

Financial Statements of

**HEALTHCARE EMPLOYEES
PENSION PLAN - MANITOBA**

Year ended December 31, 2003



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AUDITORS' REPORT

To the Board of Trustees of the Healthcare Employees Pension Plan - Manitoba

We have audited the statement of net assets of the Healthcare Employees Pension Plan - Manitoba as at December 31, 2003 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Plan's 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 net assets of the Plan as at December 31, 2003 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Winnipeg, Canada

May 14, 2004



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HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Statement of Net Assets

December 31, 2003, with comparative figures for 2002


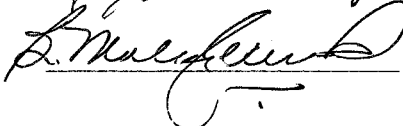
	2003	2002
Assets		
Cash	\$ 16,220,822	\$ 28,499,139
Contributions and other receivables (note 5)	4,808,081	4,541,571
Due from broker	-	486,282
Investment income receivable	6,901,121	6,775,306
Investments (note 6)	2,300,996,203	1,978,021,137
Capital assets (note 7)	1,179,280	548,853
	<u>\$ 2,330,105,507</u>	<u>\$ 2,018,872,288</u>

Liabilities and Net Assets

Accrued benefit payments and liabilities	\$ 8,032,155	\$ 8,357,762
Due to brokers	1,544,785	-
	<u>9,576,940</u>	<u>8,357,762</u>
Net assets represented by:		
Pension Fund	2,319,349,287	2,009,936,123
Restricted for future capital assets	-	29,550
Capital Fund	1,179,280	548,853
	<u>2,320,528,567</u>	<u>2,010,514,526</u>
Contingency (note 13)		
	<u>\$ 2,330,105,507</u>	<u>\$ 2,018,872,288</u>

See accompanying notes to financial statements.

Approved on behalf of the Trustees:

 Trustee
 Trustee

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Statement of Changes in Net Assets

Year ended December 31, 2003, with comparative figures for 2002

	Pension Fund	Capital Fund	2003 Total	2002 Total
Increase in net assets:				
Pension fund contributions:				
Employer	\$ 53,322,121	\$ -	\$ 53,322,121	\$ 48,274,603
Employee	53,322,121	-	53,322,121	48,274,603
Reciprocal transfers and buybacks:				
Employer	784,276	-	784,276	918,344
Employee	779,934	-	779,934	914,982
Investment income (note 8)	70,682,625	-	70,682,625	72,942,372
Current period change in market value of investments	219,513,737	-	219,513,737	-
Total increase in net assets	398,404,814	-	398,404,814	171,324,904
Decrease in net assets:				
Current period change in market value of investments				
Pension payments	69,116,407	-	69,116,407	63,230,628
Termination refunds	11,290,930	-	11,290,930	14,571,730
Investment management fees	6,208,300	-	6,208,300	5,961,966
Administrative expenses	2,915,306	-	2,915,306	2,120,957
Amortization of capital assets	-	411,090	411,090	290,719
Professional fees	125,166	-	125,166	39,289
Custodial fees	561,127	-	561,127	641,734
Actuarial fees	466,548	-	466,548	201,476
Total decrease in net assets	90,683,784	411,090	91,094,874	240,233,310
Net increase (decrease) in assets prior to inter-fund transfers	307,721,030	(411,090)	307,309,940	(68,908,406)
Inter-fund transfers (note 7)	(1,041,517)	1,041,517	-	-
Net increase (decrease) in assets	306,679,513	630,427	307,309,940	(68,908,406)
Net assets, beginning of year	2,009,965,673	548,853	2,010,514,526	2,079,422,932
Net assets transferred in during the year (note 10)	2,704,101	-	2,704,101	-
Net assets, end of year	\$ 2,319,349,287	\$ 1,179,280	\$ 2,320,528,567	\$ 2,010,514,526

See accompanying notes to financial statements.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements

Year ended December 31, 2003

1. General:

The Plan is governed by a Board of Trustees appointed by signatory employers and unions. The Plan has received approval from Canada Revenue Agency ("CRA") for registration as a Specified Multi-Employer Plan and the Manitoba Pension Commission has registered the Plan as a Multi-unit Pension Plan.

2. Description of the Plan:

The following description of the Plan is a summary only. For more complete information reference should be made to the Plan Text.

