Local Authorities
PENSION PLAN

2001 ANNUAL REPORT

securing your future, together®

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securing your
future, together®

PLAN PROFILE

LAPP was established in 1962 as a defined benefit pension plan for employees of Local Authorities in Alberta. These include cities, towns, villages, municipal districts, hospitals, colleges, school boards and many other public sector organizations.

The Alberta Minister of Finance is currently the legal trustee of the Plan, which is governed by a 14-member Board of Trustees. The Board includes six employee representatives, six employer representatives and one representative each from retirees and government. LAPP Corporation is managing the transition to a new Plan that will be independent of government. LAPP serves 89,530 active members, 15,602 deferred members, 28,318 retirees and 389 employers. The Plan is financed by employee and employer contributions and investment earnings of the LAPP Fund.

The Fund has a diversified investment portfolio of fixed income securities such as bonds and treasury bills, domestic and foreign stocks, and real estate.

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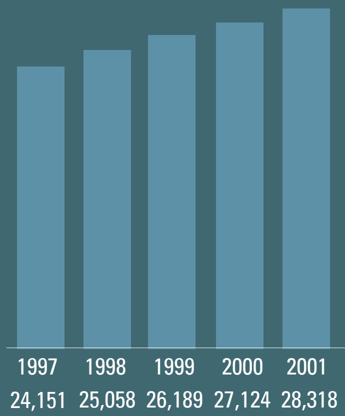
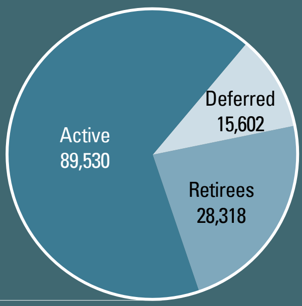
MEMBERSHIP, DECEMBER 31, 2001

TOTAL 133,450

Membership increased in 2001 by 8,004. Retirees currently make up 21% of membership. This proportion is expected to rise as baby boomers begin to retire.

RETIREES





There's strength in our numbers. With over 133,000 members, LAPP is the largest pension plan in Alberta.

As Patient Care Managers at the U of A Hospital, Carolyn, Dawn and Lorna keep very busy with duties that range from managing staff and listening to patients' concerns, to strategic planning. "My greatest satisfaction is the opportunity to shape the future of the program," Dawn says. Their careers are in various stages, from a new member with LAPP to just five years from retirement!

Carolyn Adams, Dawn Townsend, Lorna Kot
Capital Health

HIGHLIGHTS

Net assets available for benefits, before the actuarial adjustment for fluctuations in fair value of net assets, decreased by 4.3% to $8.951 billion in 2001.

Accrued benefits (liabilities) increased by 8.3% to $9.108 billion.

To reduce volatility, year over year changes in the market value of assets are actuarially smoothed over a three-year period.

After asset smoothing, the actuarial surplus decreased to $635 million in 2001, down from $884 million in 2000.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As at December 31, 2001

($ thousands)

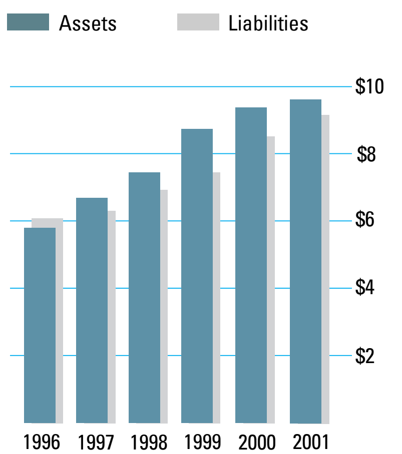
	2001	2000
Net Assets Available for Benefits		
Net assets available for benefits	$ 8,951,160	$ 9,353,523
Actuarial adjustment for fluctuations in fair value of net assets	791,700	(58,800)
Actuarial value of net assets available for benefits	9,742,860	9,294,723
Accrued Benefits		
Actuarial value of accrued benefits	9,107,900	8,410,900
Actuarial Surplus	$ 634,960	$ 883,823

Although there have been exceptions in individual years, over the long-term, investment returns have exceeded the required rate used by the actuary in determining the funding requirements of the Plan.

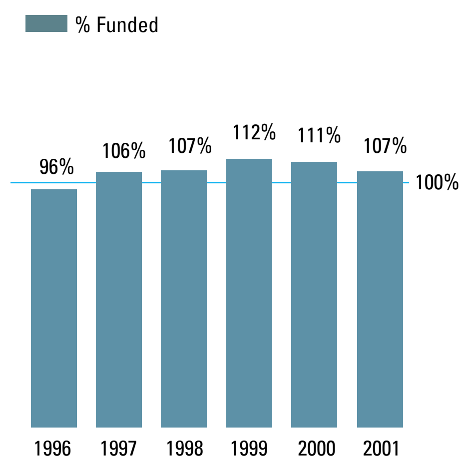
Assets generally have grown faster than liabilities and the financial position of the Plan has improved over the past five years.

After asset smoothing, the Plan is in a surplus position and the funded ratio (actuarial value of plan assets to liabilities), which is a measurement of a pension plan's financial health, has increased from 96% in 1996 to 107% in 2001.

FINANCIAL PROGRESS ($ BILLIONS)

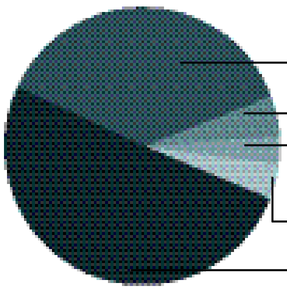


FUNDING STATUS



HIGHLIGHTS

PLAN EXPENSES



Administration and Governance Costs – $74 per member

Alberta Pensions Administration costs to administer the Plan – $7,897,000 or $61 per member

Governance expenses for overseeing the Plan – $990,000 or $8 per member

Restructuring costs to move LAPP to independence – $693,000 or $5 per member

Investment Costs – $90 per member (netted out prior to calculation of investment returns)

Investment Management Division of Alberta Revenue costs to manage the Plan's funds – $907,000 or $7 per member.

Pooled funds management and custodial fees – $10,753,000 or $83 per member

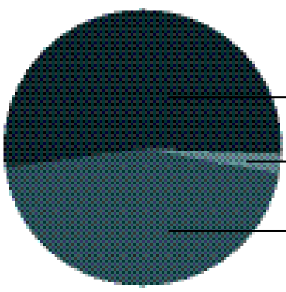
LAPP's large size allows for cost-effective administration and investment management.

Plan expenses consisting of administration costs ($9,579,000) and investment costs ($11,660,000) totalled $21,239,000 in 2001 or $165 per member (2000 $17,086,000 or $140 per member).

With Plan assets over $8.9 billion, this equates to a total cost of 0.24% of assets under administration (0.11% for administration and 0.13% for investment management services).

PENSION CONTRIBUTIONS AND TRANSFERS ($ MILLIONS)

TOTAL $349.8



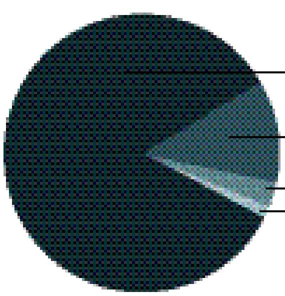
Employers $187.6

Transfers $2.8

Members $159.4

PENSION PAYMENTS ($ MILLIONS)

TOTAL $368.7



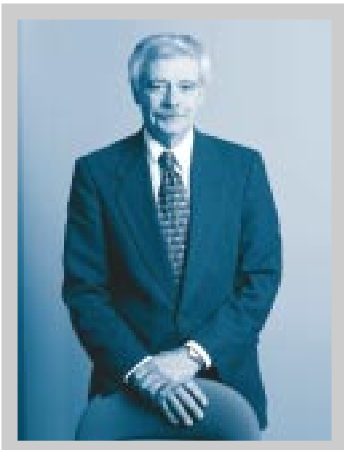
Benefits $308.3

Refunds to Members $44.0

Administration $10.5

Transfers $5.9

MESSAGE TO OUR MEMBERS



BILL PURDY
BOARD CHAIR - 2001

On behalf of the Local Authorities Pension Plan (LAPP) Board of Trustees and the LAPP Corporation, we are pleased to present this Annual Report and a summary of our accomplishments in 2001.

