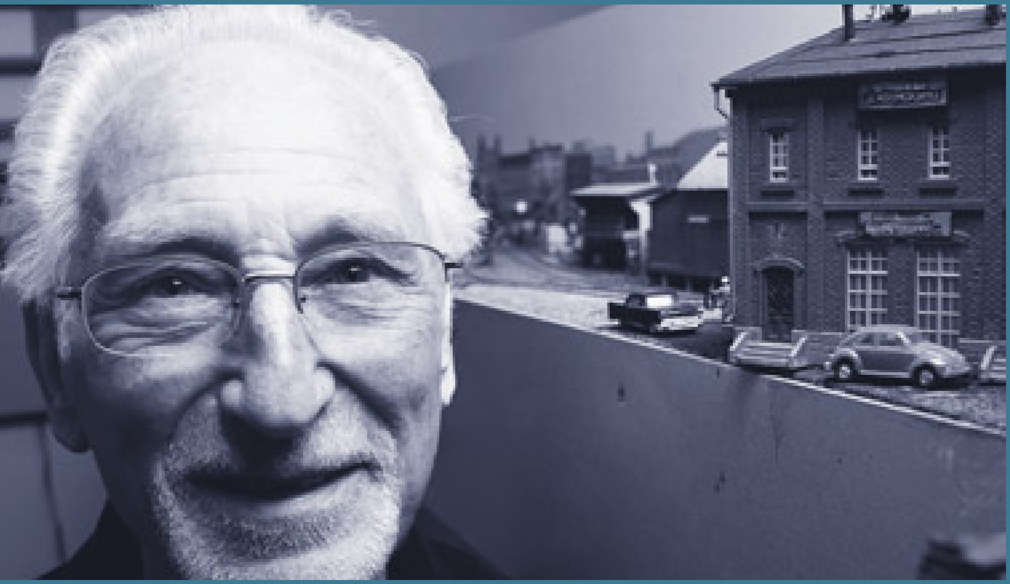
Local Authorities
PENSION PLAN



2003 ANNUAL REPORT

securing your future, together®

Local Authorities
PENSION PLAN

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 health authorities, cities, towns, villages, municipal districts, colleges, school boards and many other public sector organizations.

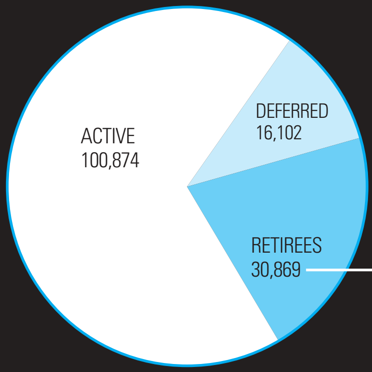
The Alberta Minister of Finance is currently the legal trustee of the Plan, which is governed by a 14-member Board of Trustees. The Board includes six employee nominees, six employer nominees and one nominee each from retirees and government. LAPP serves 100,874 active members, 16,102 deferred members, 30,869 retirees and 407 employers. The Plan is financed by employee and employer contributions and investment earnings of the LAPP Fund.

The Fund has a diversified investment portfolio consisting of bonds and mortgages, treasury bills, domestic and foreign stocks, and real estate.

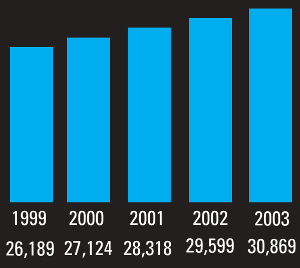
MEMBERSHIP, DECEMBER 31, 2003

Total 147,845

Membership increased in 2003 by 4,732. Retirees currently make up 20.9% of membership. This proportion is expected to rise as baby boomers begin to retire.



RETIREES



The Local Authorities Pension Plan represents Albertans with life experiences as varied as our landscape. As we talked with the LAPP retirees featured here, we discovered they have much in common - despite ups and downs and the many changes they've seen in their lives, they all share a strong optimism for our future.

TABLE OF CONTENTS

Net assets available for benefits, before the actuarial adjustment for fluctuations in fair value, increased by 14.5% to $9.655 billion in 2003.

Accrued benefits (liabilities) increased by 10.7% to $11.109 billion.

Thus on a market value basis we enjoyed a gain in our financial position. But, to reduce volatility of the Plan's funded status, year over year changes in the market value of assets are actuarially smoothed over a three-year period.

Use of smoothing methods means we must now recognize some of the losses from the previous years. Therefore, after asset smoothing, the actuarial deficiency increased from $445 million in 2002, to $1.411 billion in 2003.

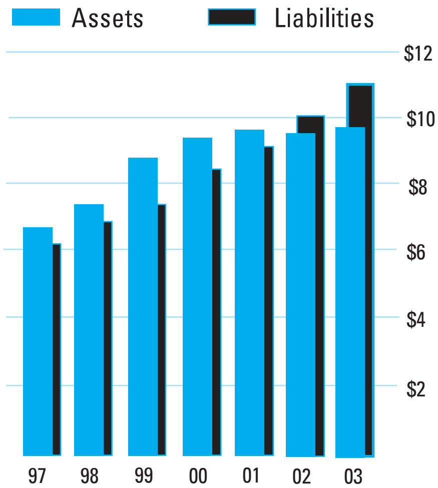
It is possible that contribution rates will need to rise again over the next few years to reduce the deficit and bring the Plan back to fully funded status.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

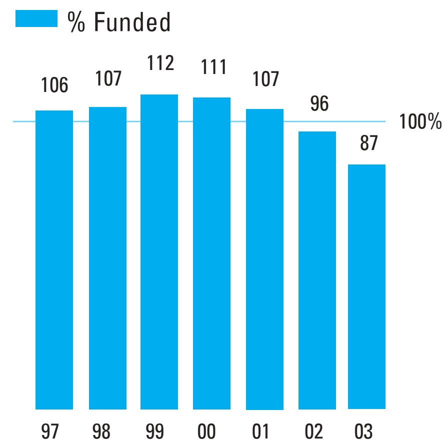
As at December 31, 2003
($ thousands)

	2003	2002
Net Assets Available for Benefits		
Net assets available for benefits	$ 9,655,313	$ 8,431,320
Actuarial adjustment for fluctuation in fair value of net assets	42,500	1,160,600
Actuarial value of net assets available for benefits	9,697,813	9,591,920
Accrued Benefits		
Actuarial value of accrued benefits	11,108,800	10,036,900
Actuarial deficiency	**$ (1,410,987)**	**(444,980)**

ACTUARIAL FINANCIAL STATUS ($ BILLIONS)



ACTUARIAL FUNDING STATUS



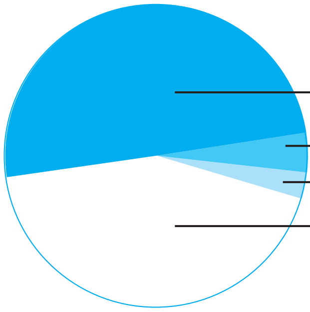
To diversify and capture global investment opportunities LAPP invests in a broad portfolio of world class companies that include the following investments.

Canadian National Railway
(LAPP's investment $51 million)
The CNR is Canada's largest railway system providing transportation services across the entire North American continent.

HIGHLIGHTS

PENSION CONTRIBUTIONS AND TRANSFERS ($ MILLIONS)

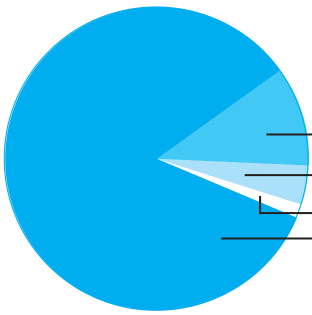
TOTAL $473.3



Employers $245.8
Group transfer $13.9
Transfers $0.8
Members $212.8

PENSION PAYMENTS ($ MILLIONS)

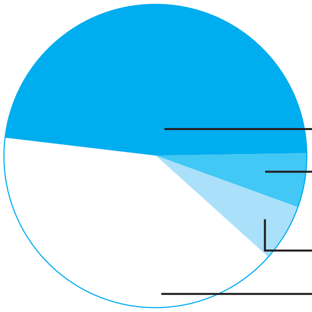
TOTAL $405.0



Refunds to Members $43.6
Administration $17.1
Transfers $0.5
Benefits $343.8

PLAN EXPENSES ($ MILLIONS)

TOTAL $28.6



Administration and Governance Costs – $106 per member

- Alberta Pensions Administration costs to administer the Plan – $13,672,000 or $95 per member
- Governance expenses for overseeing the Plan – $1,656,000 or $11 per member

Investment Costs – $91 per member (netted out prior to calculation of investment returns)

- Alberta Investment Management of Alberta Revenue costs to manage the Plan's funds – $1,752,000 or $12 per member
- Pooled funds management and custodial fees – $11,491,000 or $79 per member

LAPP's large size allows for cost-effective administration and investment management. Plan expenses consisting of administration and governance costs ($15,300,000) and investment costs ($13,300,000) totalled $28,600,000 in 2003 or $197 per member.

