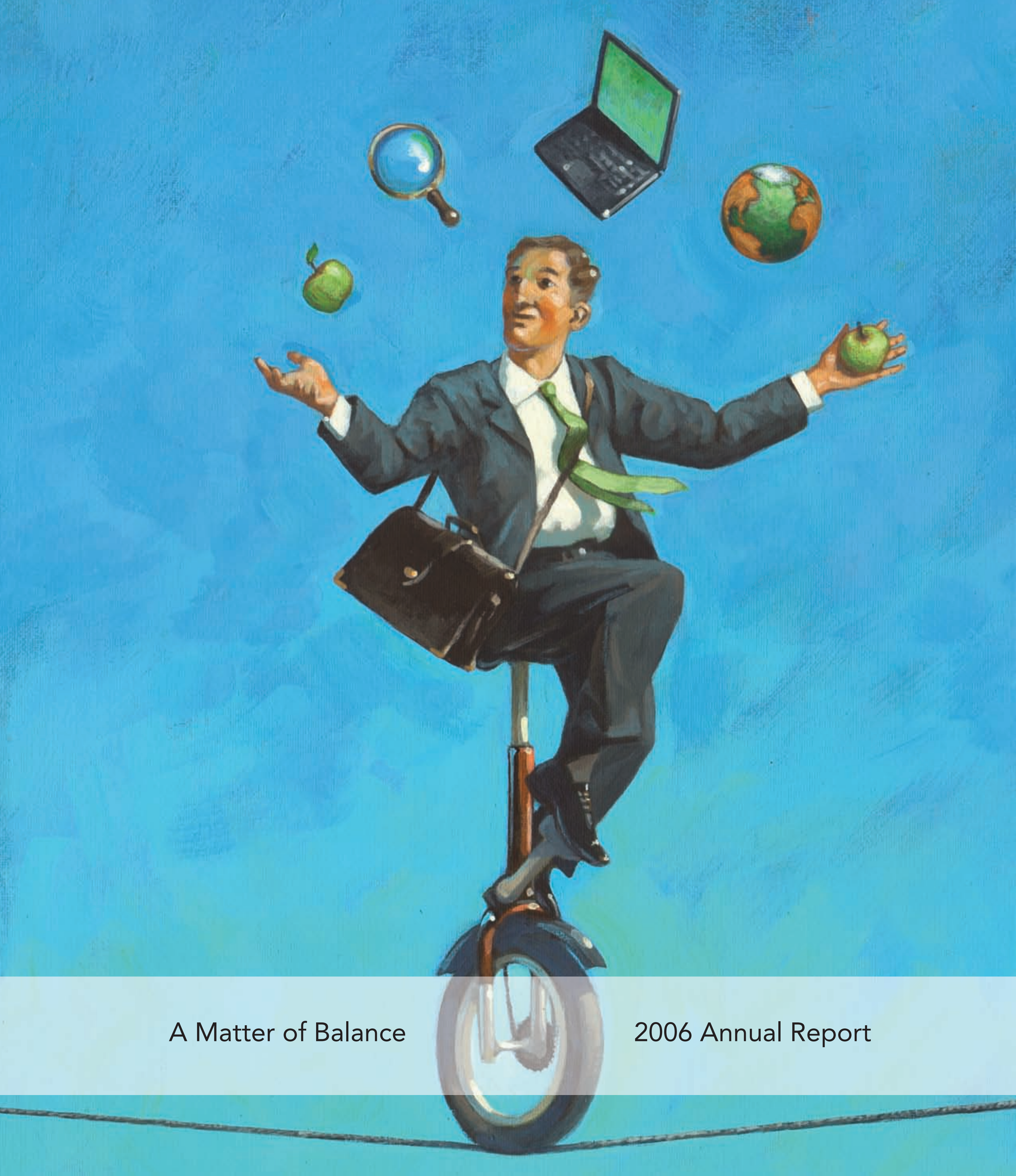
ONTARIO TEACHERS' PENSION PLAN



A Matter of Balance

2006 Annual Report

The Ontario Teachers' Pension Plan is guided in all it does by its responsibility to the plan's members. With this premise constantly in the forefront, the Ontario Teachers' Pension Plan, with its sponsors, the Ontario Teachers' Federation and the Ontario government, must balance many elements to build and administer members' pensions.

Costs must be balanced with service levels, the right balance must be struck in the fund's asset-mix policy, risk must be balanced against returns, and the needs of all generations of teachers must be in relative balance as we try to solve the most important equation of all: the plan's assets must be in balance with its liabilities. In this year's annual report, we discuss the fair and manageable balance that we strive constantly to achieve.

Goals

Report on the Plan

To provide transparent reporting on the financial position and performance of the plan for stakeholders

Investments

To beat the fund's composite benchmark and maximize investment returns to pay teachers' pensions

2006 Performance Highlights

Net assets grew by $9.9 billion in 2006 to $106.0 billion. Due to a small improvement in real interest rates, partially offset by changes in the actuarial assumptions, the cost of future pensions was stable. On a financial statement basis, the deficit as at December 31, 2006 was $15.6 billion.

FINANCIAL OVERVIEW

(as at December 31) ($ billions)	*2006*	*2005*
Net assets available for benefits		
Net investments	$105.7	$94.8
Contributions receivable from Province of Ontario	1.6	1.5
Other net assets (liabilities)	(1.3)	(0.2)
Net assets	$106.0	$96.1
Financial status		
Net assets	$106.0	$96.1
Smoothing adjustment	(11.1)	(7.4)
Actuarially adjusted net assets	94.9	88.7
Cost of future pensions	(110.5)	(110.5)
Deficit[1]	$ 15.6	$21.8

[1] The deficit, shown on a financial statement basis, is different from the funding shortfall (see pages 19 to 23).

Beat the benchmark for a seventh straight year while decreasing the level of risk

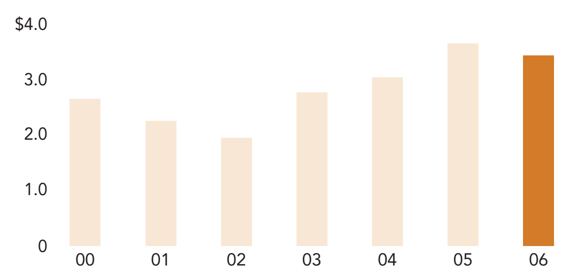
For the year ended December 31, 2006:

- 13.2% rate of return
- $12.3 billion in investment income
- $3.4 billion in value added above benchmarks
- $12.6 billion in value added over 4 years

INVESTMENT PERFORMANCE

(percent)
Rate of return
Benchmark
Value added above benchmark *($ billions)*

VALUE ADDED ABOVE BENCHMARKS
(for the year ended December 31) ($ billions)

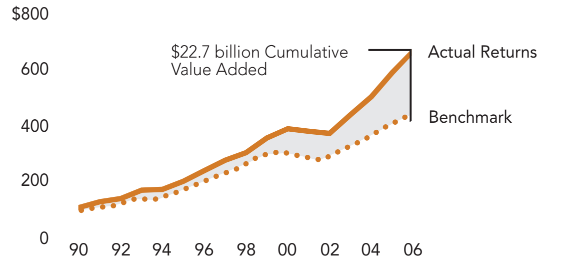


For more details on our strategy for managing risk, visit: www.otpp.com > Investments > Strategy/Risk Management

Member Services

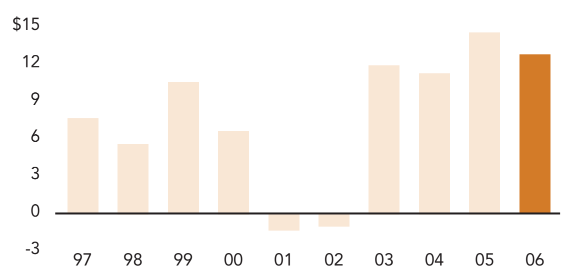
To provide Ontario teachers and pensioners with prompt, reliable pension information and services

INVESTMENT GROWTH
($100 invested in 1990)



2006	*2005*	*4-yr*	*10-yr*	*Since 1990*
13.2	17.2	15.7	10.8	11.8
9.4	12.7	11.6	8.4	8.9
$3.4	$3.6	$12.6	$18.2	$22.7

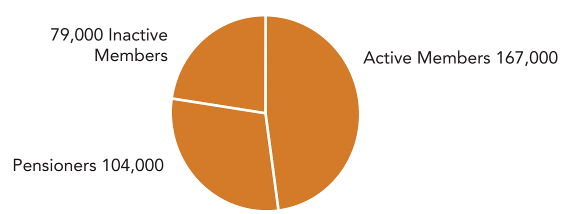
INVESTMENT INCOME
(for the year ended December 31) ($ billions)



271,000 members continue to rate our services highly: 9.0 out of 10

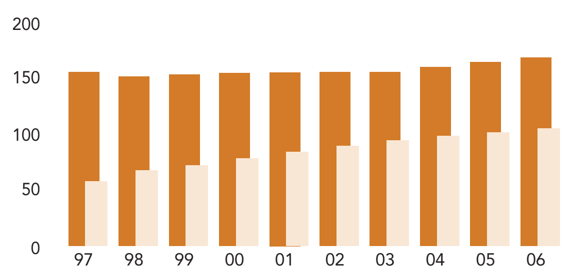
- 4,900 retirement pensions added to payroll
- $3.8 billion in benefits paid
- Accuracy rate improvements reduced related costs by 30%
- 130,000 transactions completed online by members

MEMBER PROFILE



ACTIVE MEMBERS AND PENSIONERS
(as at December 31) (thousands)

Active Members
Pensioners

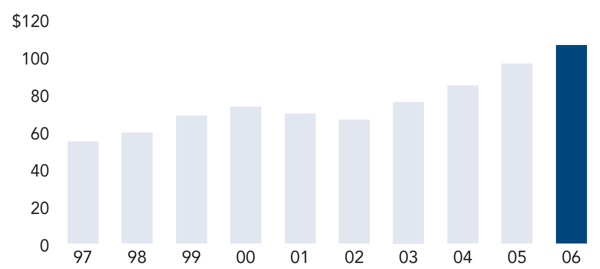


Profile

Ontario Teachers' Pension Plan ("Teachers'") was created for Ontario teachers in 1917. Until 1990, the plan was restricted to investing in non-marketable Government of Ontario debentures. In 1990, the Ontario government created the Ontario Teachers' Pension Plan Board as an independent corporation with the authority to invest all assets in financial markets, report on the plan's funding status, administer the pension plan, and pay members and their survivors the benefits promised.