Financial Results

2001 was the second difficult year in a row for financial markets. Slower economic growth in the United States spilled over to Europe and the Far East, reducing global trade and depressing world stock markets by 18% on average during the year. Naturally, the Canadian economy was affected by these international problems. The tragic events of September 11th shocked investors and further depressed security values. The good news is that toward the end of the year the markets began to recover, and we are expecting a more normal and positive year in 2002.

The Fund's net assets available for benefits decreased to $9 billion at December 31, 2001, down from $9.4 billion in 2000. In 2001, the Fund earned an overall return on investments of -4.1%. Over the past four years, the Fund has earned an average compound rate of return of 6.0%, which is below the 7.25% actuarial rate required to meet future pension liabilities. As a result, our surplus, after adjustment for market fluctuations, decreased from 11% at the end of 2000 to approximately 7% at the end of 2001.

During 2001, LAPP's Board reviewed and adjusted its investment policy to adapt to the market conditions we expect for the next few years. To better protect the Fund in volatile markets, we increased our diversification into international markets, and increased the portion of the Fund under active management. We reduced our limits for holding any single stock, again to ensure proper diversification. We also decided to conduct a formal asset/liability study in 2002 to determine whether any further adjustments should be made to our investment policy.

The pension promise is secure. It is backed by Plan assets and employer and employee contributions. Should LAPP continue to experience low investment returns, contributions may need to be increased to fund any shortfall. While we will inevitably experience financial setbacks from time to time, we are confident that the Plan remains financially sound and will continue to be so. Our investment policy ensures the Fund is well-diversified and well-structured to produce competitive returns over the long-run.

Self-Governance

As Plan members know, the Board has been working since 1994 to change LAPP from a Plan controlled by the provincial government to a Plan controlled by its employers and members. (Plan members should be aware that the provincial government legally severed all of its financial obligations to the Plan in 1999. Since then, LAPP's employers and members have been solely responsible for the Plan's financial well-being.)

MESSAGE TO OUR MEMBERS

RON LITEPLO
CHIEF EXECUTIVE OFFICER

The latest steps toward self-governance occurred in 2001, when representatives of employers and unions met and tentatively negotiated a proposal for a governance structure for LAPP that will be independent of the provincial government. The government considered their proposal, but noted that in several aspects it did not meet with government approval. We understand the government now intends to establish a firm policy, early in 2002, as to the rules under which LAPP can become independent.

The Board of Trustees continues to feel strongly that the long-term interests of LAPP employers and members will be best served by placing LAPP under the control of the people who already have financial responsibility for it: LAPP's employers and members. A strong pension plan is founded on a strong governance structure, so it is important that a good structure be established for LAPP. The Board looks forward to receiving the government's policy and moving forward to make the Plan independent as soon as possible. We will communicate progress to employers and members throughout 2002.

Plan Improvements

In 2001, it became possible for many former LAPP and Public Service Pension Plan members to transfer their service cost-free from one plan to the other. Hundreds of members took advantage of the one-time opportunity to consolidate their pensions in their plan of choice.

As well, the removal of the "84-day rule" became effective in 2001. This rule meant that if a retired LAPP member returned to work for a LAPP employer for more than 84 days, their pension would be suspended. The Board had been recommending removal of this restriction since 1997, and was pleased to see it finally enacted by the provincial government. Now LAPP retirees are free to return to employment with LAPP employers, without being penalized. They may not, of course, re-join the Plan to increase their LAPP pension during their employment. We believe both employers and members will benefit from this increased flexibility, particularly as there are currently labour shortages in some sectors in Alberta.

Investment and Administration Cost-Effectiveness

As you will read elsewhere in this Annual Report, LAPP continues to enjoy some of the lowest investment and administrative costs of any pension plan of its size in Canada. This is important because, in the long-run, every dollar saved means several extra dollars that can be used to pay members' pensions. The Board and LAPP Administration are always focused on ways to improve productivity and save money.

In 2001, the Board received its first report from a firm called Cost Effectiveness Measurement (CEM) Inc. This Canadian company specializes in measuring the effectiveness of investment and administration for pension plans all over the world, particularly in North America. LAPP now has the advantage of detailed information which we can use to compare our performance to leading pension plans around the world, and to learn about ways to make LAPP perform even better.

MESSAGE TO OUR MEMBERS

"The Plan is well-positioned to move forward and continue to secure your future, together."

Communications

One of the Board's major goals in communications is to ensure LAPP's members and employers are well-informed about their pension plan. In 2001, we were proud to launch our new Web site. Our new site receives thousands of "hits" every month, which tells us you are finding the site useful.

In CEM's recent comparison of pension plan Web sites from around the world, LAPP's Web site received "Best Practice Honourable Mention" for site structure and content, and scored the highest overall quality for Web sites in its peer group. We encourage you to visit the site at www.lapp.ab.ca.

New Board Policies

In 2001 the Board formally adopted a Funding Policy and an Actuarial Valuations Policy, which are important guidelines for the Plan. They aim to ensure the Plan will always have an acceptable level of funding; contribution rates will remain as stable and predictable as possible; and benefits will remain secure.

The Board also worked on revising the regulations governing the withdrawal of employers, to ensure withdrawals take place on a financial basis that is fair to the withdrawing employer but does not jeopardize the Plan. The Board expects these regulations to be finalized in 2002.

Conclusion

While 2001 was a difficult year for LAPP financially, the Plan remains strong. The Plan is well-positioned to move forward and continue to secure your future, together.

We wish to thank all Board members, LAPP staff, the Minister of Finance, Alberta Pensions Administration Corporation, and the Investment Management Division of the Ministry of Revenue for their continued hard work and contributions to LAPP.

Effective January 1, 2002, Richard West, an employee representative nominated by the United Nurses of Alberta, has been elected as Board Chair. Les Young, an employer representative nominated by the Provincial Health Authorities of Alberta, has been elected as Vice-Chair. After serving two years as Board Chair, Bill Purdy personally wishes them every success and thanks all Board members for their support and dedication during his tenure.

Bill Purdy
Board Chair 2001
Local Authorities Pension Plan

Ronald J. Liteplo
Chief Executive Officer
Local Authorities Pension Plan

MESSAGE TO OUR MEMBERS

2001 LAPP Board of Trustees

Sitting, left to right: Elaine Noel-Bentley, Les Young, Bill Purdy–*Chair*, Margaret Johnson, Rick Blakeley. Standing, left to right: Terry Cavanagh, Kenneth Balkwill–*Vice-Chair*, Richard West, Richard Martin, Tony Krivoblocki, Carl Soderstrom, Ben Boettcher, Sandra Weidner. Missing: David Smith

For information about the 2002 LAPP Board of Trustees, see the inside back cover of this Annual Report, or visit our Web site at www.lapp.ab.ca.

securing your future, together®

Mike isn’t waiting until retirement in 20 years to see the world. From competing in a 250 km run in the Sahara desert a few years ago, to holidays in the Himilayas, Thailand and the Grand Canyon, Mike enjoys a life filled with adventure. “I love to be outdoors and it’s great because my job allows me to do that.”

Mike L’Heureux
EPCOR

MANAGEMENT DISCUSSION AND ANALYSIS

THIS SECTION FOCUSES ON THE PLAN'S INVESTMENT MANAGEMENT AND ADMINISTRATION

Investment Management

LAPP's assets are held in trust by the Minister of Revenue and invested for the benefit of the Plan's beneficiaries in accordance with the Statement of Investment Policy and Goals (SIP&G) set by the Board of Trustees. The Investment Management Division (IMD) of Alberta Revenue is responsible for management of investments.

The foundation of the Plan's investment philosophy is prudent Fund management. The LAPP Board of Trustees has adopted investment policies after taking into consideration the future liabilities of the Plan as well as long-term expectations based on historic performance and relationships among asset classes. Ultimately policies are set to manage investment risk through diversification and quality constraints, which enable the Plan to withstand market fluctuations over the long-term.

Investment Objective

The key element in the financial health of the Plan is the growth of investment assets to fund future pension promises. To meet long-term funding needs, it is expected that the asset mix policy will generate on average a minimum real rate of return, i.e. return over and above inflation, of 4.5% on a rolling four-year annualized basis. While the 4.5% real rate of return objective was not met in 2001, on a long-term basis the Fund has exceeded its investment objective.