With Plan assets over $9.6 billion, this equates to a total cost of 0.30% of assets under administration (0.16% for administration and 0.14% for investment management services).

Glaxosmithkline
(LAPP's investment $15 million)
Based in the U.K., GSK is a world leading pharmaceutical research and manufacturing company providing medicines and vaccines as well as over-the-counter healthcare consumer products.

Alcan
(LAPP's investment $70 million)
Based in Canada, Alcan is one of the world's leading integrated aluminum producers with over 53,000 employees operating in over 40 countries across the globe.

MESSAGE FROM THE CHAIR

On behalf of the Local Authorities Pension Plan (LAPP) Board of Trustees, I am pleased to present the 2003 Annual Report. I will mention some of our accomplishments in 2003, and look to the future of the Plan.

Financial Results

In 2003 the financial markets finally provided positive returns after three consecutive years in which they lost value worldwide. However, interest rates, which were already at near-record lows at the beginning of the year, fell slightly further over the year. This, and normal growth of the Plan, caused our liabilities (the value of our promise to pay future pensions) to increase. As a result, LAPP, on a market value basis, enjoyed only a small improvement in its financial position in 2003.

While we are confident in the long-term growth of our investments, we also monitor and adjust contribution rates as necessary to ensure there will be sufficient capital to invest to fulfill the Plan's commitments.

Contribution rates must also be set so that members who will receive a pension in the future are paying a fair value for that pension today, and that other members, in the past or in the future, will not be asked to pay more or less than their fair share. For those reasons, it was necessary to implement a contribution rate increase at the beginning of 2003, and another at the beginning of 2004.

At the same time, the Board tries to keep contribution rates reasonably stable, so that LAPP employers and members can predict and plan for their contribution obligations. To avoid dramatic changes in contribution rates caused by short-term fluctuations in the financial markets, LAPP uses a commonly accepted actuarial method called "smoothing": we temper the ups and downs of the financial markets by looking at them over a three-year period, instead of one year at a time.

Over the past three years, smoothing has allowed us to phase in contribution rate increases in 2003 and 2004, avoiding even larger increases that would have been required without the use of the smoothing method. Those contribution rate increases have begun to help improve LAPP's financial position, and will continue to help us overcome the deficit in future years.

In 2003, use of the smoothing method means that our financial statements must now recognize some of the losses that we experienced in previous years, despite the fact that 2003 saw much improved market performance. Our financial statements therefore reflect an increase in our deficit, on the smoothed basis. We want all our stakeholders to understand that on a real, market-value basis, the financial status of the Plan in fact improved in 2003.

We expect to see financial markets perform more steadily in the future than they have over the past several years, but we do not expect to enjoy the same very high returns the markets gave us in the late 1990s. It is not prudent for the Plan to run a deficit for a lengthy period of time in the hopes of future positive results. Therefore, it is possible that contribution rates will have to rise again over the next few years in order to continue to reduce the present deficit and to bring the Plan back to its fully funded status in a reasonable time.

The fluctuations in the financial markets over the past several years reinforce the lesson that pension plans such as LAPP are long-term investors. The contribution dollars of a new member joining the Plan today will be retained by the Plan and invested and reinvested for many years before being paid out to that member as part of a pension. Over that course of time, LAPP can expect to see several short-term shifts in the financial markets. However, history teaches us that in the long run, invested money grows in value.

Governance

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. 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.

Due to other pressing issues encountered by the government, little progress was made toward Plan independence in 2003. However, the Board remains supportive of independence, and a participant in the process. In 2003, the Board made a presentation to the legislature's Standing Policy Committee on Economic Development and Finance, to increase our elected representatives' understanding of the Plan. We are prepared to move LAPP to an independent structure if and when that becomes possible.

The Board has also taken steps to address the governance structure of the current Plan. We have made recommendations to the provincial government for improvements which would clarify the responsibilities and accountabilities of the groups that currently administer the Plan, thus making plan governance more efficient and effective. In 2004, we hope to be given the ability to add additional external members to our Investment Committee to increase our collective knowledge and experience in this area. We also plan to make further decisions about how the Board and its committees function, and about the role, authorities, and accountabilities of LAPP's administration. Our objective is to make governance responsibilities clear so our stakeholders can be even better assured that the Plan is being well and efficiently administered. We will report to all Plan stakeholders on our future progress in this area.

We have also formed a Stakeholder Consultation Group, composed of representatives of LAPP employers and unions, which began meeting in 2004. The Board of Trustees wants to be as responsive as possible to the needs of our stakeholders, and looks forward to receiving stakeholder input into future important decisions about the Plan.

Board of Trustees Membership

Effective December 31, 2003, several long-serving members stepped down from the Board. We wish Ken Balkwill, Ben Boettcher, Terry Cavanagh, Bill Purdy, and Sandra Weidner well in their future endeavors, and thank them for their work on behalf of LAPP.

Effective January 1, 2004, we welcomed the following new trustees, nominated by several LAPP stakeholder organizations:

Bob Barss is nominated by the Alberta Association of Municipal Districts and Counties; Grant Howell is nominated by the Council of Board Chairs, Public Colleges and Technical Institutes of Alberta; W. Bruce McLeod is nominated by the Alberta Federation of Labour; and Helen Rice is nominated by the Alberta Urban Municipalities Association.

RICHARD WEST
CHAIR

In 2004, the Alberta School Boards Association will nominate a trustee, bringing the Board back to full strength.

Conclusion

While the Plan continues in a deficit situation, LAPP remains strong and secure.

I wish to thank all Board members, LAPP staff, the Minister of Finance, Alberta Pensions Administration (APA) Corporation, and Alberta Investment Management for their continued hard work for LAPP. The Board of Trustees looks forward to continuing to serve all Plan employers, members and retirees.

Richard D. West
Board Chair 2003
Local Authorities Pension Plan

LOCAL AUTHORITIES PENSION PLAN 2003 BOARD OF TRUSTEES

For further information about your LAPP Board of Trustees, please see the back cover of this Annual Report or visit our website at www.lapp.ab.ca.

RICHARD WEST
CHAIR

LES YOUNG
VICE-CHAIR

KEN BALKWILL

BEN BOETTCHER

TERRY CAVANAGH

ALEX FOWLIE

MARGARET JOHNSON

TONY KRIVOBLOCKI

RICHARD MARTIN

ELAINE NOEL-BENTLEY

BILL PURDY

CARL SODERSTROM

JOHN VANDERKAAY

SANDRA WEIDNER

securing your future, together®

After a nursing career of 34 years, Miriam Roberts retired in 1997, and began receiving her LAPP pension. Upon retirement she ventured into teaching adult literacy for two years. She taught English as a second language to two adults with a disability, as well as a young boy and his Russian mother.

In 1998, Roberts became president of Life Support Society for three years, was involved in fundraising to purchase a new emergency response system, and helped change home communicators.

Roberts has been involved with her local church as a board member for five years. She also helps out with painting and other church renovations. She was the church's treasurer for the past 25 years and has helped to research and write the last 22 years of her church's history.

Along with being an active part of her church, Roberts and her husband enjoy singing with their local community choir and have performed in various long-term care facilities and seniors' lodges.

Roberts recently began taking internet computer courses and has been using her computer knowledge to research genealogy - a long time passion. She is now a member of the Alberta Genealogical Society and Clywd Family History in Wales. Her most exciting discovery so far was finding a third cousin in Australia who has also been researching the family's history back to the early 1600s.

Roberts also enjoys travelling. She has been to her native Great Britain to visit family and do further research on genealogy. Other travels include a visit to Mexico with her husband, and cruises through the Southern Caribbean, Western Caribbean, Panama Canal, Alaska and the Yukon. They also use their motor home to travel throughout Alberta and British Columbia. Her future travel plans include visiting her third cousin in Australia!

Other hobbies of Roberts include writing (she hopes to write a book someday), gardening, crocheting, knitting, crafts, reading and babysitting her two grandchildren. Roberts recently started curling for the winter months and takes walks on most days when weather permits.

Miriam Roberts
LAPP Retiree, 1997 - Drayton Valley, Alberta

MANAGEMENT DISCUSSION AND ANALYSIS

MESSAGE FROM THE CEO

We are pleased to present this Annual Report to all members and employers of the Local Authorities Pension Plan (LAPP). It allows us to provide you with audited financial information, to mention some of the Plan's accomplishments in 2003, and to tell you about our plans for 2004.