(a) General:

The Plan is a multi-employer defined benefit pension plan for all employees of participating healthcare facilities in the Province of Manitoba.

(b) Funding policy:

Employers and employees contribute equally to fund the benefits under the Plan.

Employers and employees are required to contribute to the Plan 5% of the members' earnings up to the legislated Year's Maximum Pensionable Earnings ("YMPE") plus 6.6% of the members' earnings in excess of the YMPE.

(c) Normal retirement pension benefits:

Normal retirement pension benefits commence the first month coincident with or immediately following the attainment of age 65. The annual earned pension payable to a member on normal or postponed retirement is based on years of service and contributory earnings.

(d) Early retirement pension benefits:

A member may elect to retire early provided that:

- the member has completed at least two years of service and attained age 55; or
- the total of the member's age plus years of service total at least 80.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2003

2. Description of the plan (continued):

If at the member's early retirement date:

- the member has attained age 60 and two years of service; or
- the member's age plus years of service total at least 80,

then the member shall receive normal pension benefits.

If at the member's early retirement date the member's age is between 55 and 60 and the member has not achieved the total of 80 based on age and years of service, pension benefits will be reduced in accordance with the Plan Text.

(e) Postponed retirement benefits:

Retirement benefits cannot be postponed beyond the end of the year in which a member turns 69 years of age.

(f) Death benefits:

Prior to retirement, upon the death of a member who has completed two years of service, the beneficiary is eligible to receive a death benefit.

If less than two years of service has been completed, then the beneficiary is eligible to receive the related contributions plus interest.

(g) Benefits on termination:

In the event of termination after two years of service, the members are entitled to a return of their contributions plus the value of their earned pension.

If less than two years service has been completed then members shall receive their contributions plus credited interest.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2003

2. Description of the plan (continued):

(h) Income taxes:

The Plan is a Pension Trust as defined in the *Income Tax Act* and is not subject to income taxes.

3. Related party:

The Plan and the Healthcare Employees Benefit Plan - Manitoba ("HEBP") have a certain number of common trustees and a cost sharing agreement to allocate certain costs based on factors such as square footage, number of employees and time usage.

4. Significant accounting policies:

(a) Basis of presentation:

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity, independent of the participating employers and members. Only the net assets and obligations to members eligible to participate in the Plan have been included in these financial statements. These financial statements do not portray the funding requirements of the Plan or the benefit security of the individual plan members.

(b) Fund accounting:

Assets, liabilities, revenues and expenses related to the Plan's capital assets are recorded in the Capital Fund. All other assets, liabilities, revenues and expenses are reported in the Pension Fund.

(c) Investments:

Investments are stated at market value as follows:

(i) Short-term investments:

Short-term investments are valued at cost plus accrued interest, which approximates market value, with maturities up to one year.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2003

4. Significant accounting policies (continued):

(ii) Bonds and bond pooled funds:

Bonds are valued using published market quotations or by a yield-to-maturity calculation where published rates are not available.

Bond pooled fund units are recorded at market values established by the respective fund trustee.

(iii) Mortgage pooled funds:

Mortgage pooled funds are recorded at market values established by the respective fund trustee.

(iv) Equities:

All listed equities traded on recognized exchanges are priced based on the latest price reported by the exchange. If a closing trade price is unavailable, a latest bid price is reflected. If no bid price is available, the most recent trade price is used.

(v) Real estate investments:

Real estate investments held in pooled funds are recorded at market values established by the respective fund trustee. Real estate properties are recorded at market value as established by an annual appraisal conducted by qualified external real estate appraisers. Real estate acquired within the year is recorded at cost, which approximates its market value.

(d) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated useful life of an asset are capitalized. When a capital asset no longer contributes to the Plan's ability to provide services, its carrying amount is written-down to its residual value. Capital assets, which include computer software, computer hardware, and office equipment, are amortized on a straight-line basis over three years. Amortization expense is reported in the Capital Fund.

Computer project in progress will be amortized on a straight-line basis over three years as the projects are completed.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2003

4. Significant accounting policies (continued):

(e) Foreign currency transactions and balances:

Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the exchange rate prevailing at the financial statement date. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date.

(f) Income recognition:

Investment income has been accrued as reported by the issuer of the pooled funds and bonds. Dividend income from publicly traded securities is recorded as of the ex-dividend date. Interest income has been accrued as earned.