The Year In Review

2001 was a difficult period for investors as global equity markets experienced sharp declines. The technology sector in particular suffered losses due to the plunge in information technology capital spending and business investment. Amid a period of weak economic growth, the initial response to September 11th's tragic events was a major fall in global equity markets.

Central banks responded by lowering interest rates to provide liquidity and stimulate economic activity. The losses in global stock markets were substantial. The Canadian, US, and European and Far East (EAFE) markets were down 12.3%, 6.4%, and 16.5% respectively in Canadian dollars.

Reflecting stock market returns, the LAPP Fund posted a -4.1% return in 2001 and investments declined by $491 million year over year. Canadian stocks declined 9.8%, US stocks fell 6.6%, and Non-North American equities fell 16.1%, while real estate and bonds increased 8.0% and 8.7% respectively.

Asset Mix Policy

The Board is responsible for setting the SIP&G, which among other things specifies the asset mix policy benchmark — a key policy decision. This means choosing the allocation to various types of investments, such as fixed income (bonds), Canadian equities (stocks), non-Canadian equities and real estate.

No changes to LAPP's asset mix policy were adopted during this year, however in anticipation of capturing higher returns in the future, LAPP's Board increased its allocation to

ASSET MIX (%)

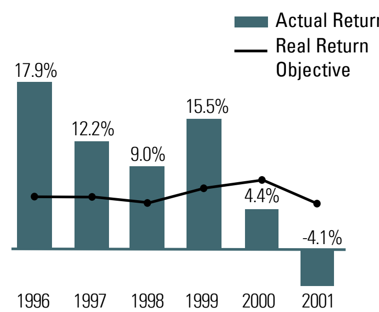
December 31, 2001	Policy Asset Mix		Actual	
	2001	2000	2001	2000
Fixed Income				
Cash & Short-term	2.0	2.0	1.2	2.7
Long-term	28.0	28.0	27.3	27.6
Real Return Bonds	5.0	5.0	4.6	5.2
Total	**35.0**	**35.0**	**33.1**	**35.5**
Equities & Real Estate				
Canadian	25.0	25.0	26.0	26.4
United States	17.5	17.5	17.7	15.2
International	17.5	17.5	17.2	17.3
Real Estate	5.0	5.0	6.0	5.6
Total	**65.0**	**65.0**	**66.9**	**64.5**

COMPOUND ANNUALIZED RETURN (%)

Ending December 31, 2001

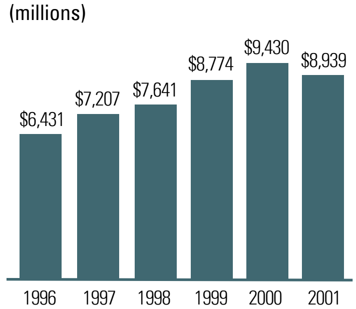
	Years				
	1	2	3	4	8
Total Fund	-4.1	0.1	5.0	6.0	8.8
CPI	0.7	2.0	2.2	1.9	1.5
Real Return	-4.8	-1.9	2.8	4.1	7.3

ANNUAL RETURN (%)



MARKET VALUE – INVESTMENTS

(millions)



actively managed equity (Canadian, US & EAFE) products and smaller cap stocks in 2001. Market research suggests that active management and smaller cap stocks tend to out-perform during periods of broad markets, which is anticipated in the future.

Implementation of Investment Policy

The investment manager, IMD, provides a range of investment products and services to meet the needs of the Plan. Further, IMD operates on a sufficient scale that the cost of investing to the Plan is low compared to other investment organizations in Canada.

The key to maintaining this relationship over time is investment performance and satisfaction with the service provided by IMD. Each product provided by IMD and the overall Fund performance are measured against a clearly defined market benchmark. Performance is reviewed quarterly with emphasis on the one-year and four-year measurement periods.

Performance

Overall investment returns in 2001 were substantially lower than in recent years. The key reason was poor equity performance globally, as all major equity markets finished in negative territory over the year. Equity performance was partially offset by stronger performance in fixed income assets, which finished the year with an 8.7% return. Although the Fund did not meet the Board's required real rate of return of 4.5% over the year, it has exceeded its long-term objective over the past eight-year period.

LAPP's investment policy is structured to capture the historically higher rates of return from stocks. The asset mix policy is weighted more to stocks, at 60%, with the balance of 35% allocated to fixed income and 5% to real estate. This strategy has been successful given the high equity returns over the past ten years. Looking forward, while it is expected that stocks will generate positive real rates of return, returns are expected to normalize and be lower than the double digit returns of the 1990s.

ANNUAL RETURN (%)

	2001	2000	1999	1998
Total Fund	-4.1	4.4	15.5	9.0
Policy Return	-4.2	4.3	13.3	11.3
Consumer Price Index	0.7	3.2	2.5	1.0
Short-term fixed income	4.9	5.6	5.0	5.0
SC 91-Day T-Bill Index	4.7	5.5	4.7	4.7
Bonds & Mortgages	8.7	10.8	-0.9	9.3
SC Universe Bond Index	8.1	10.2	-1.1	9.2
Real Rate of Return Bonds	-0.3	n/a	n/a	6.1
SC Real Return Bond Index	0.5	16.7	8.0	6.0
Canadian Equities	-9.8	9.4	28.1	-4.0
TSE 300 Capped Index	-12.3	7.4	31.7	-1.6
United States Equities	-6.6	-4.4	12.8	29.3
S&P 500 Index	-6.4	-5.8	14.2	38.0
Non-North American Equities	-16.1	-12.9	41.4	24.5
MSCI EAFE Index	-16.5	-11.2	20.0	28.8
Real Estate	8.0	7.2	7.4	12.6
Russell Canadian Property Index	10.3	11.7	10.7	16.0

COMPOUND ANNUALIZED RETURN (%)

	1 yr	2 yr	3 yr	4 yr	8 yr
Total Fund	-4.1	0.1	5.0	6.0	8.8
Policy Return	-4.2	0.0	4.2	5.9	8.8
Consumer Price Index	0.7	2.0	2.2	1.9	1.5
Short-term fixed income	4.9	5.3	5.2	5.2	5.2
SC 91-Day T-Bill Index	4.7	5.1	5.0	4.9	5.1
Bonds & Mortgages	8.7	9.7	6.1	6.9	8.2
SC Universe Bond Index	8.1	9.2	5.6	6.5	7.8
Real Rate of Return Bonds	-0.3	n/a	n/a	n/a	n/a
SC Real Return Bond Index	0.5	n/a	n/a	n/a	n/a
Canadian Equities	-9.8	-0.7	8.1	5.0	10.7
TSE 300 Capped Index	-12.3	-3.0	7.4	5.1	9.5
United States Equities	-6.6	-5.5	0.2	6.8	12.8
S&P 500 Index	-6.4	-6.1	0.3	8.6	16.7
Non-North American Equities	-16.1	-14.5	1.1	6.5	7.4
MSCI EAFE Index	-16.5	-13.9	-3.8	3.5	6.1
Real Estate	8.0	7.6	7.5	8.8	9.0
Russell Canadian Property Index	10.3	11.1	10.9	12.2	10.0

MANAGEMENT DISCUSSION AND ANALYSIS

Performance over the past year was positive when compared with the Fund's investment benchmarks. On a one-year basis IMD returned -4.1%, 10 basis points above the policy benchmark return of -4.2% after fees. On a four-year rolling basis the Plan returned 6.0%, exceeding the policy benchmark return of 5.9% over the same period.

There was modest value added in fixed income and foreign equities, while the bulk of the value added was achieved through out-performance in the Canadian equity component relative to the performance of its benchmark.

Fixed Income Investments

The fixed income component has allocations to bonds, mortgages, real return bonds, and cash. All the components are managed internally by IMD.

Overall, fixed income investments out-performed their benchmark during 2001. Bonds and mortgages returned 8.7% versus 8.1% for the Scotia Capital Universe Bond Index. The cash and short-term component also out-performed its benchmark, returning 4.9% versus 4.7% for the Scotia Capital 91-Day T-bill Index. However, real return bonds under-performed, returning -0.3% versus the Scotia Capital Real Return Bond Index return of 0.5%.