Financial Results

After posting three consecutive years of losses, global stock markets made a strong recovery in 2003. In fact, most asset classes provided positive returns during the year and LAPP earned an overall rate of return on its investments of 13.6%. As a result, the Plan's net assets available for benefits increased to $9.7 billion as at December 31, 2003, up from $8.4 billion in 2002.

While most markets, including Canadian stocks and bonds, did very well, the surprisingly high rate of gain (20.0%) in the value of the Canadian dollar relative to foreign currencies offset a large portion of our return, particularly on U.S. and European investments. When we earned a profit on a foreign investment, then converted the foreign currency to Canadian dollars, we earned fewer dollars than we would have if our dollar had been lower. This meant the very high investment returns posted in foreign capital markets did not fully translate into good returns for LAPP once we converted the foreign currencies into Canadian dollars for accounting purposes.

Over the past four years, the Plan has earned an annualized compound rate of return of 1.8%, which is below the 7.0% rate required by our actuarial assumptions to meet future liabilities. As a result, after adjustment for market fluctuations, the Plan on December 31, 2003 had an actuarial deficit of about $1.4 billion, or 12.7%.

Despite the general recovery in the markets, concerns about terrorism and international conflict and the fallout from corporate scandals continue to dampen investors' enthusiasm and keep substantial investment dollars out of the markets. We do not foresee the financial markets in 2004 making the sort of large double digit gains we enjoyed in the late 1990s. Rather, we expect growth, but at a rate more like historical averages. This will make it more difficult for LAPP to quickly fund its deficit.

In 2003 the Board increased contribution rates by 0.5% for both employers and employees. This was the first increase since 1993, and still left rates below the 1993-1997 level. The increase in contributions collected in 2003 contributed significantly to the small reduction in our market value deficit in 2003.

Effective January 1, 2004, on the advice of the Plan's actuary, the Board increased rates by an additional 1.077% for both employers and employees. As required by LAPP's regulations, the rate increase is designed to eliminate the current deficit over a maximum 15 year period, according to our assumptions about investment returns and future liabilities. Depending on our actual investment returns, and movements of interest rates in the financial markets, it is unfortunately possible that a further rate increase may be necessary in the future.

The Board recognizes that contribution rate increases cause difficulty for our stakeholders, and calls for increases only when they are necessary to preserve the financial stability of the Plan. Contribution rate changes also ensure that current members are paying an appropriate amount for the benefits they are earning.

Despite the deficit, LAPP's pension promise is secure. It is backed by the Plan's assets and by employer and employee contributions. We are confident that in the long run, our investments will grow at a rate which will see our assets again match our liabilities. Short term fluctuations will sometimes interrupt long-term growth, but growth will return.

In 2003 the Board decided to adopt a technique known as "risk budgeting" to support future investment policy decisions.

Microsoft
(LAPP's investment $ 28 million)
Microsoft is a worldwide leader in software and internet technologies for personal and business computing.

Vodafone
(LAPP's investment $33 million)
Vodafone is one of the the world's largest international mobile telecommunication network companies.

LAPP's administration will be working with Alberta Investment Management to implement the necessary computing systems in 2004. Risk budgeting will allow the Board to more explicitly establish the degree of risk it is prepared to tolerate in investing the fund, and to monitor and control the degree of risk actually experienced. The Board's intention is to use the most effective methods of controlling investment risk and optimizing investments.

In 2003 our investment policy was amended to increase our allocation to private equities, infrastructure, and hedge funds, and to increase active management. In 2004 we will consider implementing active currency management, and will review our policy benchmarks to ensure they are appropriate.

Despite the financial setbacks of the past few years, we believe that the improved performance of 2003 heralds financial markets being more stable and providing returns closer to historical norms in the future. The Plan remains financially sound and will continue to do so.

Plan Administration

In 2003, our administrator, Alberta Pensions Administration (APA) Corporation, successfully implemented its new pension administration system. This took LAPP off an aging and difficult to maintain mainframe system, and put us on a state-of-the-art system which gives us significant productivity improvements. Our employers now enjoy the ability to exchange data with us on-line. Our members will soon also have the ability to access their personal pension information over the internet. We are proud of APA's success in preparing our Plan's administration for the first part of the new century.

Plan Design Issues

Next to financial markets, the most important influence on pension plans is demographics. In Canada, like most other developed nations, we are facing the imminent retirement of the "baby boomers". Many employees are close to retirement age, and some employers are concerned about whether there will be labour shortages over the next decade or two. In 2004 the Plan will conduct a complete review of our retirement provisions, as well as examining whether it would be appropriate to build in greater flexibility, perhaps with a flexible pension plan, or a "top-up" plan for higher-salaried members. Our goal is for our Plan to be responsive to financial and demographic realities and trends in the workplace, as well as to the needs of our stakeholders. We will report to you as decisions are made.

RON LITEPLO
CHIEF EXECUTIVE OFFICER

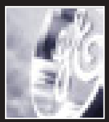
In 2003, several LAPP employers requested us to adapt our Plan to their changing needs in designing compensation packages for their employees. We responded by making a change to Plan rules that allowed "variable pay" to become part of a member's pensionable salary.

In 2004, we hope to put in place mutually agreed rules for reciprocal transfers of employees among the Alberta public sector pension plans.

Cost-Effectiveness

We know that in the long run, every dollar saved and invested becomes several dollars that can be used to pay members' pensions. We are always looking for ways to improve our productivity and to save money.

Annually the Board receives reports from an independent



General Electric
(LAPP's investment
$21 million)
With total assets of U.S. $575 billion, GE is one of the world's largest companies, providing technology, manufacturing and financial services in more than 100 countries globally.

Aventis
(LAPP's investment
$19 million)
Headquartered in Strasbourg France, Aventis is one of the world's leading drug companies, dedicated to treating and preventing disease by discovering and developing prescription drugs and vaccines.

Canadian company that measures the effectiveness of investment and administration for pension plans around the world. Those reports show that LAPP continues to enjoy some of the lowest investment and administrative costs of any pension plan of its size in Canada.

Communications

We are committed to making sure our members and employers understand their pension plan. In 2004 the Board will adopt a new three-year communications plan to guide our efforts to increase members' and employers' awareness and understanding of LAPP.

In 2003 our website received some 51,000 "hits", showing us that you find it useful. Our website was also improved by the addition of Employer Online Services. We invite you to visit the site at www.lapp.ab.ca.

We continue to print highlights reports, information updates, and other publications to inform you and answer your questions about the Plan. As always, we invite your questions and comments about this report or any other LAPP communication materials.

Conclusion

I wish to thank the Board members, LAPP staff, and staff in the Department of Finance, Alberta Pensions Administration (APA) Corporation, and Alberta Investment Management for their continued support and solid work in 2003. LAPP remains strong and well-managed. We will continue to secure your future, together.

Ronald J. Liteplo
Chief Executive Officer
Local Authorities Pension Plan Corporation

Encana
(LAPP's investment $70 million)
Encana, with an enterprise value of approximately U.S. $25 billion, is one of Canada's leading independent oil and gas companies.

Royal Bank of Canada
(LAPP's investment $100 million)
RBC is one of North America's premier diversified financial services companies and Canada's largest company as measured by assets and market capitalization.

Nestlé
(LAPP's investment $28 million)
Founded in 1866, this Swiss company is one of the world's largest food and beverage company with operations in almost every country in the world.

Case Koene worked as Parking Facilities Administrator for the City of Edmonton, where his main responsibility was to transfer the City's parking system to a computerized system. After successful completion of this project he retired in 1995 and began receiving his LAPP pension.

After retiring, Koene continued to pursue his hobby of building model trains, but on a full-time basis. Koene says model railroading is a world-wide billion dollar industry/hobby in North America. Koene began building train sets and models at the age of nine and has completed various displays.

His most recent display is a model of the old CP Railway which used to operate southwest of Edmonton, Alberta. The model's scale is eight feet by 11 feet and includes two towns, hills, valleys, trees, farmhouses and even barns with chickens and cattle! "Building a model railway takes a lot of skill - you need dexterity in your hands, imagination, and you need to have some knowledge about electronics and carpentry," says Koene.

When Koene isn't working on his model trains, he spends time with his family. Koene and his wife visit their daughter in San Francisco, California twice a year, and often see their son who lives in Edmonton, Alberta.

Case Koene
LAPP Retiree, 1995 - Edmonton, Alberta

INVESTMENT REPORT

Investment Management Structure

According to a statute of the Alberta Legislature, the Minister of Finance holds LAPP's assets in trust and has delegated ongoing investment management to the Minister of Revenue. The Plan's assets are invested for the Plan's beneficiaries in accordance with the Board of Trustees' Statement of Investment Policy and Goals (SIP&G). Alberta Investment Management, the investment operations group of Alberta Revenue, is the general investment manager responsible for day-to-day management of investments.

