



FINANCIAL STATEMENTS
AND NOTES TO THE FINANCIAL STATEMENTS

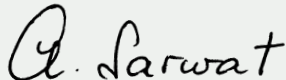
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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



Adel Sarwat
President and Chief Executive Officer
May 9, 2002



Danielle G. Morin
Chief Financial Officer
May 9, 2002

INVESTMENT CERTIFICATE

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

"The investments of PSP Investments held during the year ended March 31, 2002, were in accordance with the Act and PSP Investments' Statement of Investment Policies, Standards and Procedures."



William R. C. Blundell
Chairperson
May 9, 2002

PUBLIC SECTOR PENSION INVESTMENT BOARD

Auditors' report

To the Board of Directors of
Public Sector Pension Investment Board

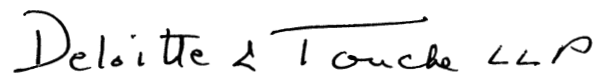
We have audited the Balance Sheet and the Statement of Investment Portfolio of the Public Sector Pension Investment Board ("PSP Investments") as at March 31, 2002 and the Statements of Net Income/(Loss) from Operations and of Changes in Net Assets for the year then ended. These financial statements are the responsibility of the PSP Investments management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of PSP Investments and the investments held as at March 31, 2002 and the results of its operations and of changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of PSP Investments that have come to our notice during our audit of the financial statements, have, in all significant respects, been in accordance with the *Public Sector Pension Investment Board Act* (the "Act") and the by-laws.

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



Chartered Accountants

Montreal, Quebec
May 1, 2002

PUBLIC SECTOR PENSION INVESTMENT BOARD

Balance Sheet

As at March 31

	2002 (\$000)	2001 (\$000)
ASSETS		
Investments – at fair value (Note 2)	5,623,975	2,511,101
Cash	24,633	165
Accrued income	17	33
Other assets	247	—
	5,648,872	2,511,299
LIABILITIES		
Accounts payable and accrued liabilities	2,233	531
NET ASSETS	5,646,639	2,510,768
NET ASSETS REPRESENTED BY:		
Public Service Pension Plan Account	3,975,216	1,789,504
Canadian Forces Pension Plan Account	1,236,048	532,446
Royal Canadian Mounted Police Pension Plan Account	435,375	188,818
	5,646,639	2,510,768

On behalf of the Board of Directors:



Paul Cantor
Director and Chair of the Audit and Conflicts Committee

Statement of Changes in Net Assets

For the year ended March 31

	2002 (\$000)	2001 (\$000)
NET ASSETS, BEGINNING OF YEAR	2,510,768	—
CHANGES IN NET ASSETS		
Fund transfers (Note 3)	2,996,362	2,741,302
Net income/(loss) from operations	139,509	(230,534)
NET ASSETS, END OF YEAR	5,646,639	2,510,768

PUBLIC SECTOR PENSION INVESTMENT BOARD

Statement of Net Income/(Loss) from Operations

For the year ended March 31

	2002 (\$000)	2001 (\$000)
INVESTMENT INCOME		
Interest and dividends	125,190	3,327
Net realized gains/(losses) (Note 2c)	(412,404)	(105)
Net unrealized gains/(losses)	434,009	(230,151)
	146,795	(226,929)
INVESTMENT AND ADMINISTRATIVE EXPENSES (Note 5)		
Salaries and benefits	2,756	796
Operating expenses	2,288	1,073
External investment management fees	751	197
Professional and consulting fees	1,491	1,539
	7,286	3,605
NET INCOME/(LOSS) FROM OPERATIONS (Note 6)	139,509	(230,534)