Canadian Equity Investments

LAPP invests in Canadian equities through several strategies including passive (index) and active mandates. TSE 300 Capped Index and core strategies are managed internally by IMD, while the large cap active strategy, which invests in companies with a large market capitalization, and the small cap active strategy, are managed by external investment managers.

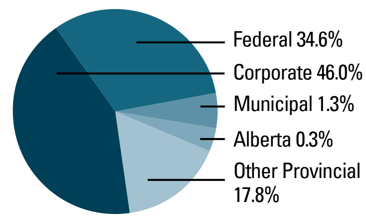
The total Canadian equity return was -9.8% versus -12.3% for the TSE 300 Capped Index. The TSE 300 Index strategy is intended to replicate the return of the TSE 300 market index but in 2001 managed an out-performance of 45 basis points. The internally managed core product returned -16.7%, however under-performance in this product was more than offset by the externally managed products. The external large cap managers returned -3.2%, 940 basis points over the TSE 300 return. Similarly, the external small cap managers out-performed the Nesbitt Burns Small Cap Index by 7.9%, returning 11.4%.

US Equities

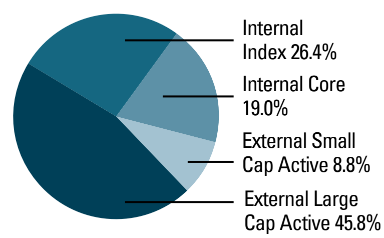
The foreign equity allocation is divided by policy into allocations to the US and to non-North American equity markets. The Plan's investments in the US were allocated to index (passive) and active strategies in 2001. A portion has been invested in IMD's internally managed passive derivative product to manage the Fund's exposure to foreign equity relative to the Income Tax Act limits. While these limits were increased in 2001, the derivative structures were retained as the policy allocation to foreign equity has been increased. The remainder of US stocks are allocated to both US large cap and small cap external investment managers.

Over 2001, LAPP's US equity exposure returned -6.6%, under-performing the S&P 500 Index return of -6.4% (in Canadian dollar terms). The internally managed derivative product returned -6.7% while the US external passive product had a return of -6.5%. The US active product under-performed and returned -8.5%.

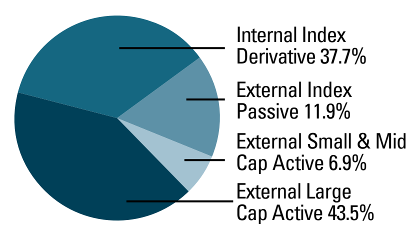
SUMMARY OF FIXED INCOME HOLDINGS



SUMMARY OF CANADIAN EQUITY PRODUCTS

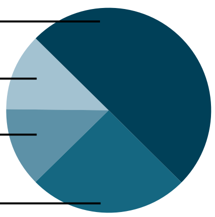


SUMMARY OF US EQUITY PRODUCTS

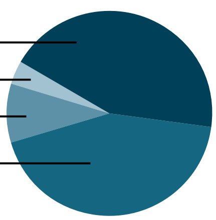


MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF NON-NORTH AMERICAN EQUITY PRODUCTS



REAL ESTATE



Non-North American Equities

The Non-North American equity component includes an allocation to both developed and emerging markets. Roughly a quarter is allocated to index based strategies, with a portion of that allocation in a derivative product to manage the Fund's exposure to foreign equity relative to the Income Tax Act limits. The remaining three quarters (including all of the emerging market allocation) are allocated to external active managers.

Non-North American equity markets were considerably weaker in 2001, with the MSCI EAFE losing 16.5%. The Non-North American component of LAPP's fund out-performed by 40 basis points with a -16.1% return.

Real Estate Investments

The real estate component provides diversification relative to the equity and fixed income markets. The Plan's investments are primarily in a mix of retail, office and industrial properties in major Canadian urban areas. The focus is on quality, featuring strong locations and tenants.

The real estate return in 2001 was 8.0%. Performance of the real estate component is measured against the Russell Canadian Property Index. The Russell Index is based on net operating income and omits major expenses such as capital expenditures and tenant improvements. In contrast, LAPP returns are calculated after all expenses have been deducted. The Russell Index returned 10.3% and the LAPP real estate component's return was 11.7% if calculated on the same basis.

TOP 10 CANADIAN EQUITY HOLDINGS

December 31, 2001

Company	%
Nortel Networks	4.4
Toronto Dominion Bank	3.9
BCE Inc.	3.8
Bank of Nova Scotia	3.6
Royal Bank of Canada	3.5
Manulife Financial Corp.	3.3
Sun Life Financial Services	2.7
Bank of Montreal	2.5
Canadian Imperial Bank of Commerce	2.2
Petro Canada	2.1

TOP 10 US EQUITY HOLDINGS

December 31, 2001

Company	%
General Electric Co.	3.0
Microsoft Inc.	3.0
Citigroup Inc.	2.8
Pfizer Inc.	2.3
Exxon Mobil Corp.	2.3
American International Group Inc.	1.8
Intel Corp.	1.5
Verizon Communications	1.5
AOL Time Warner Inc.	1.4
Wal-Mart Stores	1.4

TOP 10 INTERNATIONAL EQUITY HOLDINGS

December 31, 2001

Company	%
Vodafone Group	2.8
Glaxosmithkline	2.3
Total Fina Elf	1.7
Aventis SA	1.4
ENI	1.4
Nestle	1.3
BP PLC	1.3
Royal Bank Scot Group	1.2
UBS AG	1.2
BNP Paribas	1.2

Administration Report

Alberta Pensions Administration (APA) Corporation provides administration for the Local Authorities Pension Plan (LAPP) by collecting contributions and keeping accurate and secure records, as well as paying benefits to retirees and members who are leaving LAPP. APA also provides Plan information to members and employers and supports the activities of the Board of Trustees.

During the year, APA focussed on two basic goals: 1) providing high quality service to client pension plans; and 2) achieving progress targets in preparation for successful implementation of the new APEX (Alberta Pensions Excellence) pension administration project.

APEX Project

The APEX project officially began in April, 2001 after contracts were signed with IBM Canada Ltd. as the integration company and CPAS Systems Inc. as the pension software provider. At year-end, the project was on schedule and within its budget.

The Local Authorities Pension Plan (LAPP) is scheduled to go online with the new APEX system in April of 2003. In preparation for the upcoming stages of the APEX project, APA contacted employers in February, 2002 regarding what data information will be required from them.

In February, 2002, APEX added a Web Services portion to the project. Through this project, employers will be able to access online forms and make changes to members' accounts. In addition, members will also have access to their personal pension information.

Interim System Changes

While a number of plan changes await the new APEX system, the current system was adapted as required in 2001 to maintain service and implement essential plan changes.

Performance Measurements

APA's service performance improved during 2001 as a result of hiring and training new staff in the first part of the year. Staff reached a full complement by the end of the second quarter.

At the end of the first quarter, 78% of member annual statements were sent to employers to distribute to members, surpassing the goal of 75%. All of the statements were distributed by the end of the second quarter.

"APA's service performance improved during 2001 as a result of hiring and training new staff in the first part of the year. Staff reached a full complement by the end of the second quarter."

Transfer Window

In the last six months of 2001, there was a window of opportunity to consolidate qualifying LAPP and the Public Service Pension Plan (PSPP) pension accounts at no cost to the member. Recommended by the two boards and approved by the provincial cabinet, the window applied to holders of pension accounts with both LAPP and PSPP who left funds with either of the plans after leaving employment between January 1, 1994 and December 31, 2000. Both boards wanted to ensure that employees who moved from one plan to the other due to provincial restructuring did not have their pensions adversely affected.

Surveys

Results of the annual Quantitative Service Measurement (QSM) survey of Canadian public sector pension administrators showed APA continues to be one of the most cost-effective pension plan administrators of similar size. APA delivered services at a cost 7% lower than the QSM average. Service standards also compare favorably with other QSM participants.

MANAGEMENT DISCUSSION AND ANALYSIS

"During the year, APA provided 114 employee seminars for 2,765 LAPP members. There were also 615 one-on-one sessions in conjunction with the seminars. As well, 774 participants attended 49 LAPP employer workshops."

In December 2001, 34% of employers responded to the annual employer survey. The overall level of satisfaction in all the plans was 26% very satisfied and 66% satisfied (92% total) in 2001, compared to 33% very satisfied and 57% (90% total) in 2000, and 24% very satisfied and 58% satisfied (82% total) in 1999.