2003 in Review

After suffering the worst downturn in several decades, global equity markets rebounded in 2003 posting positive returns worldwide. Low interest rates and improving economic fundamentals set the stage for the strong market recovery. Generally, lower quality companies posted the largest market gains in 2003, with smaller capitalized companies outperforming larger ones. Canadian, U.S. and EAFE (Europe, Australasia and Far East) markets returned 26.7%, 5.3% and 13.4% respectively in Canadian dollar terms. The lower returns of foreign stock markets were due to the strong appreciation in the Canadian dollar against foreign currencies during the year.

Other asset classes, including bonds and real estate, also performed well and helped boost LAPP's total return to 13.6% for 2003. As at December 31, 2003, the market value of investments was $9.6 billion, up $1.2 billion from $8.4 billion the previous year.

Asset Mix Policy Changes

The Board is responsible for setting the asset mix policy and uses an asset/liability model to assess the risk/return relationships of stocks, bonds, and real estate. We regularly review the expected returns of these asset classes to construct the most appropriate combination of investments to meet the Plan's financial objectives.

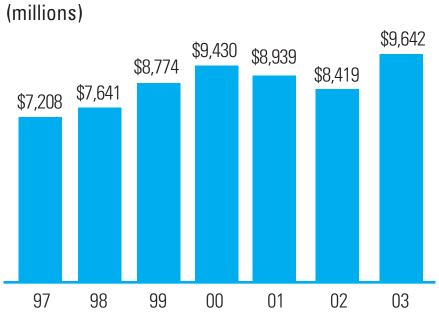
To generate potentially higher, more consistent, returns to better align assets with liabilities, the Board implemented several asset mix policy changes in 2003 that are being phased in over time. A new 10.0% allocation was made to long term bonds as well as an additional 5.0% to real estate. We also made new allocations to alternative investments, including absolute return strategies and private equity, which were increased by 5.0% each.

ASSET MIX (%)

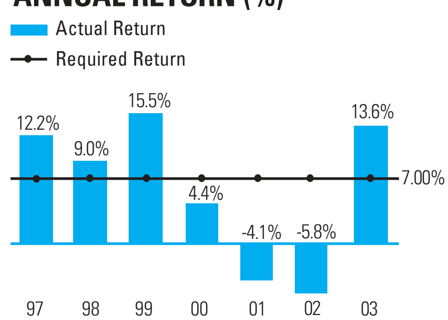
December 31, 2003	Policy Asset Mix		Actual	
	2003	**2002**	**2003**	**2002**
Fixed Income				
Cash & Short-term	2.0	2.0	2.0	0.8
Bonds & Mortgages	18.0	28.0	17.0	28.2
Long-term Bonds	10.0	-	9.2	-
Real Return Bonds	5.0	5.0	4.8	5.1
Total	**35.0**	**35.0**	**33.0**	**34.1**
Equities & Real Estate				
Canadian	17.5	25.0	24.3	25.1
United States	7.5	17.5	14.4	16.7
Non-North American	17.5	17.5	18.7	17.7
Real Estate	10.0	5.0	6.4	6.4
Alternative Investments	12.5	-	3.2	-
Total	**65.0**	**65.0**	**67.0**	**65.9**

MARKET VALUE – INVESTMENTS

(millions)



ANNUAL RETURN (%)



COMPOUND ANNUALIZED RETURN (%)

Ending December 31, 2003

	Years				
	1	2	3	4	8
Actual Return	13.6	3.4	0.9	1.8	7.5
Policy Benchmark	13.8	3.0	0.5	1.5	7.4
Canadian CPI	2.0	2.9	2.2	2.5	2.0

Investment Results

To evaluate performance and gauge how much additional return our managers generated from their active investment decisions, we compare our actual investment results to our investment policy benchmark. The benchmark return represents what we could reasonably expect to earn if we invested in market indices in proportion to our policy asset mix. By actively managing their portfolios, our investment managers strive to earn more than market returns by over or underweighting specific investments in relation to the indices.

In 2003, the Plan earned a total fund return of 13.6%, which was 0.2% less than our investment policy benchmark return. Over four years however, our investment managers earned 1.8%, or 0.3% over our policy benchmark of 1.5%, which means they generated over $100 million of value added during this period.

Fixed Income

As at December 31, 2003, LAPP had about $3.2 billion or 33.0% of its total assets invested in fixed income assets consisting of bonds, mortgages, short term investments, and real return bonds. Fixed income assets are used to provide stable cash flow and adequate liquidity to meet the Plan's financial obligations.

We actively manage fixed income assets to generate extra returns over their respective benchmarks. Total fixed income assets earned 8.6% in 2003, outperforming their benchmark by 0.7%.

	Actual Return	Benchmark Return	Value Added
Short Term			
1 Year	2.9%	2.9%	0.0%
4 Years	4.1%	3.9%	0.2%
8 Years	4.4%	4.2%	0.2%
Bonds & Mortgages			
1 Year	7.6%	6.7%	0.9%
4 Years	9.1%	8.4%	0.7%
8 Years	8.2%	7.9%	0.3%
Long Government Bonds			
1 Year	9.9%	8.0%	1.9%
Real Return Bonds			
1 Year	13.5%	13.3%	0.2%
3 Years	9.2%	9.5%	-0.3%
Total Fixed Income			
1 Year	8.6%	7.9%	0.7%
4 Years	9.3%	8.8%	0.5%
8 Years	8.3%	8.1%	0.2%

Total Equities

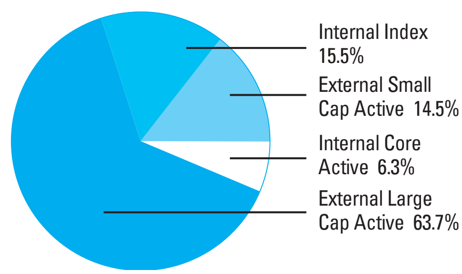
Given LAPP's long investment horizon, its asset mix policy is structured to capture the historically high rates of return from equities. This asset class represented about 57.4% of our asset mix at year end and consisted of 24.3% Canadian, 14.4% U.S., and 18.7% Non-North American equities. In 2003, our return from total equities including domestic and foreign stocks was 17.4%.

Canadian Equities

About $2.4 billion of LAPP's assets are invested in Canadian equities. The percentage allocation to this asset class is planned to decline to a policy target of 17.5% as assets are shifted into real estate and alternative investments in future years. We utilize several investment strategies and styles including passive and active mandates, and invest in large and small capitalized companies in Canada. Alberta Revenue internally manages a core active and a passive index product, while the active large cap and small cap mandates are managed by a team of external money managers.

A strong rally in the Canadian stock market in 2003

SUMMARY OF CANADIAN EQUITY HOLDINGS



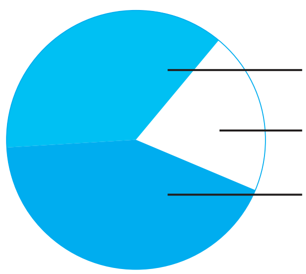
resulted in our large cap and small cap portfolios returning 25.1% and 27.9% respectively. Our Canadian equity portfolio's combined return was 25.9% in 2003. Reflecting the weaker stock market performance during 2000-2002, the four year return (2000-2003) was 2.6% as compared to the benchmark return of 1.8%.

CANADIAN EQUITIES	Actual Return %	Benchmark Return %	Value Added %
1 Year	25.9	30.4	-4.5
4 Years	2.6	1.8	0.8
8 Years	10.0	9.4	0.6

U.S. Equities

In 2003, about $3.2 billion of LAPP's assets were invested in U.S. and international markets, for diversification purposes and to capture global investment opportunities. $1.4 billion of LAPP's total assets were invested in two U.S. active mandates - the external large cap, and the external small/mid cap - and one internally managed U.S. passive mandate.

SUMMARY OF UNITED STATES EQUITY HOLDINGS



In 2003, small cap companies outperformed by a wide margin, posting a 16.4% return compared to only 4.0% for the large cap companies. Combined, LAPP's U.S. stock portfolio returned 7.9% versus its benchmark return of 7.4%, expressed in Canadian dollar terms.

Foreign asset returns were weakened by a surprisingly strong Canadian dollar. In contrast to previous years when the Canadian dollar was generally weak, which boosted foreign-currency asset returns, the rise in the Canadian dollar subtracted about 20% from U.S. equity returns in 2003.