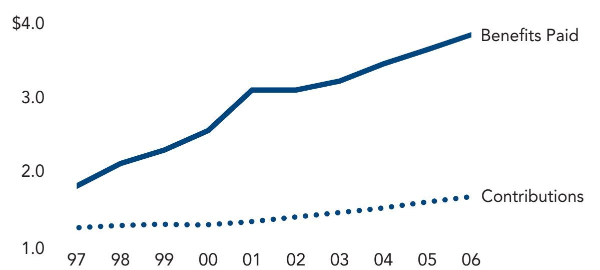
At the end of 2006, we managed $106.0 billion in net assets compared to $96.1 billion a year earlier. We administer the pension benefits of Ontario's 167,000 elementary and secondary school teachers and 104,000 retired teachers. Teachers' has one of the largest payrolls in Canada, paying out a total of $3.8 billion in benefits in 2006. We employ 614 people at our office in Toronto, Ontario, and another 1,550 work at the plan's real estate subsidiary, Cadillac Fairview.

NET ASSETS
(for the year ended December 31) ($ billions)



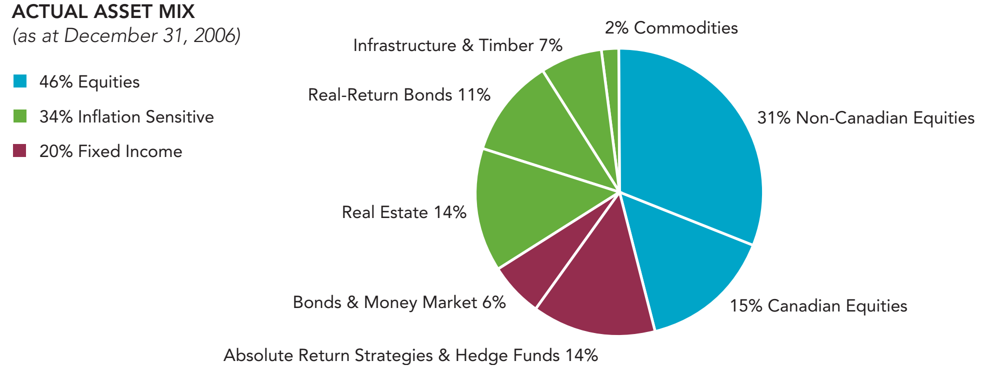
Net assets have grown to $106 billion from $19 billion in 1990.

CONTRIBUTIONS RECEIVED VS. PENSIONS PAID
(for the year ended December 31) ($ billions)



We paid $3.8 billion in pension benefits in 2006, $2.30 for every $1 we collected in contributions. Contribution increases took effect in January 2007.

ACTUAL ASSET MIX
(as at December 31, 2006)



We invest with a long-term focus appropriate for a pension plan, and have built a highly-diversified portfolio of investments.

Report from the Chair

"Good governance is good business."

Eileen Mercier | Chair

Teachers' has earned a reputation for high standards of performance among the world's leading pension plans and I am pleased to report this tradition continued during the past year.

On behalf of the board members, I am pleased to welcome you to the 2006 Ontario Teachers' Pension Plan annual report.

The Member Services team once again did an exceptional job of meeting the customer service expectations of plan members. For the first time the plan's assets under management surpassed the $100 billion mark. Investments had a total return of 13.2%, even with the plan's reduced risk exposure. The ability to keep adding value above market benchmarks is a testament to the judgment and expertise of the entire investment team.

The past year was one of considerable and significant activity and change for the board. In fact, this is my first year as Chair, although I have been a board member since 2005. I assumed this role on January 1, 2007 from Robert Korthals, who retired at the end of 2006 after 11 years of service on the board.

Governance has an important role to play in any organization. A board is not just a further level of management, but a body of oversight. We as board members must ask ourselves, "What value can we add to this organization, given the success that Teachers' has delivered over the years, including the superb service it offers its members and the unparalleled investment returns it has earned?"

As Teachers' governance body, we must practise the governance principles and precepts that we advocate to others, including those companies in which we invest. Board members support and oversee management; we confirm that their strategies and decisions are in the best interests of all pension beneficiaries. We help ensure management can attract the best available people to the organization, and retain them once they're here – the more senior the position, the more involved we are. We ensure that the organization's standards are respected, that its policies and procedures are appropriate and that the systems are in place to ensure compliance. Simply put, as CEO Claude Lamoureux likes to say, "Good governance is good business."

Good governance helped to make Teachers' the much respected and innovative organization it is. On behalf of my fellow board members, I can assure all stakeholders that we are committed to continuing that practice.

I would like to extend the board's appreciation to Carol Stephenson and Douglas Grant, who provided valued counsel to the board and retired at the end of 2006. Jill Denham, former CIBC Vice Chair, Retail Markets, joined us in 2006. In early 2007, we also welcomed Jean Turmel, President, Perseus Capital Inc.; Hugh Mackenzie, principal of economic consulting firm, Hugh Mackenzie and Associates; and Louis Martel, Vice-President, Product Development and Client Service, Greystone Managed Investments, Inc., as members of the board. We all look forward to an invigorating year with the Ontario Teachers' Pension Plan.

Above all, I would like to acknowledge gratefully the contribution of former chair, Robert Korthals, whose leadership, dry wit and encyclopedic knowledge of capital markets have been an inspiration to everyone who had the privilege of working with him during the past 11 years. We look forward to a continued association with him as the new Chair of the plan's real estate subsidiary, The Cadillac Fairview Corporation Limited.

Eileen Mercier
Chair

Report from the CEO

"We must balance a number of diverse and sometimes competing elements and interests, and do so fairly."

Claude Lamoureux | President and Chief Executive Officer

It was a year of major developments at Ontario Teachers' Pension Plan.

We hit the $100 billion mark in investments. We beat our consolidated benchmark by 3.8%. We reached an agreement to make one of our largest investments yet: $2.4 billion (U.S.) for four North American marine container terminals. We experienced our first strike. We successfully retooled our systems and procedures to accommodate the contribution rate increase the plan sponsors implemented to eliminate the funding shortfall (the first such increase since 1990).

Balance is something that demands a great deal of our attention at Teachers'. We must balance a number of diverse and sometimes competing elements and interests, and do so fairly. Our portfolio's assets must be balanced against the risks and rewards each type of asset represents; the contributions and benefits of all generations of working teachers must be balanced with each other; and we also must achieve balance between our costs and service levels. And above all, the plan's assets must balance with the cost of providing benefits over the long term. Never before in our history has achieving this equilibrium been more important, nor more challenging.

Why is this balance so important now? Because pension liabilities are getting larger, and there are fewer contributors for each retiree. This creates a risk for future generations of plan members if the fund's investments do not meet the plan's return requirements in the future. Coupled with the return of interest rates to the historical norm, the plan's maturity is part of the perfect storm affecting defined benefit pension plans around the world: increased costs for benefits, relatively fewer contributors, and reduced prospects for investment earnings.

The demographics of the plan are changing and are taken into account in the funding valuation. The outcome of this declining ratio is shown in the chart below; contributions comprise a much smaller percentage of the plan's assets today. Consequently, the same percentage loss on assets today has a significantly larger impact on the contribution rate today than it had in 1970. This analysis demonstrates why intergenerational balance is more difficult to achieve today than ever before.

DECLINING RATIO OF WORKING TO RETIRED MEMBERS

	1970	*1990*	*2006*
Active members per retiree	10:1	4:1	1.6:1
Expected years on pension	20	25	29
Increase in contribution rate for 10% loss on assets	0.56%	1.9%	4.2%

We expect pension costs to continue growing as the ratio continues to fall, making it less practical to cover future shortfalls with contribution increases and keep the plan affordable for young teachers.

There are three elements that must be balanced in a pension plan: benefits, investment returns and contributions. Because the assumptions are just that – assumptions – the actual experience for investment returns cannot be confirmed until decades into the future. If indeed the plan's future experience is worse than assumed, future generations will be faced with contributing more than current members or receiving lower benefits, or both.

Management remains committed to helping our board members support the plan's sponsors, the Ontario Teachers' Federation (OTF) and the Ontario government, as they continue to seek options to manage this ongoing issue.

The number of elements that must be balanced on an ongoing basis came into sharp focus in 2006, a year for filing the triennial funding status of the plan with the provincial regulator. Since the valuation showed a shortfall position, a remedy had to be determined before the valuation could be filed. As you will see in the Report on the Plan (starting on page 12), the board members ensured that prudent assumptions were used to produce a funding valuation on which the partners could base their benefit and contribution decisions.

With the next filing of the plan's valuation due by September 2008, we remain keenly focused on all of these elements. In the last filing, in June 2006, we were able to use the valuation date of January 1, 2005 and reflect the economic conditions as of that date. This was because of a special one-time feature of pension regulations made by the government in April 2006.

With real interest rates remaining low, the partners may have to devise and adopt another funding management policy before the January 1, 2008 filing can occur. The good news is that the plan sponsors are planning for this now.

Central to that planning is a survey of active members, which is scheduled to begin in April. In this survey, a sample of 2,500 members will be asked to indicate how much they would be willing to contribute to maintain their pension provisions at the current level. They also will be asked to rank their preferences among some changes that might then be made to the pension plan provisions if future pensions cannot be maintained at that contribution level. These changes might include, for example, one or more of the following options:

- reducing or eliminating cost-of-living increases on future service when the pension plan is underfunded, and restoring increases when the funding status improves;
- decreasing the level of pension paid for future service (future service being the period between a plan change and the member's retirement date); and
- increasing the 85 factor (years of service plus age required to qualify for an unreduced pension).