The chart below shows the overall averages of the employer survey responses regarding pension services, service delivery and communications.

Communications

APA assisted LAPP with the production and distribution of publications for members and retirees, as well as updating employer materials as required. The move to online forms began with the posting of the designation of beneficiary form which can be filled out on the LAPP Web site, printed and signed, and then returned to APA. In October, an online version of the instruction manual for employers was also posted on the Web site.

During the year, APA provided 114 LAPP employee seminars and 49 LAPP employer workshops. There were also 615 one-on-one sessions in conjunction with the seminars.

Organizational Transformation

In preparation for dramatic changes associated with the APEX system, transition communication and training commenced in the second half of 2001. The transition initiatives will ensure APA has aligned its people, processes and systems so they are ready to work with the new pension system and adopt a new way of doing business.

2001 EMPLOYER SURVEY RESULTS

	Very Satisfied	Satisfied	Total
Pension services	28% (33%)	67% (57%)	95% (90%)
Delivery	41% (38%)	53% (52%)	94% (90%)
Communications	21% (29%)	75% (67%)	96% (96%)

* 2000 results in ( )

MONTHLY PAYMENT DISTRIBUTIONS

as at December 31, 2001

Dollar Value ($) Per month	Member Pensions	Spouse's Pensions	Total
1 to 999	18,218	1,144	19,362
1,000 to 1,999	5,658	288	5,946
2,000 to 2,999	2,172	59	2.231
3,000 to 3,999	646	3	649
4,000 and over	130	-	130
Total	**26,824**	**1,494**	**28,318**

NEW PENSIONERS

	2001	2000
Retirements*	358	334
Early Retirements	1,300	1,174
Disability Retirements	44	34
Death Benefits to Spouses	65	61
Total	**1,767**	**1,603**

* At age 65 or with the 85 factor.

RETIREMENT CHOICES

	2001	2000
Normal	192	129
Single Life	119	110
Joint Life	1,101	1,034
Guaranteed Term	355	330
Total	**1,767**	**1,603**

Phyllis retired from work at the Edmonton General Hospital when it was still an active treatment hospital. Phyllis didn't stop at retirement though, she went back to school and then became editor of 'Tune In' for many more years. She is now enjoying full retirement but as yet, Phyllis says, "I still haven't found time to sleep in!"

Phyllis Kopen
Retired Member

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements and information in the 2001 Annual Report are the responsibility of the Minister of Finance and Alberta Pensions Administration Corporation and have been approved by management.

The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgements. Financial information presented in the 2001 Annual Report that relates to the operations and financial position of the Local Authorities Pension Plan is consistent with that in the financial statements.

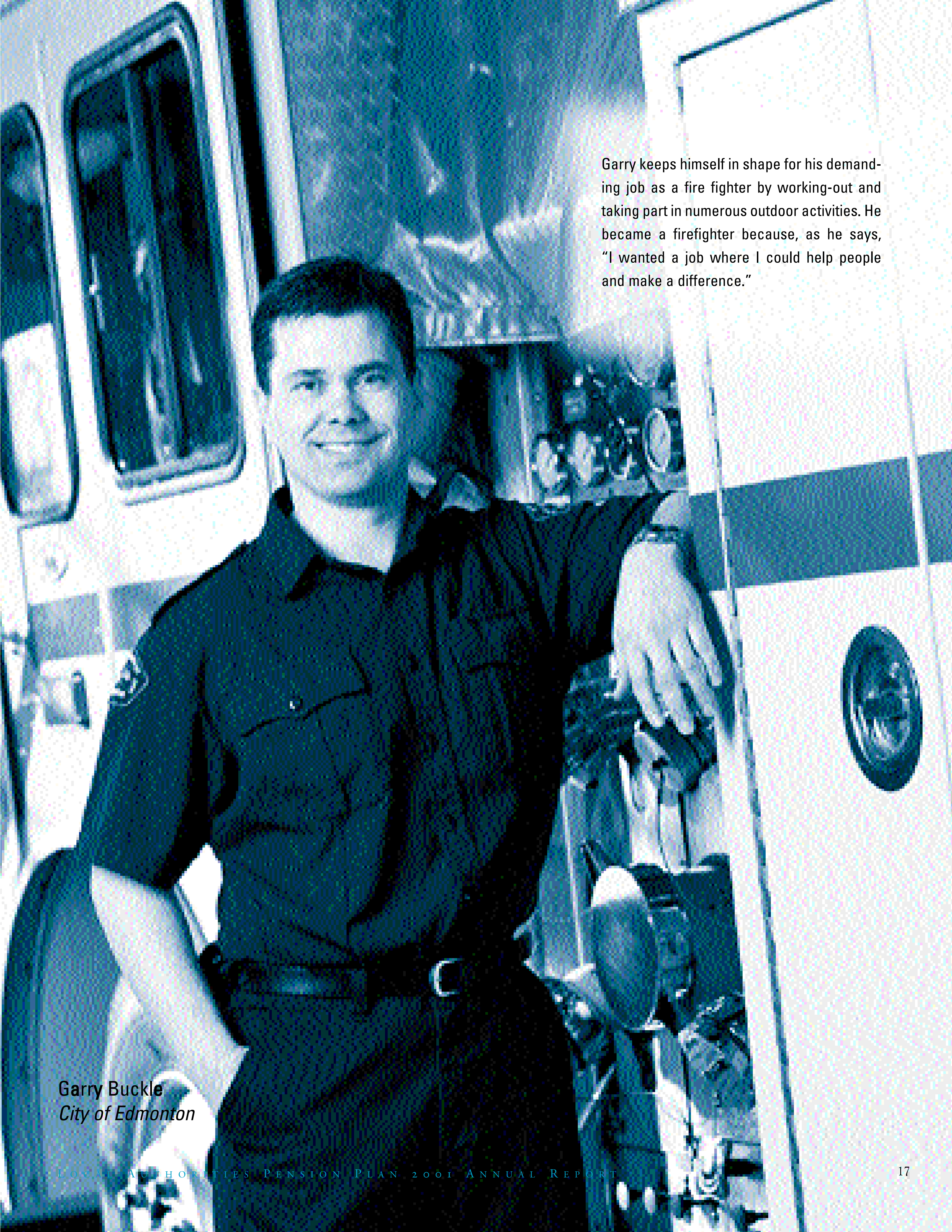
To discharge their responsibility for the integrity and objectivity of financial reporting, both the Minister of Finance and Alberta Pensions Administration Corporation, maintain a system of internal accounting controls comprising written policies, standards, and procedures, and a formal authorization structure.

These systems are designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of operations, investments, and financial statements. His examination is conducted in accordance with Canadian generally accepted auditing standards and includes tests and other procedures that allow him to report on the fairness of the financial statements prepared by management.

Peter Kruselnicki, P.Eng.
Deputy Minister of Finance

David Smith
Chief Executive Officer
Alberta Pensions Administration



Garry keeps himself in shape for his demanding job as a fire fighter by working-out and taking part in numerous outdoor activities. He became a firefighter because, as he says, "I wanted a job where I could help people and make a difference."

Garry Buckle
City of Edmonton

AUDITOR'S REPORT

To the Local Authorities Pension Plan Board of Trustees

I have audited the statement of net assets available for benefits and accrued benefits of the Local Authorities Pension Plan as at December 31, 2001 and the statements of changes in net assets available for benefits, changes in accrued benefits and changes in actuarial surplus for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2001 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by:

Jim Hug, CA
Acting Auditor General

Edmonton, Alberta
March 4, 2002

LOCAL AUTHORITIES PENSION PLAN FINANCIAL STATEMENTS

December 31, 2001

FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As at December 31, 2001

($ thousands)

	2001	2000
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 8,938,625	$ 9,429,943
Contributions receivable (Note 6)	13,455	14,343
Accrued Investment Income	1,425	1,548
	8,953,505	9,445,834
Liabilities		
Due to ENMAX Corporation (Note 7)	-	85,700
Accounts payable (Note 8)	2,345	6,611
	2,345	92,311
Net assets available for benefits	8,951,160	9,353,523
Actuarial adjustment for fluctuation in fair value of net assets (Note 2 (c))	791,700	(58,800)
Actuarial value of net assets available for benefits	9,742,860	9,294,723
Accrued Benefits		
Actuarial value of accrued benefits	9,107,900	8,410,900
Actuarial surplus	**$ 634,960**	**$ 883,823**

See accompanying notes and schedules.