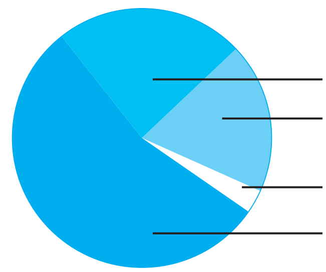
U.S. EQUITIES	Actual Return %	Benchmark Return %	Value Added %
1 Year	7.9	7.4	0.5
4 Years	-6.9	-7.6	0.7
8 Years	6.2	8.7	-2.5

Non-North American Equities

To provide geographic diversification we invest outside of North America, primarily in Europe, Australasia and the Far East (EAFE), using both active and passive strategies, in both developed and emerging foreign stock markets. At year end $1.8 billion representing 18.7% of LAPP's total assets were invested in Non-North American equities.

In 2003, LAPP's Non-North American equity exposure returned 14.2% versus its benchmark return of 13.4%, resulting in 0.8% of value added performance during the year.

SUMMARY OF NON-NORTH AMERICAN EQUITY HOLDINGS



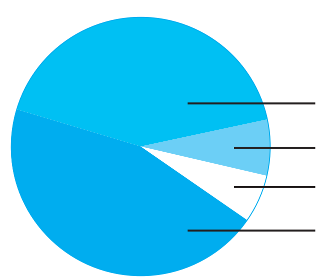
NON-NORTH AMERICAN EQUITIES	Actual Return %	Benchmark Return %	Value Added %
1 Year	14.2	13.4	0.8
4 Years	-8.5	-8.6	0.1
8 Years	5.4	2.6	2.8

Real Estate

As at December 31, 2003, real estate investments comprised $612 million or 6.4% of total investments. We invest in real estate for diversification purposes and to provide protection from a possible rise in inflation. Our real estate portfolio includes a mix of retail, office, residential and industrial properties. The focus is on quality properties featuring strong locations and tenants.

In 2003, real estate returned 10.0% versus its benchmark return of 8.1%.

REAL ESTATE



Joan Nelson, a LAPP retiree, moved from Gilbert Plains Manitoba to Grande Cache, Alberta in 1972 and began her career as a stenographer at the RCMP office in Grande Cache, Alberta.

In March 1977, Nelson decided to move to Calgary with her daughter and applied for a supervisory position with CPIC (Canadian Police Information Centre). She got to know the officers from retirees to rookies for over 18 years. There was never much down time and they were all kept busy answering radio calls, corresponding with outside agencies, and keeping the rookies in line. "It was a stressful and at times a fun filled job. Not to laugh would be to cry," says Nelson.

Nelson first became interested in collecting humorous stories about 26 years ago. Because CPIC was one of the stop offs when the officers were doing their paperwork, they would often indulge staff with stories of funny things that happened to them out on the street. Nelson bought a tape recorder and started bringing it to work. When the officers came into CPIC, she would ask them to tell her their wonderful, funny stories and would tape them.

In 1992 Nelson was getting a lot of flack from the officers asking when her first book was coming out. Nelson got together with a constable and they decided to do the book together. Many enjoyable hours were spent transcribing the tapes. The book was published in 1993 and, "it was one of the happiest moments in my life when I held 'Tales from the Police Locker Room' in my hands."

Nelson watches excitedly out her window for the first days of spring so she can get out on her bicycle. She also enjoys going out with her son and daughter and her four beautiful grandchildren, and reading true crime books. Before Nelson gets too old, she says she also plans on learning to ride a horse. "It's getting harder and harder to throw that leg over though!"

Her biggest wish is to get another book done for the police officers who so graciously gave her stories. "I know that laughing at themselves is the one way they survive the day to day stress of police work." She says she will always remember the many laughs she had with the officers. "They inspired me every day and stopped me from taking life so seriously."

Joan Nelson
LAPP Retiree, 2001 - Calgary, Alberta

REAL ESTATE	Actual Return %	Benchmark Return %	Value Added %
1 Year	10.0	8.1	1.9
4 Years	7.8	9.7	-1.9
8 Years	9.7	11.3	-1.6

Alternative Investments

To enhance diversification, LAPP initiated a program to invest in alternative investments including private equity, absolute return strategies and private income (infrastructure) assets. As at December 31, 2003 LAPP had $304 million or 3.2% of total funds invested in this asset class.

Investment Costs

In 2003, total investment costs were $90 per member, compared to $97 in 2002. These costs consisted of Alberta Revenue's costs to manage the fund of $1.75 million as well as $11.49 million for external management and custodial fees.

Risk Management Systems

To ensure we are using the most effective methods to optimize our returns and manage risks, we are continually investing in new technology and systems. Reflecting best business practices, our investment manager has introduced a new trade order management system to meet the new industry trading and security settlement standards. They also have invested significant resources in leading data integration and risk management systems.

The LAPP Board decided to develop a strategic risk system that aligns assets and liabilities and supports future investment/risk policy decisions. The objective is to utilize a risk model to systematically identify, measure and manage the Plan's risk profile by setting a risk budget to control how much investment risk is being taken. We are confident that these new initiatives will assist the Plan in meeting its financial objectives and commitment to members.

Future Outlook

The Plan continually monitors the financial and economic landscape to assess future market performance, investment opportunities and risks.

After providing several years of stimulus, central banks around the world may begin to raise short term rates to reduce some of the fiscal and monetary stimulus in the latter part of 2004, as international economies show signs of sustainable strength. Real Gross Domestic Product growth expectations in the U.S. of approximately 4.0% in 2004 hinge on stronger U.S. export growth and business investment. Growth may be less than forecast as a result of structural issues in the U.S. such as the high current account deficits and debt levels. With improving global demand and a weak U.S. dollar, commodity prices are expected to have a strong performance.

Given the above, we expect the Canadian and U.S. economies to grow at their historical trend rate of about 3.0% annually over the next several years. Productivity improvements among domestic industries, and price competition from abroad, particularly low labour-cost countries like China and India, are expected to hold global inflation in check. As a result we expect inflation to remain relatively low and trend between 2.0% and 3.0%.

Interest rates in North America are currently sitting at multi-decade lows and are unlikely to fall much further. Normally economic and corporate earnings growth leads to a sharp rise in interest rates, but inflationary pressures remain subdued and any rise in bond yields is expected to be modest compared with previous business cycles.

Boosted by a global economic rebound, strong earnings momentum and low interest rates, stock markets posted very strong results in 2003. Given this environment the implications for global equities remains positive over the near term. However, stock prices, currently trading at about 20 times forward earnings, imply that investors have already priced in much of this. As a result we expect to see lower, single digit, returns from stock markets over the next several years.

At the age of 59 Cliff Pederson retired from operating heavy duty equipment, primarily for Keyano College, as well as operating a tour bus to Suncor and Syncrude in Fort McMurray, Alberta. He is now a LAPP retiree.

As soon as Pederson retired, he and his wife traveled the Northwest Territories and the United States of America. After his wife passed away in 1987, Cliff continued to embark on his passion to see the world. Places of travel included Mexico, Norway, Denmark and Sweden.

In the winter of 1993, Pederson decided to explore Asia. His extensive travel in Asia allowed him to meet interesting and kind people while he visited Thailand, Bangkok, Malaysia, Singapore, Laos, Burma, Indonesia and the Philippines, to name a few. While in Asia, Pederson also visited many remote islands such as Jakarta, Bali, and Sumatra where he once again got to experience a variety of cultures and wonderful people.

Pederson still stays in touch and corresponds with a resident he met in Thailand. After sending her money to have her badly damaged teeth fixed, he still sends her family money each month, to help keep food on their table.

After arriving back in Canada in 1999, Pederson decided to take his three daughters to Egypt - two of his daughters happen to be twins! The family had a wonderful time while experiencing Egypt's scenery and culture.

Since his return from Egypt, Pederson has ventured to Turkey, Africa and Alaska. When Cliff isn't traveling, he loves to cut fire wood and then sell it. "It's like a holiday in the bush!"

Cliff Pederson

LAPP Retiree, 1973 - St.Paul, Alberta

ADMINISTRATION REPORT

Alberta Pensions Administration (APA) Corporation provides administrative services to LAPP under a contract with the Minister of Finance. APA Corporation's core business is to administer the Plan for LAPP's members, employers, and retirees by paying pension benefits, collecting pension plan contributions, maintaining membership records, and providing pension information.

APA Corporation also provides support services to the sponsors and trustees of LAPP, assisting them in meeting their fiduciary responsibilities and communicating with their members, and provides other support services as required.

Capabilities to Deliver Results

Technology Enhancements

To maintain high standards, it is necessary for APA Corporation to implement and maintain excellence in information technology. To this end, APA Corporation finished implementing the APEX project (new pension administration system) in 2003.

APA Corporation also implemented Employer Online Services. This web-based interface allows employers to submit data and interact with APA Corporation electronically. Employer Online Services will be enhanced in 2004.

Also, the initial phases of the Member Online Service project began. The goal of this project is to provide services to members over the internet, including pension benefits calculations and access to personal information via a secure interface. In 2004, APA Corporation will continue to develop Member Online Services and test it with members to ensure member satisfaction with the service and the product.