Statement of Investment Portfolio

As at March 31

Investments (Note 2)	2002*			2001**		
	Cost	% of Portfolio Fair Value	(At Fair Value)	Cost	% of Portfolio Fair Value	(At Fair Value)
	(\$000)	(\$000)		(\$000)	(\$000)	
CANADIAN EQUITIES						
PSP Canadian Equities Fund						
Active management	221,627	224,310	4.0	—	—	—
Indexed management	1,601,915	1,754,314	31.2	1,042,911	848,229	33.8
	1,823,542	1,978,624	35.2	1,042,911	848,229	33.8
FOREIGN EQUITIES						
PSP Foreign Equities Fund						
Active management	354,428	365,527	6.5	—	—	—
Indexed management	1,264,202	1,325,799	23.5	754,349	675,738	26.9
	1,618,630	1,691,326	30.0	754,349	675,738	26.9
FIXED INCOME						
PSP Fixed Income Fund						
Active management	1,174,030	1,175,227	20.9	—	—	—
Indexed management	636,317	611,200	10.9	923,040	966,182	38.5
	1,810,347	1,786,427	31.8	923,040	966,182	38.5
CASH EQUIVALENTS						
PSP Cash Equivalents Fund	167,598	167,598	3.0	20,952	20,952	0.8
	5,420,117 ***	5,623,975 ***	100.0%	2,741,252	2,511,101	100.0%

* As of October 2nd, 2001 the pooled fund investments held by the three Pension Plan Accounts were transferred into pooled accounts held by PSP Investments (PSP Funds).

** Investments were exclusively in pooled funds managed by State Street Global Advisors (SSgA).

*** Include investment receivables of \$81,206 thousand (2001 - Nil) and investment payables of \$84,057 thousand (2001 - Nil) pertaining to pending trades for a net payable of \$2,851 thousand.

PUBLIC SECTOR PENSION INVESTMENT BOARD

Notes to the Financial Statements*For the year ended March 31, 2002***ORGANIZATION**

The Public Sector Pension Investment Board ("PSP Investments") was formed pursuant to the *Public Sector Pension Investment Board Act* (the "Act") with a mandate to invest in financial markets the contributions to the Public Service, Canadian Forces and Royal Canadian Mounted Police pension plans. Prior to the implementation of the provisions of the Act, the balances of the plans were credited with a rate of interest based on long-term Government of Canada bonds.

The Public Service, Canadian Forces and Royal Canadian Mounted Police Pension Funds were established by amendments to the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* and the *Royal Canadian Mounted Police Superannuation Act* ("the *Superannuation Acts*"), to receive contributions and make benefit payments in respect of member service after April 1, 2000. The excess of contributions over benefits is transferred, by each Pension Fund, to their respective PSP Investments-Plan Account for investment.

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

PSP Investments commenced operations April 1, 2000, and has a fiscal year end of March 31.

For the first time a financial statement has been produced for PSP Investments which includes the interest of the three Plan Accounts, in addition to financial statements of each Plan Account.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Basis of presentation***

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

Plan Accounts

PSP Investments maintains records of each Pension Funds' net contributions, as well as, the allocation of its investments and the results of its operations to each of the Plan Accounts.

Separate financial statements for each Plan Account have been published.

Valuation of investments

Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Market prices for securities and unit values for pooled funds are used to represent the fair value of investments. Unit values reflect the quoted market prices of the underlying securities.

Income recognition

Investment income is recorded on the accrual basis and represents realized gains and losses on the disposal of investments, unrealized gains and losses on investments held at the end of the year, interest income and dividends. These income items include the related distributions from pooled funds.

Translation of foreign currencies

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

Fund transfers

Amounts received from each Pension Fund are recorded on a cash basis in their respective Plan Account.

PUBLIC SECTOR PENSION INVESTMENT BOARD

Notes to the Financial Statements*For the year ended March 31, 2002***1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Income Taxes*

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

Use of estimates

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

2 INVESTMENTS

The Statement of Investment Portfolio provides details of investments held as at March 31, 2002.

(a) Investment Policy

PSP Investments has established a Statement of Investment Policies, Standards and Procedures, (the "Investment Policy") which sets out the manner in which the assets shall be invested for the three Plan Accounts. Asset mix policy and benchmarks at March 31, 2002 were as follows:

Asset Class	Policy Mix	Benchmark
Canadian Equities	35.0%	TSE 300
Foreign Equities	30.0%	S&P 500, MSCI EAFE
Fixed Income	32.0%	SC Bond Universe
Cash Equivalents	3.0%	SC 91-day T-bill

Prior to October 25, 2001, the Regulations of the *Act* stipulated that the investments of PSP Investments in Canadian equities had to substantially replicate the composition of one or more widely recognized broad market indices. The Toronto Stock Exchange 300 Composite Index (TSE 300) had been selected as an appropriate market index for Canadian equities. On October 25, 2001, an amendment to the Regulations of the *Act* enabled PSP Investments to invest without replicating a widely recognized Canadian equity index.