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the year ended December 31, 2001

($ thousands)

	2001	2000
Increase in assets		
Contributions (Note 9)	$ 349,807	$ 316,634
Investment income (Note 10)	-	394,802
Group transfer	-	289,286
	349,807	1,000,722
Decrease in assets		
Investment loss (Note 10)	383,453	-
Pension benefits	308,330	286,515
Refunds to members	43,981	45,712
Transfers to other plans	4,291	1,406
Transfer to ENMAX Corporation (Note 7)	1,629	85,700
Plan expenses (Note 11)	10,486	8,524
	752,170	427,857
(Decrease) Increase in net assets	(402,363)	572,865
Net assets available for benefits at beginning of year	9,353,523	8,780,658
Net assets available for benefits at end of year	**$ 8,951,160**	**$ 9,353,523**

See accompanying notes and schedules.

FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN ACCRUED BENEFITS

For the year ended December 31, 2001
($ thousands)

	2001	2000
Increase in accrued benefits		
Interest accrued on benefits	$ 628,700	$ 597,800
Benefits earned	367,800	344,500
Experience loss (Note 12 (a))	55,900	44,100
Group transfer	-	266,500
Plan improvements	-	138,300
	1,052,400	1,391,200
Decrease in accrued benefits		
Benefits paid including interest	355,400	343,400
Transfer to ENMAX Corporation (Note 7)	-	75,500
	355,400	418,900
Net increase in accrued benefits	697,000	972,300
Accrued benefits at beginning of year	8,410,900	7,438,600
Accrued benefits at end of year (Note 12)	**$ 9,107,900**	**$ 8,410,900**

See accompanying notes and schedules.

STATEMENT OF CHANGES IN ACTUARIAL SURPLUS

For the year ended December 31, 2001
($ thousands)

	2001	2000
Actuarial surplus at beginning of year	$ 883,823	$ 880,358
(Decrease) Increase in net assets available for benefits	(402,363)	572,865
Net change in actuarial adjustments for fluctuation in fair value of net assets	850,500	402,900
Net increase in accrued benefits	(697,000)	(972,300)
Actuarial surplus at end of year	**$ 634,960**	**$ 883,823**

See accompanying notes and schedules.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1

Summary Description of the Plan

The following description of the Local Authorities Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 366/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, school divisions and districts, colleges and technical institutes.

(b) Funding Policy

Current and prior service costs are funded by employers and employees at rates which are expected to provide for all benefits payable under the Plan. The rates for employers are 1.0% more than the rates for employees. There were no changes in rates in 2001. The rates in effect at December 31, 2001 were 4.025% of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 5.90% of the excess for employees, and 5.025% of pensionable earnings up to the YMPE and 6.90% of the excess for employers. The rates are to be reviewed at least once every three years by the board based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess. The maximum service allowable under the Plan is 35 years. Unreduced pensions are payable to members who retire with at least two years of service and have either attained age 65, or age 55 and the sum of their age and service equals 85. Reduced pensions are payable to members retiring early.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least two years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least two years of service.

(e) Death Benefits

Death benefits are payable on the death of a member if the member had at least two years of service. The benefits may take the form of a survivor pension, if the beneficiary is a spouse, or a lump sum payment. The beneficiary of a deceased member with fewer than two years of service is entitled to receive death benefits in the form of a lump sum payment.

(f) Termination Benefits

Members who terminate with at least two years of service and who are not immediately entitled to a pension may transfer out the commuted value for all earned service, contributions paid in respect to optional service with interest, plus excess contributions if applicable, which is subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of service receive a refund of their contributions and interest.

(g) Optional Service and Reciprocal Transfers

All optional service purchases are to be cost-neutral to the Plan.

Transferred-in service will be on an actuarial reserve basis and transfers out will receive the greater of the termination benefits or commuted value for all earned service.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to 60% of the increase in the Alberta Consumer Price Index.

(i) Income Taxes

The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0216556.

NOTE 2

Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Plan investments are held in pooled investment funds administered by Alberta Revenue. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

The Plan's percentage ownership in pooled investment funds at December 31 was as follows:

	% Ownership	
	2001	**2000**
Internally Managed Pooled Investment Funds		
Canadian Dollar Public Bond Pool	25.5	24.7
Canadian Pooled Equities Fund	18.7	39.8
Domestic Passive Equity Pooled Fund	22.7	28.0
EAFE Structured Equity Pooled Fund	49.2	35.8
Private Equity Pool	53.5	53.5
Private Mortgage Pool	30.6	41.1
Private Real Estate Pool	33.0	40.1
US Passive Equity Pooled Fund	49.5	64.5
United States Pooled Equities Fund	40.8	40.8
Floating Rate Note Pool	-	1.4
Externally Managed Pooled Investment Funds		
Canadian Large Cap Equity Pool	60.8	54.7
Canadian Small Cap Equity Pool	48.0	37.5
EAFE Core Equity Pool	30.1	37.3
EAFE Passive Equity Pool	21.6	39.5
EAFE Plus Equity Pool	29.7	32.7
US Large Cap Equity Pool	30.7	34.5
US Passive Equity Pool	13.4	7.4
US Mid/Small Cap Equity Pool	33.8	34.5

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine fair value of investments held by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Revenue.

The fair value of private equities is estimated by Alberta Revenue.

Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies and Reporting Practices (continued)

(c) Actuarial Value of Net Assets Available for Benefits

To reduce the impact of market volatility on the Plan's funded status, asset values are adjusted for fluctuations in fair value. Assets for the previous two years are projected to increase at the rate of return assumed in the actuarial valuation. The actuarial value of assets is determined by averaging three years' values, consisting of current market value and asset values projected from the year-end market values for the two previous years.

(d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

(f) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

Income and expense from derivative contracts are accrued as earned and included in investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value

NOTE **3**

Investments (Schedules A to D)

Investments are summarized as follows:

	2001 ($ thousands)	%	2000 ($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash				
Investment Trust Fund (a)	$ 109,955	1.2	$ 231,726	2.5
Canadian Dollar Public Bond Pool (b)	2,153,806	24.1	2,181,173	23.1
Real Rate of Return Bonds (c)	414,636	4.6	487,987	5.2
Private Mortgage Pool (d)	281,819	3.2	398,021	4.2
Floating Rate Note Pool	-	-	28,246	0.3
Corporate	-	-	14,195	0.2
Total fixed income securities	2,960,216	33.1	3,341,348	35.5
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (e)	1,060,406	11.9	656,765	7.0
Canadian Small Cap Equity Pool (f)	203,207	2.3	179,161	1.9
Domestic Passive Equity Pooled Fund (g)	612,328	6.8	635,229	6.7
Canadian Pooled Equities Fund (h)	407,134	4.6	978,110	10.4
Private Equity Pool (i)	32,733	0.4	42,844	0.4
Public equities, direct	18	-	-	-
	2,315,826	26.0	2,492,109	26.4
United States Equities (Schedule C)				
External Managers				
US Large Cap Equity Pool (j)	686,197	7.7	609,442	6.5
US Passive Equity Pool (k)	188,626	2.1	83,448	0.9
US Mid/Small Cap Equity Pool (l)	109,020	1.2	86,619	0.9
US Passive Equity Pooled Fund (k)	596,218	6.7	652,023	6.9
United States Pooled Equities Fund	1,363	-	1,521	-
	1,581,424	17.7	1,433,053	15.2
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (m)	771,002	8.6	732,334	7.8
EAFE Plus Equity Pool (m)	388,073	4.3	296,474	3.1
EAFE Passive Equity Pool (n)	189,222	2.1	436,705	4.6
Emerging Markets Equity Pool (o)	3	-	14	-
EAFE Structured Equity Pooled Fund (p)	192,946	2.2	166,223	1.8
	1,541,246	17.2	1,631,750	17.3
Real Estate				
Private Real Estate Pool (q)	539,913	6.0	531,683	5.6
Total equities and real estate	5,978,409	66.9	6,088,595	64.5
Total investments	**$ 8,938,625**	**100.0**	**$9,429,943**	**100.0**

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Investments (Schedules A to D) (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. As at December 31, 2001, securities held by the Fund have an average effective market yield of 2.24% per annum (2000: 5.99% per annum).