Costs

The per member cost for service delivery, including process improvements, in 2003 was $74, up from $58 in 2002. The cost for the new pension administration system in 2003 was $20 per member, down from $25 per member in 2002.

Risks

APA Corporation recognizes the importance of mitigating risks. Risk monitoring identifies areas where cost containment and increased customer satisfaction can occur. APA Corporation identified major risks in various business units, in 2003, which could impact service delivery. The major risk areas were:

- service delivery to members and retirees;
- cost containment;
- communication and customer service to plan boards;
- legal implications and fiduciary obligations of plan boards; and
- supporting employers in administering pension plans for their employees.

In 2004, the risk framework will continue to be defined, and APA Corporation will provide more extensive reporting on these risks and the actions taken to mitigate them. APA Corporation continues to be committed to provide excellence in service delivery.

In order to better understand customer needs, APA Corporation distributes annual satisfaction surveys to members, employers, retirees and plan boards to determine their satisfaction with the services provided by APA Corporation.

The results from the 2003 satisfaction surveys are:

Note: All company photos used in this Annual Report were provided courtesy of the company they represent.

Service measures are another standard that drive performance at APA Corporation. They help to ensure consistent, cost-effective delivery of pension services against industry standards. In 2003, the Corporation's service levels declined, due to the implementation and stabilization of the new pension administration system throughout much of 2003. Service standards saw improvements in the last quarter of 2003, and will continue to improve in 2004 as the pension administration system continues to stabilize, enhancements are put in place, and all corporate staff gain full training on processes and procedures for the new system.

2003 STAKEHOLDER SATISFACTION SURVEY RESULTS

	Excellent	Satisfactory	Overall Satisfied
Employers	16%	55%	71%
Members	35%	49%	86%
Retirees	43%	55%	98%

Results

Service Performance Measurements

In 2003, 98% of member annual statements for 2002 were delivered by June 30, 2003. Two percent of member annual statements could not be delivered due to incomplete reporting by employers. In 2004 members will be receiving statements that are run from the new pension administration system.

Member Education and Consultations

In 2003, 111 employee seminars were conducted for 2,516 LAPP members. In addition to the seminars, 741 one-on-one consultations with members were conducted. Satisfaction survey results indicated that 68.0% of members were very satisfied and 32.0% were satisfied with the one-on-one sessions, while 81.0% were very satisfied, and 19.0% were satisfied with the seminars.

Communications

In 2003, APA Corporation delivered new member enrollment packages to 6,259 LAPP members. APA Corporation responded to 42,057 enquiries from LAPP members, and delivered pension information services to 22,304 members.

The Local Authorities Pension Plan wishes to thank all the LAPP retirees who volunteered and shared their time and stories to make this Annual Report complete. Thank you for your cooperation!

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements and information in the 2003 Annual Report are the responsibility of the Minister of Finance and Alberta Pensions Administration (APA) 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 2003 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, CA
Chief Executive Officer
Alberta Pensions Administration Corporation

Robert Bhatia
Deputy Minister of Revenue

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 (the Plan) as at December 31, 2003 and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial Deficiency 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 Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2003 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
February 27, 2004

Fred Dunn
FCA
Auditor General

LOCAL AUTHORITIES PENSION PLAN

FINANCIAL STATEMENTS

DECEMBER 31, 2003

securing your future, together®

FINANCIAL STATEMENTS

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2003

($ thousands)

	2003	2002
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 9,642,129	$ 8,419,003
Contributions receivable (Note 6)	15,774	14,419
Accrued investment income	1,286	1,811
	9,659,189	8,435,233
Liabilities		
Accounts payable (Note 7)	3,876	3,913
Net assets available for benefits	9,655,313	8,431,320
Actuarial adjustment for fluctuation in fair value of net assets (Note 2 (c))	42,500	1,160,600
Actuarial value of net assets available for benefits	9,697,813	9,591,920
Accrued Benefits		
Actuarial value of accrued benefits	11,108,800	10,036,900
Actuarial deficiency	**$ (1,410,987)**	**$ (444,980)**

See accompanying notes and schedules.

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2003

($ thousands)

	2003	2002
Increase in assets		
Contributions (Note 8)	$ 459,338	$ 388,717
Net investment income (Note 9)	1,155,698	-
Net transfer from the Public Service Pension Plan (Note 10)	13,935	-
	1,628,971	388,717
Decrease in assets		
Net investment loss (Note 9)	-	522,566
Pension benefits	343,733	325,761
Refunds to members	43,625	44,095
Transfers to other plans	541	1,515
Plan expenses (Note 11)	17,079	14,620
	404,978	908,557
Increase (Decrease) in net assets	1,223,993	(519,840)
Net assets available for benefits at beginning of year	8,431,320	8,951,160
Net assets available for benefits at end of year	**$ 9,655,313**	**$ 8,431,320**

See accompanying notes and schedules.

Statement of Changes in Accrued Benefits

For the year ended December 31, 2003

($ thousands)

	2003	2002
Increase in accrued Benefits		
Interest accrued on benefits	$ 754,200	$ 691,900
Benefits earned	479,100	426,200
Net Transfer from the Public Service Pension Plan (Note 10)	11,700	-
Changes in actuarial assumptions (Note 12 (a))	131,800	-
Changes in valuation methodology, increase in the maximum pensionable salary permitted and net experience losses (Note 12 (a))	96,400	193,700
	1,473,200	1,311,800
Decrease in accrued benefits		
Benefits paid including interest	401,300	382,800
Net increase in accrued benefits	1,071,900	929,000
Accrued benefits at beginning of year	10,036,900	9,107,900
Accrued benefits at end of year (Note 12)	**$ 11,108,800**	**$ 10,036,900**

See accompanying notes and schedules.

Statement of Changes in Actuarial Deficiency

For the year ended December 31, 2003

($ thousands)

	2003	2002
Actuarial (deficiency) surplus at beginning of year	$ (444,980)	$ 634,960
Increase (Decrease) in net assets available for benefits	1,223,993	(519,840)
Net change in actuarial adjustment for fluctuation in fair value of net assets	(1,118,100)	368,900
Net increase in accrued benefits	(1,071,900)	(929,000)
Actuarial deficiency at end of year (Note 13)	**$ (1,410,987)**	**$ (444,980)**

See accompanying notes and schedules.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

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, regional health authorities, school divisions, districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0216556.

(b) Funding Policy
Current service costs and the Plan's actuarial deficiency are funded by employers and employees at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The contribution rates for employers are 1.0% more than the rates for employees. The rates in effect at December 31, 2003 were 4.525% (2002: 4.025%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 6.40% (2002: 5.90%) of the excess for employees, and 5.525% (2002: 5.025%) of pensionable earnings up to the YMPE and 7.40% (2002: 6.90%) of the excess for employers.

The rates were reviewed by the Board in 2003 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. As a result of this review, the rates have increased at January 1, 2004 as follows: 5.602% of pensionable earnings up to the YMPE and 7.477% of the excess for employees, and 6.602% of pensionable earnings up to the YMPE and 8.477% of the excess for employers. The 2004 rates include a special payment of 1.68% of pensionable earnings shared equally between employees and employers towards the Plan's unfunded liabilities at December 31, 2002 (see Note 13).

(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 membership and have either attained age 65, or age 55 and the sum of their age and years of 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 membership. Reduced pensions are payable to members who become partially disabled and retire early with at least two years of membership.

(e) Death Benefits
Death benefits are payable on the death of a member. If the member has at least two years of service, a surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where service is less than two years, a lump sum payment must be chosen.

(f) Termination Benefits
Members who terminate with at least two years of membership and who are not immediately entitled to a pension may transfer out the commuted value for all earned service, contributions paid in respect of 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 membership 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 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. The increase is an average based on the increase in the twelve-month period ending on October 31 in the previous year. This calculation method has been set out in the Plan regulations since 1993.

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.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta Revenue and external managers appointed by Alberta Revenue. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities
Investments are stated at fair value. The methods used to determine the 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.

Note 2 - Summary of Significant Accounting Policies and Reporting Practices - (b) Valuation of Assets and Liabilities (continued)

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 using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

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 using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

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

(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 net 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, credit default swaps 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.

Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

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

(g) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's actuarial value of accrued benefits, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in accrued benefits.