(b) Foreign currency exposure

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

Currency	2002		2001	
	Fair Value (S000)	% of Total	Fair Value (S000)	% of Total
US dollars	971,426	57.4	337,383	49.9
Euro	270,284	16.0	137,509	20.4
British pound	178,971	10.6	73,158	10.8
Yen	147,377	8.7	81,046	12.0
Others	123,268	7.3	46,642	6.9
	1,691,326	100.0%	675,738	100.0%

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

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

On October 2nd 2001, PSP Investments created the PSP Funds and the units in SSgA pooled funds previously held in the name of the three Plan Accounts, were transferred to the PSP Funds. This deemed disposition caused previously unrealized losses to become realized in the Statement of Net Income/(Loss) from Operations for the three Plan Accounts. This has no impact on the Plan Accounts, except for bringing the Investments cost values closer to their fair values.

PUBLIC SECTOR PENSION INVESTMENT BOARD

Notes to the Financial Statements

For the year ended March 31, 2002

2 INVESTMENTS (continued)*(d) PSP Canadian Equities Fund - 10 largest holdings*

	Company Name	Market Value (\$,000)	% of PSP Canadian Equities Fund
1	Royal Bank of Canada	97,395	4.9
2	Toronto-Dominion Bank	77,609	3.9
3	Scotia Bank	76,921	3.9
4	BCE Inc.	61,004	3.1
5	Nortel Networks Corporation	60,525	3.1
6	Manulife Financial Corporation	59,729	3.0
7	Alcan Inc.	55,901	2.8
8	Canadian Imperial Bank of Commerce	55,147	2.8
9	Bank of Montreal	53,421	2.7
10	Barrick Gold Corporation	47,035	2.4
Total 10 largest Holdings		644,687	32.6

Some of the holdings shown above are held through Indexed Pooled Fund participation.

(e) PSP Foreign Equities Fund - 10 largest holdings

	Company Name	Market Value (\$,000)	% of PSP Foreign Equities Fund
1	General Electric Company	36,966	2.2
2	Microsoft Corporation	31,617	1.9
3	Exxon Mobil Corporation	30,647	1.8
4	Pfizer Inc.	27,819	1.6
5	Citigroup Inc.	26,831	1.6
6	Wal Mart Stores Inc.	25,687	1.5
7	Intel Corporation	22,780	1.3
8	BP p.l.c.	21,591	1.3
9	American International Group Inc	20,472	1.2
10	Johnson & Johnson	20,406	1.2
Total 10 largest Holdings		264,816	15.6

Some of the holdings shown above are held through Indexed Pooled Fund participation.

(f) PSP Fixed Income Fund

The PSP Fixed Income Fund holds securities invested in Canada as follows:

	Market Value (\$,000)	% of PSP Fixed Income Fund
Government of Canada	707,031	39.6
Provincial	474,606	26.6
Municipal	10,109	0.6
Corporate	592,401	33.1
Cash	2,280	0.1
Total	1,786,427	100.0

Some of the holdings shown above are held through Indexed Pooled Fund participation.

PUBLIC SECTOR PENSION INVESTMENT BOARD

Notes to the Financial Statements

For the year ended March 31, 2002

3 FUND TRANSFERS

During the year, PSP Investments received \$2,996.3 million (2001 \$2,741.3 million) of transfers from the three Pension Funds. The transfers result from net current employer and employee contributions to their respective Pension Plan.

The breakdown of the fund transfers is as follows:

	2002	2001
	(\$000,000)	(\$000,000)
Public Service Pension Fund	2,086.3	1,953.7
Canadian Forces Pension Fund	674.0	581.1
Royal Canadian Mounted Police Pension Fund	236.0	206.5
Total Fund Transfers	2,996.3	2,741.3

4 INVESTMENT PERFORMANCE

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

	2002		2001		
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns	
Canadian Equities	4.7%	4.9%	(12.0)%	(12.2)%	TSE 300
Foreign Equities	(3.3)%	(2.6)%	(13.2)%	(13.0)%	S&P 500 & MSCI EAFE
Fixed Income	5.3%	5.1%	8.3%	8.3%	SC Bond Universe
Cash Equivalents	4.0%	3.7%	—	—	SC 91-day T-Bill
Total return	2.7%	2.8%	(4.1)%	(4.0)%	