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation. As at December 31, 2001, securities held by the Pool have an average effective market yield of 5.34% per annum (2000: 6.07% per annum) and the following term structure based on principal amount: under 1 year 4% (2000: 6%); 1 to 5 years 35% (2000: 37%); 6 to 10 years 31% (2000: 28%); 11 to 20 years 12% (2000: 15%); over 20 years 18% (2000: 14%).

(c) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation. As at December 31, 2001, the bonds have an effective market yield of 3.77% per annum (2000: 3.42% per annum) and the following term structure based on principal amount: 10 to 20 years 36% (2000: 0%); over 20 years 64% (2000: 100%).

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage. As at December 31, 2001, mortgages held by the pool have an average effective market yield of 6.47 % per annum (2000: 7.27% per annum) and the following term structure based on principal amount. Under 1 year 15% (2000: 8%); 1 to 5 years 17% (2000: 27%); 6 to 10 years 22% (2000: 28%); 11 to 20 years 26% (2000: 23%); and over 20 years 20% (2000: 14%).

(e) The External Managers Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity market. The performance objective is to provide investment returns higher than the total return of the Toronto Stock Exchange (TSE) 300 Index over a four-year period. Return volatility is reduced through multiple manager investment style and large market capitalization focus.

(f) The External Manager Canadian Small Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities with a market capitalization of up to 0.15% of the TSE 300 Index total market capitalization at time of purchase. Each portfolio is actively managed by an external manager with expertise in the Canadian small cap equity market. The performance objective is to provide returns higher than the total return of the TSE 300 Index over a four-year period and returns higher than the Nesbitt Burns Small Cap Index over the near term. Return volatility is reduced through multiple manager investment style and small market capitalization focus.

(g) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the TSE 300 Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the TSE 300 Index.

(h) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the TSE 300 Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

(i) The Private Equity Pool is in the process of orderly liquidation.

(j) The External Managers US Large Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap equity market. The performance objective is to provide returns higher than the total return of the Standard & Poor's (S&P) 500 index over a four-year period. Return volatility is reduced through multiple manager investment style and large market capitalization focus.

(k) The External Managers US Passive Equity Pool consists of a single portfolio of publicly traded United States equities similar in weights to the S&P 500 Index. The portfolio is passively managed by an external manager with expertise in the US equity market. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index over a four-year period.

The US Passive Equity Pooled Fund is managed internally with the objective of attaining investment returns comparable to the S&P 500 Total Return Index over a four-year period. The portfolio is comprised of publicly traded equities in the United States similar in weights to the S&P 500 Index. To enhance investment returns with no substantial increase in risks, the Pooled Fund also invests in futures, swaps and other structured investments.

(l) The External Managers US Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. The portfolio is actively managed by an external manager with expertise in the mid and small cap US equity markets.

NOTES TO THE FINANCIAL STATEMENTS

The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(m) The External Managers EAFE Core and Plus Equity Pools consist of multiple portfolios of publicly traded non-North American equities. Each core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) Europe, Australia and Far East (EAFE) Index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period. Return volatility is reduced through multiple manager investment style and market diversification.

(n) The External Managers EAFE Passive Equity Pool consists of a single portfolio of non-North American publicly traded equities that replicate the MSCI EAFE Index. The performance objective is to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period.

(o) The External Managers Emerging Markets Equity Pool consists of a single portfolio of publicly traded equities in emerging markets around the world. The portfolio is actively managed by an external manager with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index Emerging Markets Free (MSCI EMF) Index over a four-year period.

(p) The EAFE (Europe, Australia and Far East) Structured Equity Pooled Fund is internally managed with the objective of providing investment returns comparable to the total return of the MSCI EAFE Index. The pooled fund provides exposure to foreign markets in Europe, Australia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(q) The Private Real Estate Pool is managed with the objective of providing investment returns comparable to the Russell Canadian Property Index over the long term. Real estate is held through intermediate companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

NOTE **4**

Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the Board of Trustees established a policy asset mix of 35% fixed income instruments, 60% equities and 5% real estate. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

NOTE **5**

Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Stock futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

NOTES TO THE FINANCIAL STATEMENTS

Note 5 - Derivative Contracts (continued)

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31:

	2001		2000	
	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	($ thousands)			
Equity index swap contracts	$ 1,007,777	$ 36,051	$ 1,116,494	$ (25,680)
Bond index swap contracts	59,931	29	174,008	1,090
Interest rate swap contracts	272,469	(11,752)	259,455	(4,070)
Forward foreign exchange contracts	288,645	548	188,798	133
Equity index futures contracts	35,853	1,262	1,579	7
	1,664,675	$ 26,138	1,740,334	$ (28,520)
Cross-currency interest rate swap contracts (b)	677,136		806,456	
	$ 2,341,811		$ 2,546,790	

(a) The method of determining fair value of derivative contracts is described in Note 2 (f).

(b) Cross-currency interest rate swaps are valued as a package, which include underlying securities. As at December 31, 2001, the combined values of cross-currency interest rate swaps and underlying securities amounted to $ 680,665,000 (2000 $813,775,000).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to be credit standing.

All derivative contracts mature within one year except for bond index swaps, cross-currency swaps and interest rate swaps with a notional amount of $337,353,000 (2000 $715,041,000) that mature between 1 and 3 years and $194,190,000 (2000 $240,819,000) that mature over 3 years.

NOTE 6
Contributions Receivable

	2001	2000
	($ thousands)	
Employers	$ 7,278	$ 7,819
Employees	6,177	6,524
	$ 13,455	**$ 14,343**

NOTE 7
Due to and Transfer to ENMAX Corporation

In December 2000, the Lieutenant Governor in Council approved the withdrawal of all active members of ENMAX Corporation from the Plan effective December 31, 2000. In accordance with section 18(1) of Schedule 1 to the *Public Sector Pension Plans (Legislative Provisions) Regulation (AR 365/93)*, all apportioned assets and liabilities as determined by the Plan's actuary were transferred to the ENMAX Corporation Pension Plan in 2001. The excess of total apportioned assets over liabilities represents the total apportioned plan surplus that was transferred to ENMAX. All rights of ENMAX Corporation and its active employees in relation to the Plan are now extinguished.

NOTE 8
Accounts Payable

	2001	2000
	($ thousands)	
Benefits	$ 65	$ 67
Refunds and transfers	3,395	6,815
Plan expenses	(1,115)	(271)
	$ 2,345	**$ 6,611**

NOTE 9
Contributions

	2001	2000
	($ thousands)	
Current and optional service		
Employers	$ 187,601	$ 170,694
Employees (a)	159,437	143,754
Transfers from other plans	2,769	2,186
	$ 349,807	**$ 316,634**

(a) Includes $7,052,000 (2000 $5,039,000) of optional service contributions.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10

Investment (Loss) Income

The following is a summary of the Plan's proportionate share of investment (loss) income from pooled funds:

	2001	2000
	($ thousands)	
Deposits and Fixed Income Securities	$ 201,543	$ 340,565
Canadian Equities	(224,757)	287,841
Foreign Equities:		
United States	(113,009)	(68,184)
Non-North American	(288,591)	(200,628)
Real Estate	41,361	35,208
	$ (383,453)	**$ 394,802**

Investment (loss) income is comprised of the following:

	2001	2000
	($ thousands)	
Net realized and unrealized (losses) gains on investments	$ (550,675)	$ 111,865
Derivative loss	(173,529)	(67,192)
Interest income	226,783	274,741
Dividend income	93,888	56,095
Real estate income	28,989	26,747
Securities lending income	1,844	1,108
Pooled funds management and associated custodial fees (Note 11)	(10,753)	(8,562)
	$ (383,453)	**$ 394,802**

NOTE 11

Plan Expenses

	2001	2000
	($ thousands)	
General administration costs	$ 7,237	$ 6,654
APEX project costs	1,485	293
Investment management costs	907	913
Plan restructuring costs (to move LAPP to independence)	693	477
Actuarial fees	164	187
	$10,486	**$ 8,524**

General administration costs and business process reengineering costs (APEX project), including plan board costs (see Note 13) were paid to Alberta Pensions Administration Corporation on a cost-recovery basis. Investment management costs were paid to Alberta Revenue on a cost recovery basis to manage the Plan's investment portfolio. Pooled funds management and associated custodial fees totalling $10,753,000 (2000 $8,562,000) (see Note 10), which have been deducted from investment income of the pools, are excluded from plan expenses.