The survey is designed to give members the chance for input, which will help the OTF and the government in planning for the future. A report on the survey's results will be ready by the middle of 2007.

Member Services rises to a challenging year

We are committed to providing consistently high levels of service to our members in the most cost-effective manner possible. As we expand our service capabilities, we also continue to refine our administrative processes, invest in the training and development of our people and apply innovative technologies that offer more choice to plan members while keeping our overall service delivery costs stable.

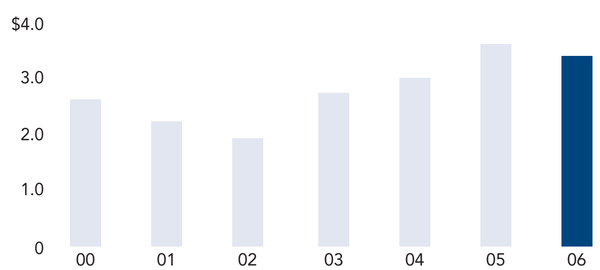
As you will see in the Member Services report on pages 42 to 49, service ratings remained high at 9.0 out of 10, and costs were reduced in 2006. Among the most important Member Services accomplishments:

- an online pension application has improved the retirement process for members;
- administration costs decreased to $32.5 million, down from $33.7 million in 2005; and
- a new automated data-entry system has significantly improved our ability to update demographic changes.

Investments beat benchmark for seventh consecutive year

On the investment side, our managers produced a one-year total return of 13.2% compared to a composite benchmark of 9.4%. This is the seventh consecutive year our managers have beaten the fund's composite benchmark. In 2006, we added $3.4 billion in value, bringing the value-added total to $14.6 billion over the past five years. The investment team has achieved these results by managing risk, diversifying the portfolio and taking advantage of opportunities to add value when they arise.

VALUE ADDED ABOVE BENCHMARKS
(for the year ended December 31) ($ billions)



"Value added" is the amount the fund earned in excess of market returns – $3.4 billion extra in 2006.

By the end of 2006, our in-house investment team comprised 180 professionals. Early in 2007, we opened an investment office in London, England, to allow us to be more responsive in taking advantage of private capital investment opportunities in Europe.

At year end, public and private equities was the largest asset class in our portfolio at 46% of total assets. Inflation-sensitive investments, including real estate, infrastructure and timber, and commodities, were second largest, at 34%. Fixed income assets such as government and corporate bonds were the third largest investment class at 20%. While all asset classes performed well in 2006, this performance may be difficult to repeat due to a number of factors that are explained in greater detail throughout this report. The bottom line, however, is that it will take considerable investment innovation to continue to achieve superior investment returns going forward.

A fair balance requires ongoing vigilance

Looking ahead, I am confident that the plan sponsors will continue to take the necessary steps to ensure that the pension benefits of Ontario's 271,000 active and retired members remain affordable. As plan administrator, we must ensure that the funding valuation is based on proper assumptions. Should there be a funding shortfall in 2008, it would require further changes by the sponsors to plan benefits, contribution rates or a combination of the two. We look forward to helping the OTF and the government fulfill their responsibilities in the best interests of all members.

We also look forward to another year of successful investing on our members' behalf, and of providing superior service to all of our active and retired members.

C Lamoureux

Claude Lamoureux
President and Chief Executive Officer

Management's Discussion and Analysis

Our objective is to present readers with a view of the pension plan through the eyes of management by interpreting the material trends and uncertainties affecting the results and financial condition of the plan.

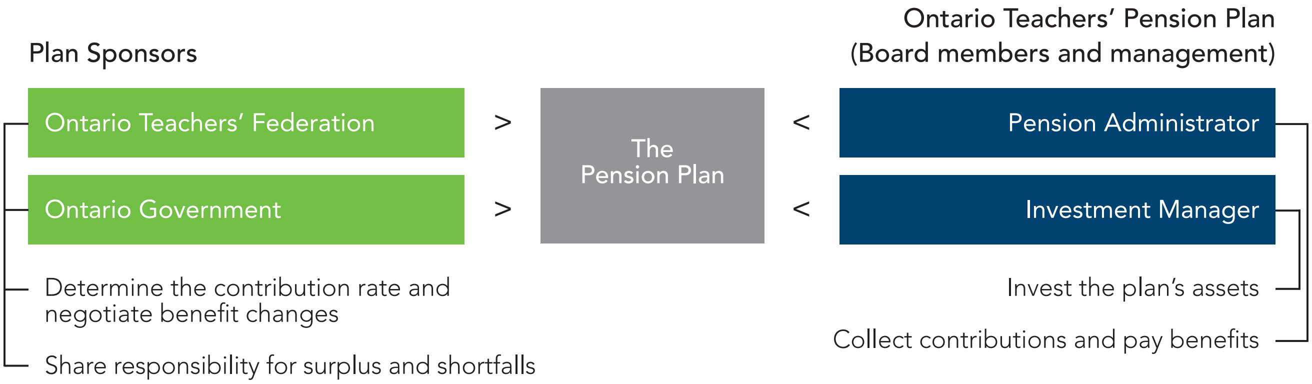
As well as historical information, this MD&A contains forward-looking statements regarding management's objectives, outlook and expectations. These statements involve risks and uncertainties and the plan's actual results will likely differ from those anticipated. Key elements of the plan's consolidated financial statements are explained and should be read in conjunction with these forward-looking statements.

Report on the Plan

There is pressure on organizations today to deliver results from within a framework of transparent and well-governed operations. Put simply, at Teachers' we believe good governance is good business and helps companies to deliver shareholder value. We also follow our own advice by following governance, internal control and enterprise risk management policies that reflect corporate best practices and high standards of stewardship.

Governance structure

The Ontario Teachers' Pension Plan is one of Canada's largest defined benefit pension plans. It is co-sponsored by the Ontario government through the Ministry of Education and the Ontario Teachers' Federation.



The plan sponsors are responsible for two key decisions: a) what pension benefits the plan will provide, and b) the contribution rate needed to ensure the plan's benefits are fully funded over the long term.

A six-member Partners' Committee, with equal representation from the Ontario government and the Ontario Teachers' Federation, reports to the plan sponsors. It is responsible for recommending changes to benefits and the contribution rate when the plan has a surplus or shortfall.

Plan administration and investment management performance are overseen by nine board members (four appointed by each sponsor and a chair chosen jointly). The board also advises the sponsors (through their Partners' Committee), about the plan's funding status, which is determined by an actuary hired by the board members.

Governance practices

We encourage high standards of corporate governance at the companies in which we invest, and we work hard to apply the same standards to our organization. That's why our governance practices are in line with current regulatory requirements and best practices for public companies, as illustrated on pages 50 to 52.

Transparent reporting

We strive to provide our stakeholders with transparent reporting. Teachers' executives meet with the co-sponsors periodically to brief them on key issues and report on our performance. In August of each year, the chair addresses the Ontario Teachers' Federation Board of Governors. In April of each year, we hold an annual meeting, which is open to all members of the plan and the co-sponsors. In 2007, it will take place in Toronto's Carlu auditorium on Friday, April 20 at 5:00 p.m. It is webcast for those members who cannot attend in person. We provide regular newsletters to over 271,000 members, updating them on key plan financial and non-financial information. Our website details our plan governance practices and facts about our investment strategy and major portfolios.

Teachers' board members receive in-depth monthly reports, quarterly summaries of the financial and funding positions of the plan, performance results, risk levels, client satisfaction ratings, key member services statistics, compliance, annual reviews of each department, internal controls and enterprise risk, and reports on all other significant events.

Review of internal controls

Teachers' disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management and board members on a reliable and timely basis and that all of our financial reporting is in compliance with Canadian generally accepted accounting principles (GAAP).

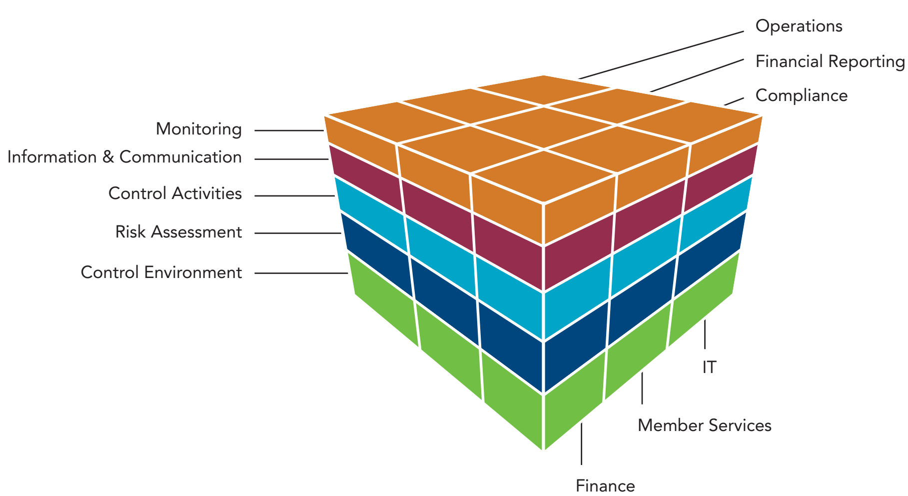
In 2005, the Finance Division conducted a comprehensive internal control review to document, assess and enhance the design of internal controls over financial reporting. It did so using the Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In 2006, this process was extended to other divisions at Teachers'.

The internal control framework developed by COSO broadly defines internal control as "a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance of achievement of objectives" in the following categories:

- effectiveness and efficiency of operations;
- reliability of financial reporting; and
- compliance with applicable laws and regulations.