NOTE 3

Investments (Schedules A to E)

	2003 Fair Value ($ thousands)	%	2002 Fair Value ($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash				
Investment Trust Fund (a)	$ 192,643	2.0	$ 65,449	0.8
Canadian Dollar Public Bond Pool (b)	1,380,104	14.3	2,094,921	24.9
Canadian Long Term Government Pool (b)	885,240	9.2	-	-
Real rate of return bonds (c)	466,570	4.8	425,674	5.1
Private Mortgage Pool (d)	259,381	2.7	281,934	3.3
Total fixed income securities	3,183,938	33.0	2,867,978	34.1
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (e)	1,489,361	15.5	1,149,571	13.6
Canadian Small Cap Equity Pool (e)	339,307	3.5	231,773	2.7
Domestic Passive Equity Pooled Fund (f)	361,090	3.7	517,839	6.2
Canadian Pooled Equities Fund (g)	147,157	1.5	199,693	2.4
Private Equity Pool (h)	13,627	0.1	18,603	0.2
	2,350,542	24.3	2,117,479	25.1
United States Equities (Schedule C)				
External Managers				
US Large Cap Equity Pool (i)	592,647	6.2	552,055	6.6
US Mid/Small Cap Equity Pool (i)	282,011	2.9	183,515	2.2
US Passive Equity Pool	-	-	44,940	0.5
US Passive Equity Pooled Fund (j)	514,494	5.3	624,541	7.4
United States Pooled Equities Fund	-	-	303	-
	1,389,152	14.4	1,405,354	16.7
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (k)	1,009,390	10.5	742,193	8.8
EAFE Plus Equity Pool (k)	435,483	4.5	408,117	4.9
EAFE Passive Equity Pool (l)	12,087	0.1	128,212	1.5
EAFE Structured Equity Pooled Fund (l)	345,684	3.6	212,157	2.5
	1,802,644	18.7	1,490,679	17.7
Alternative Investments - Equities				
External Managers				
Absolute Return Strategy Pool (m)	275,909	2.9	-	-
Foreign Private Equity Pool (n)	22,241	0.2	-	
Private Income Pool (n)	5,646	0.1	-	-
	303,796	3.2	-	-
Total equities	5,846,134	60.6	5,013,512	59.5
Real Estate (Schedule E)				
Private Real Estate Pool (o)	612,057	6.4	537,513	6.4
Total investments	**$ 9,642,129**	**100.0**	**$ 8,419,003**	**100.0**

(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 three years.

(b) The Canadian Dollar Public Bond Pool (CDPB) and the Canadian Long Term Government Bond Pool (CLGB) are managed with the objectives of providing competitive returns comparable to the total returns of the Scotia Capital Universe Bond Index and the Scotia Capital Long Term All Government Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The CDPB portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives while the CLGB portfolio invests only in high quality fixed income instruments of the federal, provincial and municipal governments of Canada. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(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.

(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. To limit investment risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(e) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded

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

Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to invest in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(f) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(g) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

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

(i) The External Managers US Large Cap Equity Pool consists of multiple portfolios and the External Managers US Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Standard & Poor's S&P 500 Index for the US Large Cap Pool and the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(j) The External Managers US Passive Equity Pool and the US Passive Equity Pooled Fund consist of a single portfolio of publicly traded United States equities similar in weights to the S&P 500 Index. The External Managers US Passive Equity Pool is managed passively by an external manager with expertise in the US equity market and the US Passive Equity Pooled Fund is managed internally. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. To enhance investment returns with no substantial increase in risks, the US Passive Equity Pooled Fund also invests in futures, swaps and other structured investments.

(k) The External Managers EAFE (Europe, Australasia and Far East) 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) EAFE Index asset mix by country. The 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 while reducing return volatility through multiple manager investment style and market diversification.

(l) The External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australasia 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.

(m) The External Managers Absolute Return Strategy Pool is managed by external managers with the objective of providing investment returns comparable to the Consumer Price Index plus 6%. The pool is intended to yield absolute positive investment returns with lower volatility using various investment strategies.

(n) The Foreign Private Equity Pool (FPEP) and the Private Income Pool (PIP) are managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 8% and the Consumer Price Index plus 6% respectively. The FPEP invests in institutionally sponsored international private equity pools managed by experienced advisors with proven records. The PIP invests in infrastructure related projects that are structured to yield high current income. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

(o) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All 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.

Note 4 - Investment Risk Management (continued)

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 expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board of Trustees established a long-term policy asset mix of 35% fixed income instruments, 55% equities and 10% 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 may be 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. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. 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.

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

Equity index 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.

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:

	2003					2002	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	81	19	-	$ 1,084,225	$ 44,356	$ 1,090,633	$ 9,836
Bond index swap contracts	100	-	-	22,227	32	38,109	329
Interest rate swap contracts	34	57	9	500,737	(24,618)	401,195	(23,206)
Forward foreign exchange contracts	100	-	-	347,322	10,347	276,015	1,291
Equity index futures contracts	100	-	-	14,321	1,744	-	-
Credit default swap contracts	-	100	-	19,781	(242)	-	-
Cross-currency interest rate swap contracts	20	47	33	370,966	(37,345)	515,102	(23,206)
				$ 2,359,579	$ (5,726)	$ 2,321,054	$(34,956)

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

NOTE 6
Contributions Receivable

	2003	2002
	($ thousands)	
Employers	$ 8,493	$ 7,854
Employees	7,281	6,565
	$ 15,774	$ 14,419

NOTE 7
Accounts Payable

	2003	2002
	($ thousands)	
Benefits	$ 149	$ 43
Refunds and transfers	6,577	5,880
Plan expenses	(2,850)	(2,010)
	$ 3,876	$ 3,913

NOTE 8
Contributions

	2003	2002
	($ thousands)	
Current and optional service		
Employers	$ 245,759	$ 208,662
Employees (a)	212,771	178,090
Transfers from other plans	808	1,965
	$ 459,338	$ 388,717

(a) Includes $9,205,000 (2002 $8,375,000) of optional service contributions.

NOTE 9
Net Investment Income (Loss)

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	2003	2002
	($ thousands)	
Fixed Income Securities	$ 236,997	$ 282,875
Canadian Public Equities	486,980	(239,626)
Foreign Public Equities		
United States	128,401	(357,004)
Non-North American	242,093	(236,900)
Alternative Investments - Equities		
Absolute Return Strategies	6,235	-
Private Equities	667	(4,295)
Real Estate	54,325	32,384
	$ 1,155,698	$ (522,566)

Net Investment income (loss) is comprised of the following:

	2003	2002
	($ thousands)	
Net realized and unrealized gains (losses) on investments, including those arising from derivative transactions	$ 855,074	$ (823,250)
Interest income	192,952	208,095
Dividend income	84,258	74,545
Real estate income	32,395	28,257
Securities lending income	2,510	1,855
Pooled funds management and associated custodial fees (Note 11)	(11,491)	(12,068)
	$1,155,698	$ (522,566)

The following is a summary of the investment performance results attained by the Plan:

	One Year Return	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return
Timed-weighted rates of return*			
Overall Plan	13.6%	1.8%	7.5%
Policy Benchmark**	13.8%	1.5%	7.4%

* The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark is a product of the weighted average policy sector weights and sector returns.

NOTE 10
Net Transfer from the Public Service Pension Plan

In accordance with the Public Sector Pension Plans Act and Alberta Regulation 144/2001, eligible former members of the Public Service Pension Plan (PSPP) and the Local Authorities Pension Plan (LAPP) had elected to transfer their pension entitlements after 1993 and before 2001 between PSPP and LAPP. Accordingly the actuaries for the PSPP and the LAPP calculated the transfer amount for each of the PSPP and the LAPP using the transfer basis agreed to by the PSPP and LAPP Boards. Based on these calculations, the Boards and the Minister of Finance reached a tripartite written agreement setting out the details of the transfer and as a result $13,935,000, including investment return from January 1, 2003 to December 11, 2003 was transferred from the PSPP to the LAPP on December 12, 2003. Hence transferred entitlements cease to pertain to the exporting plan and become part of the pension entitlements and accrued benefits under the importing plan.

NOTE 11
Plan Expenses

	2003	2002
	($ thousands)	
General administration costs	$11,356	$ 9,026
APEX project costs	2,925	3,502
Investment management costs	1,752	1,329
LAPP Corporation costs	501	512
Process Improvement costs	337	-
Actuarial fees	208	251
	$17,079	$ 14,620

General administration costs, process improvement costs and business process reengineering costs (APEX project), including Plan Board costs (see Note 14) 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 $11,491,000 (2002 $12,068,000) (see Note 9), which have been included in calculating net investment income, are excluded from plan expenses.

LAPP Corporation costs include remuneration to senior officials of Local Authorities Pension Plan Corporation as follows:

	2003	2002
	($ thousands)	
Chief Executive Officer		
Salary and bonus	$ 185.0	$ 174.5
Benefits	8.1	7.9
Director, Pension Policy		
Salary and bonus	$ 111.2	$ 100.3
Benefits	7.3	6.5
	$ 311.6	$ 289.2

Total Plan expenses, including pooled funds management and associated custodial fees amounted to $197 per member (2002 $192 per member).