Plan restructuring costs (see Note 14) include remuneration to senior officials of Local Authorities Pension Plan Corporation as follows:

	2001	2000
	($ thousands)	
Chief Executive Officer		
Salary and bonus	$166.3	$ 156.8
Benefits	0.4	0.4
Director, Pension Policy		
Salary and bonus	90.5	78.0
Benefits	0.2	0.2
	$257.4	**$ 235.4**

Total plan expenses, excluding plan-restructuring costs but including pooled funds management and associated custodial fees amounted to $159 per member (2000 $136 per member).

The $23 per member cost increase is attributed to the following factors: increase in pooled funds management cost $13, increase in APEX project cost $9, increase in operating cost $2, and decrease in plan specific cost $1.

Pooled funds management and associated custodial fees amounted to $83 per member (2000 $70 per member). These expenses have been deducted from investment income of the pools and included in the determination of investment returns for the Plan (see Note 10).

Total plan expenses, excluding plan-restructuring costs but including pooled funds management and associated custodial fees amounted to 0.23% (2000: 0.18%) of assets under administration.

NOTE 12

Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2000 by William M. Mercer Limited and then extrapolated to December 31, 2001. The 2000 valuation was completed after the financial statements of the Plan for 2000 were released. As a result, the differences between the actuarial valuation results and extrapolation results in 2000 are accounted for as gains and losses in 2001.

NOTES TO THE FINANCIAL STATEMENTS

Note 12 - Accrued Benefits (a) Actuarial Valuation (continued)

The net experience losses as revealed in the December 31, 2000 valuation and reported in 2001 were mainly attributed to the following factors:

- Salary, Yearly Maximum Pensionable Earnings and interest on contributions were other than assumed,
- Current service contributions were less than normal actuarial cost, and
- Mortality, termination and retirement experience were less favourable than assumed.

The experience gains due to lower than expected cost-of-living adjustments have been completely offset by the losses.

The valuation as at December 31, 2000 was determined using the projected benefit method based on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected market conditions and other future events. This estimate was, after consultation with the Plan's actuary, adopted by the Local Authorities Pension Plan Board of Trustees. The major assumptions used were:

	December 31 2001 Extrapolation %	December 31 2000 Valuation %
Investment return	7.25	7.25
Inflation rate	3.5	3.5
Salary escalation rate*	4.25	4.25

* Excludes merit and promotion.

The Board of Trustees has authorized a policy to have an actuarial valuation of the Plan to be carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2001 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2002.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions. Any differences 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.

The following is a summary of the sensitivities of the Plan's surplus and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2001:

SENSITIVITIES

	Changes in Assumptions %	Decrease in Plan Surplus ($ million)	Increase in Current Service Cost as a % of Pensionable Earnings*
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ (575)	0.7%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	(427)	0.9%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	(1,464)	2.4%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2000 valuation is 10.8%.

NOTE 13
Remuneration of Board Members

Remuneration paid with respect to a total of 14 board members during the year amounted to $92,000 (2000 $105,000).

NOTE 14
Plan Restructuring Costs

In June 1997, the Local Authorities Pension Plan Board of Trustees approved the development of a non-statutory pension plan to replace the existing statutory plan. In accordance with provisions and regulations of the *Public Sector Pension Plans Act*, the board is authorized to charge the Plan for all costs incurred up to a certain amount, in connection with the development of the non-statutory plan. The amount authorized is $1,251,000 in 2001 (2000 $750,000). Total development costs incurred and charged to the Plan in 2001 amounted to $693,000 (2000 $477,000).

NOTE 15
Budget Information

The accrued benefits are based on the Local Authorities Pension Plan Board of Trustees' best estimates of future events after consultation with the Plan's actuary. Differences between actual results and the board's expectations are disclosed as experience gains and losses in the statement of changes in accrued benefits. Accordingly, a budget is not included in these financial statements.

NOTE 16
Comparative Figures

Comparative figures have been restated to be consistent with 2001 presentation.

SCHEDULE A

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

December 31, 2001
($ thousands)

	Plan's Share 2001	Plan's Share 2000
Deposits and short-term securities	$ 129,937	$ 271,115
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	970,602	1,050,184
Provincial		
Alberta, direct and guaranteed	7,532	7,324
Other, direct and guaranteed	499,902	479,402
Municipal	37,155	30,386
Corporate	744,386	822,846
Private		
Corporate	546,832	649,448
	2,806,409	3,039,590
Receivable from sale of investments and accrued investment income	26,015	31,438
Liabilities for investment purchases	(2,145)	(795)
	23,870	30,643
	$ 2,960,216	**$ 3,341,348**

(a) Fixed income securities held as at December 31, 2001 had an average effective market yield of 5.22% per annum (2000: 5.80% per annum). The following term structure of these securities as at December 31, 2001 is based on principal amount.

	2001 %	2000 %
Under 1 year	5	5
1 to 5 years	28	30
6 to 10 years	25	24
11 to 20 years	17	14
Over 20 years	25	27
	100	100

SCHEDULE B

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposits and short-term securities	$ 43,424	$ 26,328
Public Equities (a) (b)		
Communications and media	119,979	115,486
Conglomerates	32,252	87,143
Consumer products	135,761	123,547
Financial services	609,097	445,869
Gold and precious minerals	65,721	63,016
Industrial products	436,754	767,838
Merchandising	89,921	60,901
Metals and minerals	100,355	90,911
Oil and gas	278,555	309,536
Paper and forest products	64,146	63,339
Pipelines	45,871	110,075
Real estate and construction	20,506	26,467
Transportation and environmental services	82,784	24,106
Utilities	138,829	138,393
	2,220,531	2,426,627
Passive index	16,099	10,491
	2,236,630	2,437,118
Private Equities	22,887	30,369
Receivable from sale of investments and accrued investment income	22,450	11,725
Liabilities for investment purchases	(9,565)	(13,431)
	12,885	(1,706)
	$ 2,315,826	$ 2,492,109

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $270,594,000 (2000 $281,877,000), which are used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The industrial classifications are those used by the Toronto Stock Exchange indices.

SCHEDULE C

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposits and short-term securities	$ 7,416	$ 878
Public Equities (a) (b)		
Basic materials	66,264	58,126
Commercial services	44,586	35,738
Consumer cyclical	113,317	88,220
Consumer non-cyclical	122,261	102,241
Consumer services	93,826	76,194
Energy	105,965	96,700
Financial	302,363	289,192
Health Care	230,360	200,222
Industrials	60,287	53,299
Technology	302,906	309,747
Telecommunications	74,084	65,938
Transport	8,597	12,506
Utilities	33,051	57,351
	1,557,867	1,445,474
Receivable from sale of investments and accrued investment income	19,492	7,164
Liabilities for investment purchases	(3,351)	(20,463)
	16,141	(13,299)
	$ 1,581,424	**$ 1,433,053**

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $577,707,000 (2000 $664,955,000), which are used as underlying securities to support the notional amount of US equity index swaps and future contracts.

(b) The industrial classifications are those used by the Standard & Poor's indices.

SCHEDULE D

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposits and short-term securities	$ 39,378	$ 17,146
Public Equities (a)		
Country		
United Kingdom	376,351	351,989
Japan	249,008	349,813
France	169,902	173,810
Netherlands	110,779	109,952
Switzerland	107,898	119,405
Germany	103,617	133,152
Australia	57,141	52,905
Hong Kong	55,918	55,678
Italy	52,924	65,550
Spain	45,906	44,109
Sweden	28,573	50,898
Finland	27,429	40,004
Other	106,539	69,412
	1,491,985	1,616,677
Receivable from sale of investments and accrued investment income	22,175	8,297
Liabilities for investment purchases	(12,292)	(10,370)
	9,883	(2,073)
	$ 1,541,246	**$ 1,631,750**

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $184,590,000 (2000 $169,662,000), which are used as underlying securities to support the notional amount of Non-North American equity index swaps and future contracts.

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