Internal control over each of these three objectives consists of five interrelated components: control environment, risk assessment, control activities, information and communication, and monitoring. The project focused on three areas – Finance, Member Services and Information Technology (IT) – and started with relevant pilot projects in each division. One of our corporate objectives for fiscal 2007 is that our financial statements will be certified with respect to both the design and operational effectiveness of internal controls over financial reporting.

INTERNAL CONTROLS



Using the COSO Integrated Framework, we review five key factors annually to ensure operations, financial reporting and compliance standards are met across the organization.

Enterprise risk assessment

Management reports to the board members on enterprise risk assessment on an annual basis. The report is based on the Enterprise Risk Management – Integrated Framework issued by COSO. This framework expands on the COSO Internal Control – Integrated Framework that the plan uses as the basis of its internal controls over financial reporting. COSO's enterprise risk management framework is designed to provide a more robust and extensive focus on the broader subject of corporate risk. Under this framework, risk is characterized as an event or action that will adversely affect the organization's ability to achieve its business objectives.

At Teachers', this enterprise risk management model has been customized in keeping with COSO's directive that framework components be discussed in the context of how management runs the pension plan. All divisions at Teachers' – Investments, Member Services, Finance, IT, and Human Resources and Public Affairs – were part of an enterprise-wide risk assessment based on the COSO framework. All key objectives, including investment objectives, related to achieving the plan's vision of "Outstanding service today… Retirement security tomorrow" are considered in the assessment. Standard & Poor's, in its 2005 ratings report on the Ontrea Inc. debentures (Ontrea is one of the plan's real estate subsidiaries) commented that Teachers' "has a well-established comprehensive enterprise risk management framework in place that Standard & Poor's evaluates as excellent."

Risk identification is an important component of enterprise risk management. We employ a consistent methodology to assess risks, the likelihood of their occurrence, as well as their potential impact on the achievement of objectives.

During the past year, we identified more than 30 internal and external events that might adversely affect the achievement of the plan's objectives. Detailed risk assessment templates – which included a description of each event, its likelihood of occurrence, related risk mitigation activities and a residual risk assessment – were developed for each risk.

Legislation update

The Ontario Teachers' Pension Plan is obligated to comply with provincial legislation as well as some federal laws. Recent changes to Ontario's Pension Benefits Act (PBA) and Teachers' Pension Act (TPA) affected the pension plan in 2006.

Pension Benefits Act

1. In 2005, the PBA was amended to recognize same-sex marriages for spousal benefit purposes; accordingly, the plan was amended in 2006 to codify the plan's recognition of same-sex marriage for Ontario teachers.
2. Bill 18, which established jointly sponsored pension plans as a new class of plan, became effective in 2006; as a result, the funding rules at Teachers' will be consistent with all other jointly sponsored pension plans.

In addition, one of the changes to the PBA funding rules is recognition that periodic payments to finance pension shortfalls are not practical for jointly sponsored pension plans. The changes clarify that the periodic payments are now based on a percentage of pay instead of a flat dollar amount, which is more suitable for this plan.

Teachers' Pension Act

As a result of the changes in Bill 18 and PBA regulations, certain funding provisions of the TPA, the overriding legislation governing the Ontario Teachers' Pension Plan, have been repealed. The regulations now exclude indexing from the definition of solvency liabilities, which is consistent with funding rules for other Ontario pension plans.

Financial position of the plan

Use of estimates

Under Canadian GAAP, we are required to make estimates when we account for and report assets, liabilities, investment income and expenses, and to disclose contingent assets and liabilities in the plan's financial statements. We are also required to re-evaluate continually the estimates that we use. We have reviewed the development and selection of critical accounting estimates with the Audit & Actuarial Committee of the board.

Actuarial assumptions used in determining accrued pension benefits reflect management's best estimates of future economic and non-economic factors. The primary economic assumptions include discount rate, salary escalation rate and the inflation rate. The non-economic assumptions include mortality, withdrawal and retirement rates of the members of the plan. The plan's actual experience could differ from these estimates and the differences are recognized as experience gains or losses in future years.

The fair value of investments and investment-related liabilities is an estimate of the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Management and appraisers' best estimates are used in selecting the valuation assumptions to determine fair value of non-publicly traded investments.

Year-end financial position

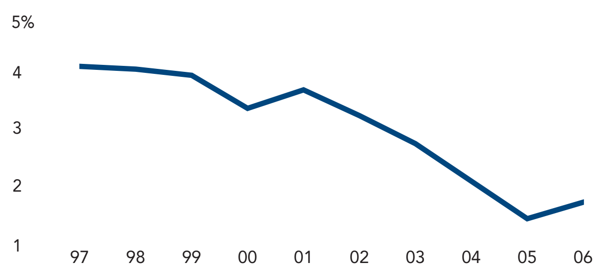
(as at December 31) ($ billions)	***2006***	*2005*
Net assets available for benefits		
Net investments	**$105.7**	$94.8
Contributions receivable from Province of Ontario	**1.6**	1.5
Other net assets (liabilities)	**(1.3)**	(0.2)
Net assets	**$106.0**	$96.1
Financial status		
Net assets	**$106.0**	$96.1
Smoothing adjustment	**(11.1)**	(7.4)
Actuarially adjusted net assets	**94.9**	88.7
Cost of future pensions	**(110.5)**	(110.5)
Deficit[1]	**$ 15.6**	$21.8

[1] The deficit, shown on a financial statement basis, is different from the funding shortfall (see pages 19 to 23).

Low interest rates continue to affect liabilities and assets

The valuation rate for financial statement purposes reflects the cost of debt for high-quality borrowers in Ontario as described on page 19 that compares the financial statement and funding valuations.

REAL INTEREST RATES



When real interest rates fall, the cost of future pensions increases dramatically.

When real interest rates fall, as they have over the last five years, pension liabilities increase. However, the plan's investment assets also benefited from the fall in real rates. For instance, a 1% reduction in real interest rates increased the value of our real-rate holdings by roughly 16%. For other assets, we can only estimate the impact, and it will vary by the time period chosen.

Net assets available for benefits

Net assets available for benefits increased $9.9 billion to $106.0 billion from $96.1 billion in 2005. This was due to strong investment returns. After the actuarial smoothing adjustment, net assets increased by $6.2 billion to $94.9 billion. Smoothing (includes non-fixed income assets only) defers returns when they are above or below a long-term assumption of Consumer Price Index (CPI) plus 6%. There are $11.1 billion in gains to be recognized over the next four years.

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(for the year ended December 31) ($ billions)	*2006*	*2005*
Income		
Investment income	$12.3	$14.1
Contributions	1.6	1.6
	13.9	15.7
Expenditures		
Benefits	3.8	3.6
Operating expenses	0.2	0.3
	4.0	3.9
Increase in net assets available for benefits	$ 9.9	$11.8

In 2006, $3.8 billion was paid in benefits and $1.6 billion was received in contributions. This compares with benefit payments of $3.6 billion and contributions of $1.6 billion in 2005. The pension payroll added 4,900 retirement pensions and 700 survivor pensions during the year, as well as a pension cost-of-living increase of 2.2% effective January 1, 2006. The cost-of-living adjustment effective January 1, 2007 was 2.3%.

The contribution rate remained unchanged in 2006 although a series of contribution rate increases totalling 3.1% of earnings, to be phased in over a three-year period starting January 1, 2007, were announced during the year. The Ontario government and other employers match these contributions.

Accrued pension benefits

The value of accrued pension benefits (benefits earned to date) remained unchanged at $110.5 billion for 2006. The actuarial assumptions used to determine the cost of future pension benefits for financial statement purposes include management's best estimates of projected teachers' salaries and demographic factors.

ACCRUED PENSION BENEFITS

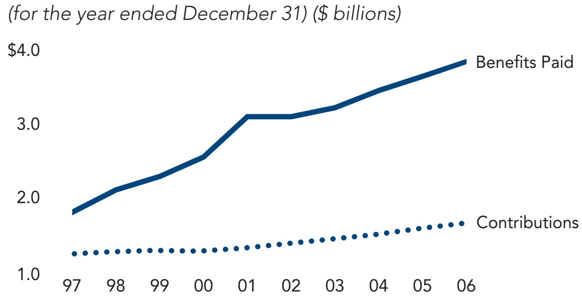
(for the year ended December 31) ($ billions)	*2006*	*2005*
Accrued pension benefits, beginning of year	$110.5	$ 96.7
Interest on accrued pension benefits	5.1	5.2
Benefits accrued	3.4	2.8
Benefits paid	(3.8)	(3.6)
	115.2	101.1
Changes in actuarial assumptions	(5.1)	9.5
Experience losses/(gains)	0.4	(0.1)
Accrued pension benefits, end of year	$110.5	$110.5

Ratio of teachers to pensioners continues to decrease

The ratio of actively working teachers who contribute to the plan to pensioners continues to decrease. With annual contributions equalling only 1.5% of the plan's net assets, overcoming future funding shortfalls by increasing contributions becomes less realistic.

CONTRIBUTIONS RECEIVED VS. PENSIONS PAID

(for the year ended December 31) ($ billions)



The plan has 104,000 pensioners. The current value of their pensions now represents 58% of the plan's liabilities, when valued on a financial statement basis.

Understanding the funding valuation

Financial statement valuation compared to the funding valuation

The pension plan's deficit shown in the financial statements indicates the financial health of the pension plan, but it includes only contributions and benefits earned by teachers to date. It does not include future contributions and the expected cost of pensions earned in the future by current plan members. That information is included in the actuarial valuation for funding purposes, which is the valuation used by the plan's sponsors to assess the need for benefit or contribution rate changes.

The discount rate assumption used in the financial statement valuation differs from the funding rate valuation assumptions as it reflects the cost of borrowing based on long Canada bonds plus 50 basis points, which is the proxy for the cost of credit for organizations with highly rated debt. The funding valuation assumptions are discussed throughout this section.

Funding valuation

The funding valuation is prepared by an independent actuary to determine the long-term financial health of the plan at current contribution rates.

