

Year ended December 31 (Unaudited)

	2003		2002	
Rate of return (net of fees)	**Investment Returns %**	**Benchmark Returns %**	**Investment Returns %**	**Benchmark Returns %**
Fixed Income				
Short-term securities	**3.05**	**2.91**	2.61	2.52
Bonds				
Canadian	**6.74**	**6.69**	8.82	8.73
Long bonds	**9.05**	**9.07**	11.09	11.05
Real return	**11.53**	**11.53**	14.03	14.03
Equities				
Canadian	**25.45**	**25.51**	(13.29)	(13.94)
United States	**5.12**	**6.19**	(24.92)	(22.41)
Other global	**12.82**	**12.61**	(16.68)	(17.13)
Real estate properties	**8.86**	**7.83**	10.98	8.07
Private equity	**8.94**	**7.75**	9.04	7.75
NET INVESTMENTS *	**14.86**	**14.38**	(5.02)	(5.33)

** Includes derivative related return enhancement strategies*

Certain comparative returns have been restated to conform to the current year's presentation.

The Plan identifies the following benchmarks to evaluate the performance of the investment management process. The performance of each portfolio is measured against the benchmarks that reflect the results of the markets in which they invest.

Portfolio	**Benchmarks**
Short-term Securities	Scotia Capital Markets 91-day Treasury Bill Index
Canadian Bonds	Scotia Capital Markets Universe Bond Index
Long Bonds	Scotia Capital Markets Long Bond Index
Real Return Bonds	Equal to portfolio return
Canadian Equities	S&P/TSX60 Total Return Index
U.S. Equities	Blended S&P 500 Total Return Index and Russell Mid-Cap Total Return Index
Other Global Equities	MSCI ACWI Blend Total Return Index
Real Estate Properties	Investment Property Databank
Private Equities	Total Plan funding target

Directory

(Not pictured: Lesley Bell)

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Pensioner Observer[1]

Joyce Bailey
Former President
Wellesley Hospital

1. One pensioner observer position was vacant as of December 31, 2003.

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HOOPP Annual Report 2003

About HOOPP

HOOPP Profile

The Hospitals of Ontario Pension Plan (HOOPP) has a strong history of providing pensions to Ontario's health care community. It's one of the biggest and most respected pension plans in the country and is an industry leader among multi-employer plans.

> More

Our Mission

We contribute to the well-being of our members in retirement by providing pension benefits and services tailored to the unique needs of the health care community. This commitment shapes how we design and deliver pension benefits and services, and how we invest their pension assets.

> More

The Plan: Key Features

- Competitive benefit formula
- Early retirement
- Inflation protection
- Portability
- Survivor benefits
- Disability benefits

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