(g) Unrealized gains (losses):

The net unrealized gains (losses) for the year are reflected in the statement of changes in net assets.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

5. Contributions and other receivables:

	2003	2002
Contributions receivable - employer	\$ 2,030,920	\$ 2,096,924
Contributions receivable - employee	2,030,920	2,096,924
Other receivables	746,241	347,723
	<u>\$ 4,808,081</u>	<u>\$ 4,541,571</u>

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2003

6. Investments:

	2003	2002
Short-term investments	\$ 21,781,505	\$ 33,932,492
Bonds	366,940,421	348,542,843
Bond pooled funds	308,057,332	293,129,086
Mortgage pooled funds	180,926,611	168,586,352
Canadian equities	805,910,655	618,513,287
U.S. equities	257,394,165	218,508,805
Global equities	279,808,772	244,440,452
Real estate pooled funds	55,919,123	52,367,820
Real estate properties	24,257,619	-
	\$ 2,300,996,203	\$ 1,978,021,137

7. Capital assets:

	2003		2002	
	Cost	Accumulated amortization	Net book value	Net book value
Computer software	\$ 1,698,497	\$ 1,429,003	\$ 269,494	\$ 343,053
Computer hardware and office equipment	1,498,695	1,198,670	300,025	205,800
Computer projects in progress	609,761	-	609,761	-
	\$ 3,806,953	\$ 2,627,673	\$ 1,179,280	\$ 548,853

In fiscal 2003, \$1,041,517 (2002 - \$351,941) was transferred from the Pension Fund to the Capital Fund for the acquisition of capital assets. A restricted fund of nil (2002 - \$29,550) has been set up in the Pension Fund for the acquisition of future capital assets.

8. Investment income:

	2003	2002
Short-term investments	\$ 1,131,227	\$ 824,492
Bonds	20,420,013	22,192,215
Bond pooled funds	17,089,907	19,168,402
Mortgage pooled funds	10,764,212	8,740,629
Canadian equities	12,416,563	15,185,962
U.S. equities	3,182,715	2,137,888
Global equities	5,195,399	4,446,076
Real estate	328,271	108,109
Security lending income	154,318	138,599
	\$ 70,682,625	\$ 72,942,372

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2003

9. Interest rate and foreign currency risk:

(a) Bonds and pooled funds - interest rate risk:

	2003		2002	
	Carrying value	Average coupon rate	Carrying value	Average coupon rate
Federal	\$ 143,541,312	5.759%	\$ 137,619,467	6.717%
Provincial/Municipal	97,693,221	6.128%	98,854,195	6.229%
Corporate	125,705,888	5.744%	106,616,616	6.361%
Global	—	—	5,452,565	2.750%
	366,940,421		348,542,843	
Bond pooled funds	308,057,332	—	293,129,086	—
Mortgage pooled funds	180,926,611	—	168,586,352	—
	\$ 855,924,364		\$ 810,258,281	

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets.

Pension liabilities are exposed to the long-term expectation of rate of return on investments as well as expectations of inflation and salary escalation. The Plan's primary exposure is to a decline in the long-term rate of return which may result in higher contribution rates required to meet pension obligations.

The Plan has invested approximately 38% of its assets in fixed income securities as at December 31, 2003. The returns on fixed income securities are particularly sensitive to changes in nominal interest rates. This is one of the reasons why the actuary smoothes out fluctuations in market values over five years (see note 12).

(b) Bonds - maturity profile:

	2003	2002
Less than one year	\$ 3,638,263	\$ 25,107,872
Two to five years	116,252,336	126,122,966
After five years	247,049,822	197,312,005
Total carrying value	\$ 366,940,421	\$ 348,542,843

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2003

9. Interest rate and foreign currency risk (continued):

(c) Foreign currency risk:

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments.

10. Net assets transferred:

Effective July 1, 2002 the employees of The Sharon Home ("Sharon Home") joined the Healthcare Employees Pension Plan - Manitoba ("HEPP"). The net assets of those Sharon Home members who chose to transfer their previously accumulated net assets to HEPP were transferred during August 2003.