The Teachers' pension plan is a defined benefit plan with full inflation protection. It promises pensions, not according to the amount of money contributed, but based on a pre-set formula. The plan pays 2% per year of service times the average salary of the member's best five years, partially integrated with the Canada Pension Plan.

In preparing the funding valuation, the actuary must project the plan's benefit costs and compare them to the current plan assets, then add in future contributions from teachers and the government. The actuary looks ahead over the next 80 years, the period required to fully pay out the costs of future benefits promised to all current plan members.

The most recent plan valuation was filed with the Financial Services Commission of Ontario in June 2006, based on the plan's January 1, 2005 valuation. This delayed filing was made possible by changes in the Ontario Pension Benefits Act which took effect in April 2006. Those changes offered the flexibility to use the January 1, 2005 valuation date, and permitted the plan to take advantage of other new provisions under the Pension Benefits Act and the Teachers' Pensions Act that affect the way the plan is funded. It also provided the opportunity to reconsider the assumptions to be used in the valuation.

The funding shortfall identified in this valuation was $6.1 billion, substantially less than the preliminary estimated shortfall as of January 1, 2006 of $32 billion identified in last year's annual report. This difference is attributable to:

- changing the valuation date from 2006 to 2005 ($11.8 billion mostly as a result of the change in the real rate of return assumption from 2.5% to 3.1%);
- changing salary projections and retirement rates to conform to recent collective agreements ($2.4 billion); and
- increasing the real rate of return used for the valuation by 0.625% to 3.725% ($11.7 billion). (See chart "2005 Filed Funding Assumptions," page 21.)

Assumptions are the tools used to allocate the future cost of promised benefits between generations. If they are too conservative, current members pay more than they should; if they are too liberal, future generations are left to pay more. The ideal is to find the balance that equalizes the treatment of all generations.

The board members and the actuary agreed to the 3.725% real rate of return assumption and the plan sponsors – the OTF and the Ontario government – agreed to the following:

- an increase in contributions from members and the government to eliminate the $6 billion shortfall that would still remain after these assumptions were revised;
- an agreement that contributions would not exceed 15% of base earnings above the Canada Pension Plan limit. If a shortfall were to remain after contribution rates are increased to 15%, reductions in benefits would be necessary;
- a commitment from the plan sponsors to undertake a survey of members to gather member preferences, should a future shortfall exist, for a) further contribution rate increases or b) future benefit reductions. There was further commitment from the plan sponsors that the findings of the survey will be taken into account in the decision-making process as to whether contribution rates are increased or benefits for future retirees are decreased or a combination of the two is adopted, following the next valuation in 2008. A final survey report is expected by the end of the second quarter of 2007;
- a stipulation that benefits cannot be improved and contribution rates cannot be decreased unless pension plan assets exceed liabilities (evaluated at Government of Canada Real-Return Bond yield plus 0.5%) by 10%, which is up from the previous 7.5% requirement. While prudent planning, it will be many years before this change has any impact; and
- a review by a panel of industry experts regarding assumptions for plan funding evaluations, which is currently under way.

The board is reassured by these commitments because they allow the funding risk to be balanced between younger and older teachers moving forward. With pensioners representing 43% of the plan's liabilities on a funding basis, and younger members, i.e., those with up to 10 years of service, representing 51% of active members, we consider this to be a step toward achieving intergenerational balance. We look forward to hearing from members as to whether they feel increased contribution rates or reduced benefits or a combination of the two would be their preference, should the need arise in the future.

Because the plan sponsors opted for a valuation date retroactive to January 1, 2005, and since valuations are required a minimum of every three years, the next valuation date is January 1, 2008 – less than a year away. The valuation must be filed by September 30, 2008. In view of the risk mechanism described above, there will be considerable deliberation with plan sponsors in advance of that date.

Historical rate of return assumptions

Since January 1, 2003, the funding valuation has used a rate of return assumption that is 0.5% higher than the valuation for financial reporting purposes, based on the Funding Management Policy set by the sponsors in the Partners' Agreement. The following tables illustrate the funding valuation assumptions of the past eight years, including the filed rates, the most recent of which was filed in June 2006 and is illustrated on page 22.

VALUATION ASSUMPTION HISTORY

(as at January 1) (percent)	*2007*	*2006*	*2005*[1]	*2004*	*2003*[2]	*2002*[2]	*2001*[2]	*2000*[2]
Rate of return	5.20	5.10	5.85	6.20	6.40	6.30	6.25	6.50
Inflation rate	2.40	2.60	2.75	2.35	2.05	1.90	2.20	2.25
Real rate of return	2.80	2.50	3.10	3.85	4.35	4.40	4.05	4.25

2005 FILED FUNDING ASSUMPTIONS

(percent)	*2005*[2]
Rate of return	6.475
Inflation rate	2.750
Real rate of return	3.725

[1] Preliminary assumption.

[2] Valuation filed with the pension regulator.

Real rate of return assumptions mirror the significant downward trend of real interest rates experienced in recent years (see chart on page 17). The 3.725% rate used in the 2005 filing assumes a higher risk premium than that of recent years.

These valuation assumptions change over time. While actual experience mirrors some assumptions closely, annual stock market returns typically fluctuate much more significantly compared to the assumption and are smoothed over five years.

Low real interest rates are one of the primary causes of the funding shortfall the pension plan has experienced. Over the last three years, although investment income of the pension fund reached $37.2 billion, the plan's liabilities on a funding basis have increased by an estimated $38.7 billion.

Small changes in real rates can cause large fluctuations in the expected cost of benefits. A 1% increase in the real rate assumption decreases liabilities (that is, the cost of future pensions) by 20% and vice versa.

ASSETS REQUIRED FOR A TYPICAL $40,000 PENSION

Real interest rate	*Value of pension*[1]
1.5%	$885,000
2.0%	$825,000
3.0%	$720,000
4.0%	$635,000
5.0%	$570,000

[1] For retirement at age 58.

Real interest rates affect how much money the plan needs to pay each pension.

The following tables illustrate the funding valuations of the past eight years, including the filed valuations. The second table shows the result of the final 2005 valuation.

FUNDING VALUATION HISTORY*

(as at January 1)[1] ($ billions)	***2007***	*2006*	*2005[3]*	*2004*	*2003[2]*	*2002[2]*	*2001[2]*	*2000[2]*
Net assets	**$106.0**	$ 96.1	$ 84.3	$75.7	$66.2	$69.5	$73.1	$68.3
Smoothing adjustment	**(11.1)**	(7.4)	(1.5)	3.5	9.7	3.0	(4.3)	(7.3)
Value of assets	**94.9**	88.7	82.8	79.2	75.9	72.5	68.8	61.0
Future contributions	**20.1**	18.4	17.0	15.7	14.7	13.7	14.4	13.4
Scheduled contribution increases								
Current members	**5.4**[4]							
Future members	**2.0**[4]							
Actuarial assets	**122.4**	107.1	99.8	94.9	90.6	86.2	83.2	74.4
Future benefits[5]	**(139.8)**	(139.0)	(119.2)	(101.1)	(89.1)	(84.3)	(76.4)	(69.8)
Surplus/(shortfall)	**$ (17.4)**	$(31.9)	$(19.4)	$ (6.2)	$ 1.5	$ 1.9	$ 6.8	$ 4.6

*Using assumptions reported in the "Valuation Assumption History" table, page 21.

[1] Valuation dates determined by the OTF and the Ontario government (plan sponsors).

[2] Valuation filed with the pension regulator.

[3] Preliminary valuation. See final 2005 valuation, using 3.725% real rate of return, below.

[4] To 2020.

[5] Present value of future benefits for current members.

FINAL 2005 FUNDING VALUATION (FILED JUNE 30, 2006)**

(as at January 1) ($ billions)	***2005***
Net assets	$84.3
Smoothing adjustment	(1.5)
Value of assets	82.8
Future contributions	
Current members	16.7
Scheduled contribution increases	
Current members	4.3
Future members	1.9
Actuarial Assets	105.7
Future benefits	
Current members	(105.6)
Surplus	0.1

**Using assumptions reported in the "2005 Filed Funding Assumptions" table, page 21.

Using the assumed rate of return and the future contributions for all current plan members, as well as the present value of the increase in contributions for future members over the next 15 years, the actuary determines whether the plan's assets today are sufficient to pay pensions promised to current members in the future. As shown in the chart on page 22, the cost of future benefits is estimated at $105.6 billion, while assets (actuarial assets) are estimated at $105.7 billion. This leaves the plan in a balanced position as of January 1, 2005.

The chart below highlights future contributions and benefits for future service based on current actuarial assumptions, which are included in the valuation.