Pooled funds management and associated custodial fees amounted to $79 per member (2002 $87 per member). These expenses, which have been deducted in arriving at net investment income of the pools, are included in the determination of investment returns for the Plan (see Note 9).

Total plan expenses including pooled funds management and associated custodial fees amounted to 0.30% (2002: 0.32%) of assets under administration.

NOTE 12

Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2002 by Mercer Human Resource Consulting and was then extrapolated to December 31, 2003. The 2002 valuation was completed after the financial statements of the Plan for 2002 were released. As a result, the differences between the actuarial valuation results and extrapolation results for 2002 are accounted for as net experience losses, change in actuarial assumptions and other changes in 2003.

The net experience losses as revealed in the 2002 actuarial valuation and reported in 2003 were mainly attributed to the following factors:

- Combined salary and Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) increases were other than assumed, and
- Retirement, termination and mortality experiences were less favourable than assumed.

The experience gains due to lower than expected cost-of-living adjustments and changes in valuation methodology have more than offset the above losses.

The 2002 valuation was determined using the projected benefit method pro-rated on service. The assumptions used in the actuarial valuation and extrapolation were developed as the best estimate of expected market conditions and other future events, taking into account the impact of increases in the maximum pensionable salary permitted under an amendment to the *Income Tax Act* which received Royal Assent on June 19, 2003. These estimates were, after consultation with the Plan's actuary, adopted by the Board.

The major assumptions used were:

	December 31	
	2002 Valuation & 2003 Extrapolation %	2001 Valuation & 2002 Extrapolation %
Investment return	7.00	7.25
Inflation rate	3.25	3.5
Salary escalation rate*	4.00	4.25

* In addition to merit and promotion.

The Board has authorized a policy to have an actuarial valuation of the Plan carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2003 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 2004.

(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 estimates or valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's actuarial deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2003:

	Sensitivities		
	Changes in Assumptions %	Increase in Actuarial Deficiency ($ 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%	$ 741	0.9%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	508	1.1%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	1,804	2.6%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2002 valuation is 11.4%.

NOTE 13

Actuarial Deficiency

The Plan's actuarial deficiency is determined on the going concern basis, taking into account the actuarial adjustment for fluctuations in fair value of net assets (see Note 2 (c)), which has the effect of increasing the fair value of net assets available for benefits by $42,500,000 (2002 $1,160,600,000) at December 31, 2003. The actuarial deficiency reported on this basis provides information about future funding levels required by the Plan. It is not indicative of the true solvency position of the Plan.

In accordance with the *Public Sector Pension Plans Act*, the deficiency of the Plan as determined by an actuarial valuation as at December 31, 2002 is funded by a special payment of 1.68% of pensionable earnings to be shared equally between employers and employees commencing on January 1, 2004 and continuing 15 years from the date of valuation to December 31, 2017.

NOTE 14

Remuneration of Board Members

Remuneration paid with respect to a total of 14 board members during the year amounted to $92,000 (2002 $106,000).

NOTE 15

Comparative Figures

Comparative figures have been restated to be consistent with 2003 presentation.

SCHEDULE A

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

December 31, 2003
($ thousands)

	Plan's Share	
	2003	2002
Deposits and short-term securities	$ $201,514	$ 76,312
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	1,263,082	936,157
Provincial		
Alberta, direct and guaranteed	1,055	4,937
Other, direct and guaranteed	640,775	418,202
Municipal	29,306	40,858
Corporate	645,709	883,759
Private		
Corporate	394,483	484,176
	2,974,410	2,768,089
Receivable from sale of investments and accrued investment income	24,911	24,406
Liabilities for investment purchases	(16,897)	(829)
	8,014	**23,577**
	$ 3,183,938	**$ 2,867,978**

(a) Fixed income securities held as at December 31, 2003 had an average effective market yield of 4.63% per annum (2002: 4.82% per annum). The following term structure of these securities as at December 31, 2003 was based on principal amount.

	2003	2002
	%	%
Under 1 year	2	2
1 to 5 years	22	29
6 to 10 years	22	28
11 to 20 years	16	16
Over 20 years	38	25
	100	**100**

SCHEDULE B

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

December 31, 2003
($ thousands)

	Plan's Share	
	2003	2002
Deposits and short-term securities	$ 33,896	$ 26,949
Public equities (a) (b)		
Consumer discretionary	202,250	182,064
Consumer staples	118,911	90,706
Energy	334,054	312,418
Financials	647,592	595,176
Health care	65,005	71,637
Industrials	276,782	198,297
Information technology	127,169	105,999
Materials	381,501	337,552
Telecommunication services	102,431	98,165
Utilities	31,345	53,942
	2,287,040	2,045,956
Passive index	3,839	11,652
	2,290,879	2,057,608
Private Equity Pool	13,627	18,603
Receivable from sale of investments and accrued investment income	15,850	19,720
Liabilities for investment purchases	(3,710)	(5,401)
	12,140	14,319
	$ 2,350,542	**$ 2,117,479**

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $235,967,000 (2002 $254,579,000), which were used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

SCHEDULE C

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

December 31, 2003
($ thousands)

	Plan's Share	
	2003	2002
Deposits and short-term securities	$ 44,347	$ 11,225
Public equities (a) (b)		
Consumer discretionary	234,270	191,034
Consumer staples	114,784	120,071
Energy	75,801	84,048
Financials	273,087	293,573
Health care	163,809	209,620
Industrials	155,722	174,048
Information technology	218,833	198,553
Materials	48,436	43,169
Telecommunication services	34,315	48,179
Utilities	35,736	38,820
	1,354,793	1,401,115
Passive index	764	-
	1,355,557	1,401,115
Receivable from sale of investments and accrued investment income	6,840	8,056
Liabilities for investment purchases	(17,592)	(15,042)
	(10,752)	(6,986)
	$ 1,389,152	**$ 1,405,354**

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $490,427,000 (2002 $626,945,000), which were used as underlying securities to support the notional amount of US equity index swaps and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

SCHEDULE D

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

December 31, 2003
($ thousands)

	Plan's Share 2003	Plan's Share 2002
Deposits and short-term securities	$ 32,381	$ 37,355
Public equities (a) (b)		
Consumer discretionary	267,333	171,022
Consumer staples	138,660	131,979
Energy	129,437	139,590
Financials	428,029	326,109
Health care	139,105	159,483
Industrials	190,706	141,510
Information technology	104,753	83,018
Materials	133,526	109,530
Telecommunication services	158,615	123,594
Utilities	68,141	73,299
	1,758,305	1,459,134
Passive index	252	-
Receivable from sale of investments and accrued investment income	18,627	8,767
Liabilities for investment purchases	(6,921)	(14,577)
	11,706	(5,810)
	$ 1,802,644	**$ 1,490,679**

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $331,992,000 (2002 $209,109,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased:

	Plan's Share 2003	Plan's Share 2002
	($ thousands)	
United Kingdom	$ 412,472	$ 396,070
Japan	295,577	225,157
France	177,169	127,191
Switzerland	141,525	132,591
Germany	127,576	83,684
Netherlands	100,130	95,034
Australia	92,495	68,556
Italy	77,290	58,838
Spain	48,281	30,739
Hong Kong	39,867	41,365
Other	245,923	199,909
	$ 1,758,305	**$ 1,459,134**

SCHEDULE E

SCHEDULE OF INVESTMENTS IN REAL ESTATE

December 31, 2003
($ thousands)

	Plan's Share 2003	Plan's Share 2002
Deposits and short-term securities	$ 497	$ 226
Real estate (a)		
Office	271,419	260,721
Retail	256,942	227,564
Industrial	41,491	26,314
Residential	35,926	18,815
	605,778	533,414
Passive index	4,224	62
Receivable from sale of investments and accrued investment income	1,558	3,811
	$ 612,057	**$ 537,513**

	Plan's Share 2003	Plan's Share 2002
	($ thousands)	
Ontario	$ 442,734	$ 400,827
Alberta	150,624	120,982
British Columbia	12,420	11,605
	$ 605,778	**$ 533,414**

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

Local Authorities
PENSION PLAN

EXECUTIVE OFFICES
4TH FLOOR, PARK PLAZA
10611 - 98 AVENUE
EDMONTON, ALBERTA
CANADA T5K 2P7

PHONE: (780) 427-5447
FAX: (780) 427-5030
EMAIL: lapp.bd@gov.ab.ca
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RON LITEPLO
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BLAKE WALKER
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ALBERTA PENSIONS ADMINISTRATION CORPORATION
PHONE: (780) 427-5101
IN CANADA, CALL TOLL FREE:
1-800-358-0840

COMMITTEE LEGEND

AC - Appeals Committee Member
AAC - Audit and Actuarial Committee Member
IC - Investment Committee Member
PB - Policy and Benefits Committee Member
GC - Governance Committee Member