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

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

5 INVESTMENT AND ADMINISTRATIVE EXPENSES*(a) Operating expenses*

Operating expenses consisted of the following:

	2002	2001
	(\$,000)	(\$,000)
Office supplies and equipment	996	271
Remuneration earned by Directors	339	279
Occupancy costs	336	90
Communication expenses	248	276
Travel and accommodation for Directors' meetings	160	82
Custody and Fund Administration	116	35
Other operating expenses	93	40
Total	2,288	1,073

Total remuneration earned by Directors includes an annual retainer for each Director of \$12,000, an additional annual retainer of \$3,000 for each committee chair, and Board and committee meeting fees of \$900 per meeting. Separate fees are not paid for investment committee meetings when they are held as a committee of the whole during Board meetings.

PUBLIC SECTOR PENSION INVESTMENT BOARD

Notes to the Financial Statements

For the year ended March 31, 2002

5 INVESTMENT AND ADMINISTRATIVE EXPENSES (continued)

Directors of PSP Investments come from various regions of the country and accordingly they incur travel and accommodation expenses in attending meetings of the Board and committees.

(b) Salaries and benefits

Included in salaries and benefits is compensation earned by executive officers. The total compensation earned during the fiscal year by the executive officers was as follows:

Employee/Position	Year	Base Salary	Annual Bonus ⁴	Long Term Incentive Plan ⁴	Benefits ⁵
Adel Sarwat	2002	\$275,000	\$143,000	\$213,000	\$50,500
President and Chief Executive Officer	2001	138,900 ¹	70,000	—	—
Carl Haller	2002	81,000 ²	—	—	—
Executive Vice President	2001	256,000 ²	—	—	—
Danielle G. Morin	2002	181,400 ³	82,600	53,500	26,800
Chief Financial Officer	2001	—	—	—	—

¹ The President and Chief Executive Officer commenced employment on September 11, 2000, and in addition to the above, was awarded a signing bonus of \$210,000 in fiscal year 2001.

² The Executive Vice President commenced employment on February 28, 2000 with the mandate to coordinate the start-up phase. He left PSP Investments on August 31, 2001, and periodically provided consulting services for \$12,000 until December 31, 2001.

³ The Chief Financial Officer commenced employment on April 6, 2001, and in addition to the above, was awarded a signing bonus of \$30,000.

⁴ Bonus awards include short-term and long-term components and are based on the achievement of agreed objectives. PSP Investments has established a new program for the long-term bonus which will be in place starting fiscal year 2003. Consequently, long term bonus for the last 2 years has been paid to close the previous program.

⁵ Benefits include other miscellaneous non-cash remuneration. Included is the premium for long-term disability coverage which is now integrated in PSP Investments Group Insurance coverage. In addition to the above, the executive officers are covered by a contributory defined benefit pension plan which provides them with a pension benefit of 2% of the best 3 year average earnings for each year of service.

(c) Professional and consulting fees

Professional and consulting fees consisted of the following:

	2002	2001
	(\$,000)	(\$,000)
Consulting fees	758	859
Legal	381	462
Professional accounting and audit fees	352	218
Total	1,491	1,539

Consulting fees represent amounts paid for professional advice in connection with the development of business strategy and human resource policies, recruiting, and other professional advice and services.

PUBLIC SECTOR PENSION INVESTMENT BOARD

Notes to the Financial Statements*For the year ended March 31, 2002***6 ALLOCATION OF NET INCOME/LOSS FROM OPERATIONS**

The allocation of the net income/loss from operations of PSP Investments to each Plan Account is as follows:

(a) Investment Income

The investment income has been allocated according to the number of units of PSP Funds held by each Plan Account.

(b) Investment and Administrative Expenses

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

Administrative costs have been allocated on a quarterly basis according to the policy, resulting in an allocation as follows:

	2002	2001
Public Service Pension Plan Account	70.6%	71.9%
Canadian Forces Pension Plan Account	21.7%	21.0%
Royal Canadian Mounted Police Pension Plan Account	7.7%	7.1%

The costs of administrative expenses are paid by PSP Investments by way of an advance from the Public Service Pension Plan Account, which is reimbursed by the other Plan Accounts on a quarterly basis.