FUNDING GAP BETWEEN FUTURE CONTRIBUTIONS AND BENEFITS

(as at January 1)[1] ($ billions)	***2007[2]***	*2006[2]*
Future contributions (existing members)	**$ 25.5[3]**	$ 18.4
Benefits for future service (existing members)	**(37.6)**	(37.1)
Funding gap for future service	**$(12.1)**	$(18.7)

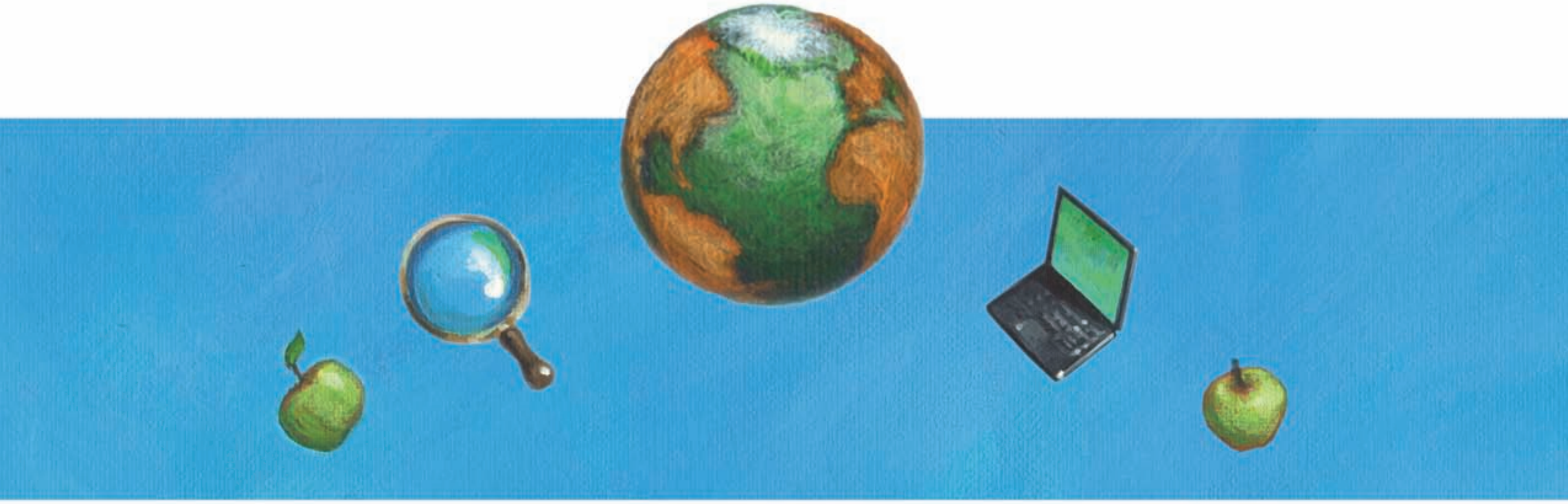
[1] Valuation dates determined by the OTF and the Ontario government (plan sponsors).

[2] Estimated preliminary valuation only; not filed with the pension regulator.

[3] Includes scheduled contribution increases for existing members.

David McGraw | Vice-President and Chief Financial Officer

Investments



Throughout 2006, interest rates remained very low compared to the levels of the past 35 years, and the opportunity to find value was limited, given that most assets seem to be aggressively priced. A high degree of liquidity in the world's capital markets continued to drive most asset values higher and increase the value of the plan's investment portfolio. Once again, the asset-mix strategies and individual investment decisions of the fund's asset managers enabled us to achieve a higher return than would have been possible by pursuing a passive management strategy.

Market Overview

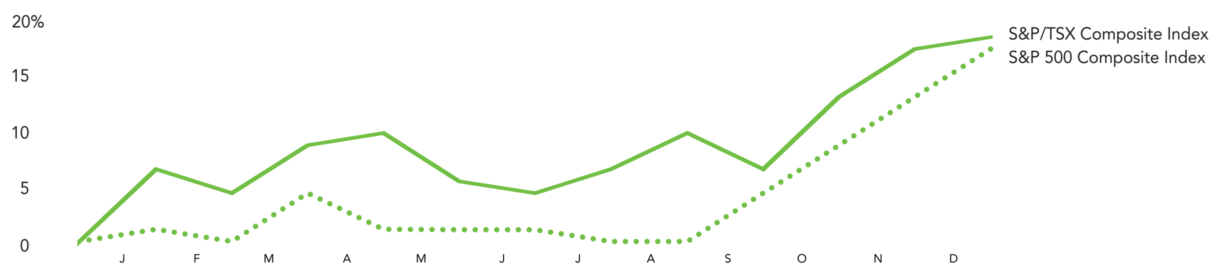
The investment environment

Financial market performance in 2006

Canada's stock market remained strong in 2006, posting a 17.3% return compared to a 24.1% gain the year before. Continued strength in commodity prices and generally strong earnings supported this forward momentum. In the U.S., the S&P 500 showed strength in the second half of 2006 ending the year with a gain of 15.7% in Canadian dollars, after eking out a 1.6% return in 2005. Over the past five years, the S&P 500's Canadian dollar return was -0.2%, compared to a 6.2% U.S. dollar return.

Low and stable inflation in both Canada and the rest of the world continued to create modest returns in fixed income markets. The Canadian bond market, as measured by the Scotia McLeod Canadian Universe Index, returned 3.6%. Global long-term interest rates were further constrained by the persistence of a large excess of savings globally, as well as strong demand from pension funds, which needed assets to better match their long-term liabilities.

CANADIAN AND U.S. MARKET PERFORMANCE
(percent)



The S&P/TSX Composite and S&P 500 Composite indexes provided strong returns in 2006, ending the year at 17.3% and 15.7% (in Canadian dollars) respectively.

Equities and bonds

Global stock markets ended 2006 fairly valued relative to their trailing earnings. Price to earnings (P/E) ratios were near, or below, their 1996 level just prior to the inflation of the stock market bubble. Looking forward, we believe future stock returns will result from increases in earnings and only modest P/E expansion. In 2006, corporate earnings were better than expected. However, we are concerned about earnings in the current year, given the squeeze on profit margins from a tight labour market and the potential for additional interest rate increases by the U.S. Federal Reserve.

Since the late 1990s, global equity markets have become increasingly correlated and have yielded smaller risk premiums over bonds. During the past year, however, there has been a small return spread between non-North American markets and the U.S. S&P 500 – reflecting the perceived headwinds of higher energy costs for U.S. companies, and fear of the downside from the trend of tightening U.S. interest rates. In the year ahead, rising U.S. interest rates may keep stock valuation ratios stable at best, and may push U.S. P/E ratios lower.

In Canada, both the economy and the stock market have benefited from the high price of oil and other resource commodities. While the current bull market in commodities began in 2002, the current lofty prices for commodities has good support from rapidly industrializing economies in Asia and other emerging markets. Coupled with the need for industrialized countries to renew their own long-neglected infrastructure, demand for Canadian resources should remain strong. Offsetting this support is the potential for rate tightening by central banks, as cyclical inflation pressure was more buoyant at the end of 2006 than was expected and this may persist through 2007.

As for the outlook in fixed income markets, central banks around the world have run fairly easy monetary policies during the past 10 years. As a result, the world experienced a steady decline in interest rates to the point where the U.S. Federal Reserve Funds rate (Fed Funds rate) fell to a 35-year low of 1% in 2003 and 2004. Since then, the Federal Reserve has been tightening monetary policy with the Fed Funds rate reaching 5.25% by the end of 2006. Somewhat surprisingly, the yield curve has remained relatively flat, with the yield on U.S. 10-year bonds rising only to 4.7% during the same period. In fact, the yield curve inverted in anticipation of a central bank easing, when a correction in the U.S. housing market was larger and more intense than anticipated. We expect yields to move moderately higher. Despite our expectations for mild U.S. inflation during the next five years, cyclical inflation pressures are likely to persist and preoccupy central bankers in most industrialized countries.

In Canada, 10-year bond yields were about 60 basis points lower than U.S. yields at the end of 2006. However, we expect this spread to narrow somewhat through 2007 as Canadian and U.S. short-term interest rate levels converge.

Europe is now emerging from a long period of structural adjustment, and with global cyclical inflation pressures affecting Europe, European bond yields also are likely to move closer to U.S. levels, as the European Central Bank also tightens its interest rates.

Despite cyclical inflation pressures, the structural inflation trend remains low and relatively stable. Central banks throughout industrialized countries have maintained inflation at a much lower level in the past 15 years than prevailed through the 1970s and 1980s. Inflation targeting has gained widespread credibility and acceptance. Because investors are conditioned to expect that monetary policy everywhere will protect them against higher inflation and that inflation volatility will be low, they no longer demand additional inflation premiums in any financial asset. The powerful bull markets of the 1980s and 1990s are unlikely to be repeated in either fixed income or equities.

Looking forward to the next 10 years, we are confident that major central banks will remain faithful to their inflation targets of 2.0%, plus or minus one percentage point, and that actual inflation will follow suit. The Bank of Canada's 2.0% target for inflation is close to that of other central banks. The consensus long-term inflation forecast across the major industrial countries is roughly 2.0%. In an environment of low and stable inflation, we should expect low nominal equity and bond returns over the long term because their valuation cannot rise further without an additional decline in inflation.

As inflation is a key component of estimating the plan's liabilities, the real returns of stocks versus bonds must be compared to determine the impact on the plan's liabilities. The chart on the next page shows Canadian equities and bond real returns (i.e., after inflation) for the past five decades.

AVERAGE RATE OF RETURN AFTER INFLATION *(percent)*	*1-year*	*5-year*	*10-year*	*30-year*	***50-year***
Canadian equities	15.4%	10.5	7.8	7.6	**5.6**
Canadian long bond	1.5%	6.8	7.1	6.0	**3.5**
Canadian inflation rate	1.6%	2.3	2.0	4.2	**4.1**

Over the last 50 years, Canadian equities after inflation have outperformed bonds by an average of 2.1%. This supports our view that real returns for stocks will outperform real returns for bonds by 2.0% to 2.5% in the future, which is less than recent experience.

Despite the modest long-term return outlook, we strive to add value through the pursuit of active management strategies. We continue to search for value where we believe we can add returns in excess of the benchmark.

The regulatory environment

On October 31, 2006, Canada's Minister of Finance proposed a new tax plan described as being designed to "restore balance and fairness to the federal tax system by creating a level playing field between income trusts and corporations."

The proposed plan includes:

- a tax on distributions from publicly traded income trusts and limited partnerships;
- a reduction in the general corporate income tax rate of one-half percentage point as of January 1, 2011;
- an increase of $1,000 in the age credit amount from $4,066 to $5,066 effective January 1, 2006 that will benefit low and middle-income people over the age of 65; and
- a change in tax policy that permits income splitting between pensioners and their spouses beginning in 2007.

For income trusts that were to begin trading after October 31, 2006, these measures applied beginning with their 2007 taxation year. For existing income trusts and limited partnerships the government proposed a transition period which means they will not be subject to the new measures until the 2011 taxation year.