11. Role of the actuary and auditor:

The actuary has been appointed pursuant to the Plan Text and the Trust Agreement. With respect to preparation of financial statements, the actuary is required to carry out a valuation of the Plan's assets and liabilities, which consists of a provision for future obligations of the Plan to the members. The valuation is made in accordance with accepted actuarial practice as well as any other matter specified in any direction that may be made by regulatory authorities, and reported thereon to the Board of Trustees. In performing the valuation of the liabilities, which are by their nature inherently variable, assumptions are made as to the investment rate of return, inflation rates and salary increments in the future, taking into consideration the circumstances of the healthcare employees and the nature of the liabilities. The actuary, in their verification of the management information provided by the Plan used in the valuation, also makes use of the work of the external auditors. The Actuary's Report outlines the scope of their work and opinion.

The external auditors have been appointed by the Board of Trustees to conduct an independent and objective audit of the financial statements of the Plan in accordance with generally accepted auditing standards and report thereon to the Board of Trustees. In carrying out their audit, the auditors also make use of the work of the actuary and their report on the Plan's liabilities. The Auditors' Report outlines the scope of their audit and their opinion.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2003

12. Obligations for pension benefits:

As at December 31, 2003, the date of the most recent actuarial valuation, the actuarial present value of the accrued pension benefits was \$2,348,082,000 (December 31, 2002 - \$2,143,506,000) and the actuarial value of the plan assets was \$2,359,362,000 (December 31, 2002 - \$2,210,930,000). The unit credit actuarial cost method was used by Towers Perrin, the actuary, to determine the actuarial liability and the required current service contributions.

The assumptions used in determining the actuarial present value of accrued pension benefits are management's best estimate and were developed by reference to expected long-term market conditions. Three significant long-term actuarial assumptions used in the valuation were:

- (a) the salary escalation rate was assumed to be 6.1% for 2004, 5.0% for 2005 and 4.0% thereafter (2002 - 6.5% for 2003, 6.1% for 2004, 5% for 2005 and 4% thereafter) plus merit and promotion;
- (b) the asset rate of return was assumed to be 6.5% (2002 - 6.5%); and
- (c) inflation rate was assumed to be 3.0% (2002 - 3.0%).

Since there is no intention of extinguishing the pension obligations in the near term, the obligations are calculated by using the going concern actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial value of accrued pension benefits.

Actuarial value of net assets has been determined using the five year moving average market method. Under this method all experience gains and losses are averaged over a five year period.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2003

12. Obligations for pension benefits (continued):

The actuarial present value of benefits as at December 31, 2003 and December 31, 2002 and the principal components of changes in actuarial present values during the year were as follows:

	December 31, 2003	December 31, 2002
Market value of net assets	\$ 2,319,349,000	\$ 2,009,936,000
Deferred investment losses	40,013,000	200,994,000
Actuarial value of net assets	2,359,362,000	2,210,930,000
Actuarial present value of accrued pension benefits - beginning of period	2,143,506,000	2,028,539,000
Benefits accrued	118,769,000	106,165,000
Benefits paid	(80,407,000)	(71,184,000)
Interest accrued on benefits	140,555,000	132,974,000
Decrease in reserves for ad-hoc pension adjustments	-	(133,000,000)
Increase due to data corrections	3,910,000	26,100,000
Effect of actual experience, change in reserves and change in actuarial basis	21,749,000	53,912,000
Actuarial present value of accrued pension benefits - end of period	2,348,082,000	2,143,506,000
Excess of actuarial value of net assets over actuarial present value of accrued pension benefits	\$ 11,280,000	\$ 67,424,000

The actuarial valuation as at December 31, 2003 indicates a contribution deficiency. The Board of Trustees requested a contribution rate increase, which has been refused by the settlors. The Trustees plan to assess other options, such as benefit reductions, in order to address the deficiency.

13. Contingency:

In 2002, the Plan incorrectly calculated the split of pension assets in certain marriage break-ups. The Plan has reviewed all affected calculations and has estimated an outstanding liability to members of approximately \$218,000, which has been recorded as a liability as of December 31, 2003. The costs associated with any actions to be brought against the Plan regarding these errors are not determinable. Amounts paid by the Plan in the future for legal or actuarial fees related to any future actions will be recorded as incurred.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2003

14. Statement of cash flows:

A separate statement of cash flows is not presented since the cash flows are readily apparent from the statement of net assets and statement of changes in net assets.

15. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.