Teachers' has advocated for a taxation policy on income trusts that does not discriminate against pension funds, and we are pleased to see that this is the case with these changes. That said, however, given that pension plans and RRSP accounts are probably the largest single investor class in the income trust sector, we can expect to be the hardest hit by this tax on distributions. We continue to maintain that income trust distributions are indeed taxed, but the tax is paid on a deferred basis, a fact that does not appear to have been taken into consideration in the October 2006 announcement. As such, double taxation will occur. We believe the double taxation of Canadians is unfair and, in the case of registered pension plans, hinders our efforts to balance the plan's assets and liabilities. We support the proposal put forward by Professor Jack Mintz, which would provide all Canadians with a full tax credit for taxes collected from a Canadian corporation on dividends paid, and a full tax credit for taxes collected from a Canadian trust on distributions paid. As RBC Capital Markets reported to the 2007 Standing Committee on Finance, for Canadian registered pension plans, this would mean a full tax refund, and for some low tax rate Canadians it may also mean a tax refund.

The challenge will be to find the investment vehicles that will replace the income and cash flow that income trusts have represented to us, but we are confident that our investment team will find them. The four-year implementation period for this new policy will enable us to make any necessary adjustments to our portfolio gradually.

Goals

Our overall investment goal for the plan is to beat the fund's composite benchmark and maximize investment returns within acceptable risk parameters. Our ability to outperform the benchmark helps to offset other challenges presented by a maturing plan membership and helps to minimize contribution rate volatility and other plan changes.

STRATEGIES FOR MEETING OUR INVESTMENT GOALS:

To select the asset mix most likely to meet the plan's long-term obligations	To outperform the markets in which we invest	To minimize the probability of having to increase contribution rates

Selecting the best long-term asset mix to pay pensions

The cornerstone for the management of the pension fund is choosing a policy asset mix that is most likely to meet the long-term return requirements of the pension plan with a moderate level of risk. The board members approve the policy asset mix and review it annually, making modifications periodically in light of changing market circumstances.

At the end of 2004, the board members approved a change to our policy asset mix, reducing the target weighting of public and private equity to 45% of assets from 50%, while increasing the target weighting in fixed income to 22% of assets from 20% and inflation-sensitive investments to 33% from 30%. Equities remain the single largest component of investment assets.

ASSET-MIX POLICY

(as of December 31, 2006) (percent)	*Asset Mix*	*Management's Discretion*
Equities	45	40–50
Inflation-sensitive investments	33	28–38
Fixed income	22	17–27

We have lowered the fund's overall exposure to equities over the past 10 years, reflecting the volatility of stocks and the fund's lower risk tolerance due to ongoing funding issues. Asset mix is implemented by establishing market index exposure to these asset classes.

The board members give management discretion to adjust each weighting by up to 5% up or down to take advantage of investment opportunities that may arise.

Why asset mix is critical

We look at the size of the plan's liabilities and how long they will be paid, and try to select the asset mix with acceptable levels of risk most likely to be able to pay teachers' pensions over the long term.

Our asset-liability model incorporates long-term historical data and current economic outlooks along with decisions made by the plan sponsors on contribution and benefits levels. We use it to assess the long-term risk and return trade-offs of allocating different proportions of assets to real-return and nominal bonds, domestic and international equities, real estate, commodities, currencies and infrastructure.

We also strive to match assets and liabilities to reduce the negative impact of inflation by finding solid investments with a high positive correlation to inflationary trends. The plan's pension promise essentially provides 100% inflation protection. Because this accounts for about 25% of the total cost of providing pensions, it is very important that investment returns keep up with inflation.

Because of this annual adjustment for inflation, the plan's ideal pension asset has a risk-free real investment return. Real returns are measured after adjusting for inflation. For teachers starting today, contributions of 8% of their salary will finance pensions if they can be invested at a guaranteed rate of return of the Consumer Price Index (CPI) plus 5.25% from day of deposit until the last pension payment is made to this group of teachers or their survivors, as long as 80 years from now. The additional 3.1% that members are asked to contribute goes toward funding the plan's shortfall as of January 1, 2005 as permitted by the PBA Jointly Sponsored Pension Plan rule, which became effective in 2006.

One asset that guarantees an inflation-protected return for decades into the future is a Government of Canada 30-year Real-Return Bond (RRB). At year end, this bond yielded CPI plus 1.7%, down from CPI plus 2.8% in 2002, the last year in which a valuation was filed before January 2005. This is far short of what is needed to match the growth of future benefits at current contribution rates. At that CPI plus 1.7% rate, a combined contribution rate of more than 35% would be needed to fund pensions, a rate that is generally unaffordable either for members or the government, i.e., tax payers. The fact is that the longer that real long-term interest rates stay low, the more difficult it is for investment returns to match the growth in the pension plan's liabilities.

As the ratio of active to retired members has decreased, the asset mix of the portfolio has been adjusted to reflect a lower tolerance for risk. Based on our capital market assumptions, the current asset mix is not capable of generating the real rate of return we need to keep pace with the plan's liabilities (a 5.25% real rate of return is needed to support the liabilities represented by new teachers joining the plan, and a real rate of return of 3.725% is needed to support the liabilities represented by current plan members, assuming the plan is fully funded).

We could generate higher returns by significantly increasing the proportion of equity investments in the plan and decreasing the proportion of fixed income investments. But that is not a risk we are prepared to recommend given the demographics of the plan members. Equity markets offer higher potential returns but they also hold the prospect of significant losses in any given period. With a rising proportion of retired to active teachers and contributions being outpaced by benefit payments, it is simply not prudent to increase the plan's exposure to the uncertainty of equity markets. As such, we have been removing risk from the plan over the past 10 years. This has resulted in an asset-mix strategy that, while appropriate for the risk profile of the plan, is unlikely to achieve the kind of returns the plan needs to meet the future cost of benefits. That's why we must continually seek new and innovative ways to create value.

NET INVESTMENTS BY ASSET CLASS

(for the year ended December 31) ($ billions)	*2006*	*2005*
Equities	$ 48.8	$45.1
Canadian	16.4	19.3
Non-Canadian	32.4	25.8
Inflation-sensitive investments	35.4	30.4
Real estate	14.5	12.5
Real-return bonds	11.8	10.5
Infrastructure and timber	6.8	4.8
Commodities	2.3	2.6
Fixed income	21.5	19.3
Absolute return strategies and hedge funds	15.3	9.5
Bonds and money market	6.2	9.8
Net investments[1]	$105.7	$94.8

[1] Net investments plus contributions and other net assets (liabilities) equal net assets of $106.0 billion at year-end 2006.

Outperforming markets

Once the asset-mix policy is in place, we attempt to maximize returns and add value greater than the performance of the markets in which we invest. First, we use a total fund management style that encourages the sharing of information and movement of capital among asset classes and portfolios to earn the best risk-adjusted returns available. Portfolio managers are rewarded for optimizing the return on total assets, not just on their own portfolios.

Through the Investment Planning Committee, which meets regularly and is led by the Executive Vice-President of Investments, we endeavour to add value to the asset-mix policy. We do this by over- or underweighting asset classes and foreign currency positions during the year based on fundamental and quantitative analysis. At the same time, we ensure our investment risk at both the overall fund and individual portfolio levels is maintained within the allowable ranges set by the board.

Our objective for the overall fund is to outperform the composite benchmark. To achieve this, we consistently search for value in our investments – buying securities, derivatives, or other assets that we believe have been undervalued in the longer term by other market participants.

Declining interest rates and our modest expectations for equities and bond markets are making it more difficult to meet the pension plan's long-term funding requirements. In response to this, we continue to look for new ways to maximize returns while decreasing the fund's risk exposure, including absolute return strategies, active management and corporate governance activism.

Choosing an appropriate risk level

Risk plays an integral role in our investing activities. We need to take on risk to generate investment income, but we also need to protect the fund from undue losses. Recognizing the importance of risk, we spend considerable resources on ensuring that the types and levels of risk we take are appropriate.

While we strive to add value over benchmarks, we are also concerned about trying to minimize the fund's potential for loss. This is critical when there are economic downturns and the performance benchmarks are negative as they were in 2001 and 2002. In recent years, we have added investment strategies that will help us achieve better returns in future economic downturns; however, it may mean we will fall a little behind the benchmark in times of strong growth. It is a trade-off we believe is in the best interests of plan members.

Absolute return strategies

Absolute return strategies range from long-short equities programs to fixed income arbitrage strategies. The aim is to achieve "absolute returns" – that is, returns with a low or negative correlation to public equity and fixed income markets. We use these strategies to generate positive investment returns regardless of upward or downward movement in the equity markets. Long-short strategies are primarily concentrated in the equity and fixed-income markets since they are largely self-financing with the sale of securities on the short side financing the purchase on the long side.

Active management

We actively manage approximately half of the fund's investments. Active management means selecting securities we believe are undervalued, as well as under- or overweighting various asset classes relative to our asset-mix policy, as opposed to passive management, or simply "buying the index." Our active management goal is to outperform benchmarks and add value.

Corporate governance activities

Teachers' plays an activist role in the corporate governance of the companies in which we invest. Why? Simply because we expect these companies to do their best to create long-term shareholder value; we maintain that if corporate governance is compromised, shareholder value is compromised.

During the past year, we continued to tackle a number of key governance issues including:

- change-of-control provisions that allow equity compensation to vest automatically upon a change in the ownership structure. For example, we do not believe that changing from a corporate form of ownership to an income trust constitutes a change of control or calls for additional compensation;
- allowing option holders to vote. We believe that only shareholders, who have money at risk, should have the right to vote;
- rolling maximum stock option plans, i.e., those that do not fix the maximum number of shares that may be granted as equity compensation. We believe that the number of shares that can be granted as options or other equity compensation should be fixed; and
- in May 2006, we conducted a new study that concluded CEO compensation in Canada is not correlated to total stock returns. The research study comprised a sample of 65 TSX-listed companies. The companies in the sample met two major criteria: 1) they had share price data dating back to January 1, 1995 so that executive stock option grants could be valued properly and 2) they were among the largest 100 companies as of January 1, 1995 and still are active today.

  The comparison itself was based on company results from 2001 to 2003, inclusive, and compensation for the years 2002 to 2004, inclusive, to allow for the backward-looking element in CEO pay. The study results, including an explanation of data sources and statistical methodology, and a list of the companies, are available on our website.

  While a few individual companies made good progress, in general there is no empirical evidence that compensation has become better linked to performance. We are encouraging boards to re-examine their executive compensation structures to find ways to improve the link between pay and performance.

To encourage improved corporate practices in these areas, each year we publish our recommended corporate governance policies and proxy-voting guidelines. We also post our proxy votes in advance in the Governance section of our website and communicate regularly with boards of directors to advance our members' interests and those of other investors. We are active in the Canadian Coalition for Good Governance, the Global Institutional Governance Network, the International Corporate Governance Network, the U.S. Council of Institutional Investors and the Institute of Corporate Directors.

Managing for Value

There are many issues and variables our investment team must consider and balance in establishing our priorities and executing our investment strategies. Guiding our efforts at all times, of course, is our duty to manage the investment fund in the best interests of present and future plan members and their survivors.

THE FOLLOWING FOUR KEY PERFORMANCE DRIVERS ENABLE MANAGEMENT TO IMPLEMENT THE STRATEGIES:

Expertise	Culture	Responsible board	Risk management

Investment expertise is key

The most important factor in our success is our ability to attract and retain innovative and effective investment professionals.

Since 2001, and despite growing pressures in the labour market, our average annual turnover level has been 8% for investment and investment support professionals. Competitive compensation linked to asset class and total fund performance, and expanded training and development programs help us develop and retain high-calibre employees. The opportunity to be mentored and managed by leading investment professionals remains a key attraction for new recruits looking to develop their careers.

As skill sets for our positions have become increasingly specialized, we find that the investment talent we are seeking is often not readily available in the market. We continue to expand our student recruitment programs – both through on-campus recruiting and co-op opportunities – to grow and develop our own talent internally. We have developed valuable relationships with universities across Canada to attract exceptional graduates matching our hiring needs.

Compensation is a critical element in retaining talent

Each year, the board members review compensation policy for investment professionals, including performance-based incentive components, based on independent research and recommendations provided by Towers Perrin, a compensation consulting firm. The independent reviews are undertaken to ensure that our incentive plans remain competitive within the investment industry and that we manage the risk of losing our top performers, as there is always competition for the best.

Investment incentive programs measure four-year performance results to ensure investment managers are motivated and compensated in a manner that benefits our long-term goals and strategies. Under the total investment incentive compensation plans, 2.4% of the extra value created in 2006 was paid out in annual bonuses and long-term incentives to the investment managers who created that value.

Cultivating a culture of innovation and creativity

As one of Canada's largest pension funds, we have the resources and opportunities for our managers to set high standards in investment management.

Historically we have been early adopters of alternative investment strategies, in the development of risk management techniques and in the use of technology to aid in investment decision-making.

Commitment to continuous learning

Fundamental to our culture is a commitment to continuous learning. We offer extensive access to training and career development opportunities. Our in-house professional development program, Teachers' EDGE, is tailor-made to meet the needs of our investment teams, linking learning to real business goals and strategies.

We also sponsored candidates taking university level courses and supported 36 employees enrolled in the Chartered Financial Analyst (CFA) program in 2006. As of December 31, 2006, we had a total of 77 CFA charter-holders on staff. A number of senior executives who are directly involved as directors of boards of Teachers' portfolio companies have successfully completed the Institute of Corporate Directors education program at the University of Toronto's Rotman School of Management.

Responsible governance is critical to strong performance

The board members are responsible under the Teachers' Pension Act for the management of the pension fund. Board members have delegated the investment of the assets of the plan to the Chief Executive Officer, subject to limits, but with the power to sub-delegate appropriately.

The board is responsible for overseeing and reviewing investment policies, risks and asset mix, benchmarks, performance and compensation, for approving annual performance objectives for the investment portfolios and for considering all transactions that exceed the discretionary limits delegated to management.

We manage risk carefully

At Teachers', understanding risk is an extremely important part of our culture. As part of the investment process, investment managers must be as concerned about the potential for loss from an investment as they are about how much could be earned.

Our risk management team concentrates on the ultimate risk facing the plan – the risk that the plan's assets will be significantly lower than its liabilities, i.e., the benefits owed to members. Funding risk can emanate from assets as well as liabilities. The most important liability risk is a decline in real interest rates (a 1% decline in real interest rates increases liabilities by 20% on a funding basis and 16% on a financial statement basis). The biggest asset risk is a decline in equity markets. The risk management team reviews the economic conditions for the different asset classes, and maintains a comprehensive asset-liability model and detailed risk system to understand the long-term dynamics of the risk in the plan. These systems are used to provide information to the plan sponsors, to modify the asset mix and to balance our value-added strategies.

We seek the combination of active and market risk strategies that has the best chance of success based on the history and prospects of various markets. We carefully assess the quality of our active programs and the rate at which these programs can grow as well as how they could contract. We rely on the ability of our managers within each department to select above-average assets and strategies rather than simply investing in market indices. If these efforts are unsuccessful, the value lost detracts from the market index returns. Negative results, even from good managers, can be expected in about one in four years.

With the risk system, we measure how much money we could lose within each portfolio, series of portfolios, across departments, across asset classes and finally at the total fund level, each to a given probability. These risk calculations are also completed relative to the plan's liabilities and benchmarks. We compare the observed risk values to those budgeted. Thus the risk system provides the fund with the flexibility to examine and compare a wide range of strategies and different asset classes. It also enables us to calculate the benefits of diversification across strategies, asset classes, departments and portfolios.

The fund's current liquidity position is governed by the plan's liquidity policy and reported regularly to the board. Sufficient liquidity is necessary to meet the fund's short-term marked-to-market payments resulting from the plan's derivative exposure and to allow rebalancing to the target asset mix. The fund's liquidity position is analyzed daily and is periodically tested by simulations of major events such as significant movement in the market.

Performance

Following is a report on our deployment against our investment goals and how the plan fared as a result.

GOAL
Produce value-added returns above the policy asset mix benchmark within the total fund risk limits

MANAGING FOR VALUE
Define asset-mix policy and investment plan for 2006

Define total fund risk limits

Achieve investment plan policy return objectives

PERFORMANCE
Net assets rose to $106.0 billion from $96.1 billion at the end of 2005

Beat the fund's composite benchmark by 3.8% ($3.4 billion value added brings five-year value added total to $14.6 billion)

Consolidated return was 13.2% compared to 9.4% for benchmark

We generated $12.3 billion in investment income in 2006, compared to $14.1 billion in 2005. Net assets rose to $106.0 billion from $96.1 billion at the end of 2005.

Beating the one-year and, more importantly, the four-year benchmarks for each asset class is our investment goal. The chart shows our performance against these benchmarks for a total value-added of $3.4 billion, representing 3.8% performance over benchmarks in 2006.

Our investment managers have delivered performance greater than composite benchmark performance, not only in the past year, but also over the longer term. Over the past four years, this out-performance has produced $12.6 billion in additional value. The additional value created by these managers has exceeded the contributions made by members and the government, and designated employers over the past four years, by $6.5 billion.

RATES OF RETURN COMPARED TO BENCHMARKS

(percent)	*1-year Return*	*1-year Benchmark*	*4-year Return*	*4-year Benchmark*
Equities	20.3	20.0	18.1	15.8
Canadian equities	12.5	17.3	23.9	20.5
Non-Canadian equities	25.0	21.5	13.5	12.1
Fixed income and Absolute return strategies	6.1	1.4	13.3	8.1
Inflation-sensitive investments	7.4	1.6	12.6	7.0
Commodities	-15.1	-15.1	2.5	2.7
Real estate	17.1	6.6	16.7	6.2
Real-return bonds	-1.9	-2.1	9.4	9.1
Infrastructure and timber	17.0	5.6	15.6	6.0
Total Fund**	13.2	9.4*	15.7	11.6*

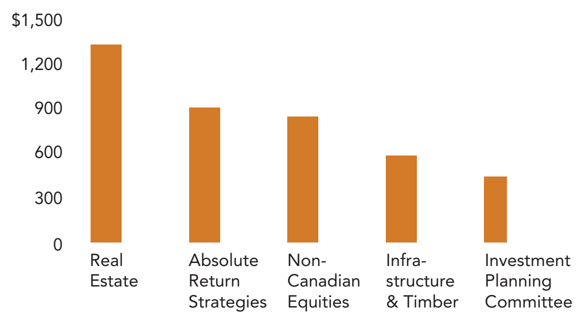
* Composite benchmark weighted by the policy asset mix.

** Total fund includes Investment Planning Committee, which is not attributable to an asset class.

BENCHMARKS ARE WEIGHTED TO FORM COMPOSITE BENCHMARKS

Benchmark	
Fixed income	Custom Canada Bond Universe Total Return Index
	Custom Currency Policy Hedge Index
Equities	S&P/TSX Composite Total Return Index
	S&P 500 Total Return Index
	MSCI EAFE+EM Total Return Index
	MSCI All Country World ex Canada Total Return Index
	Custom Non-Canadian National Total Return Index
	Custom Global Private Capital Benchmark Total Return Index
Inflation-sensitive investments	Scotia Capital Real-Return Bond Total Return Index
	Custom U.S. Treasury Inflation Protected Securities Index
	Goldman Sachs Commodities Total Return Index
	CPI plus 4% (Infrastructure and Timber)
	CPI plus 5% (Real Estate)

MAJOR SOURCES OF VALUE ADDED
(for the year ended December 31, 2006) ($ millions)

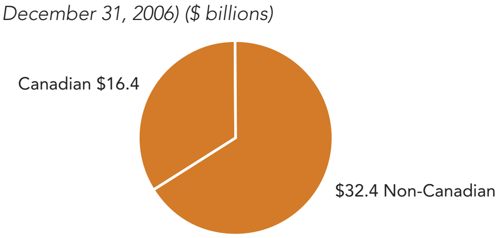


These portfolios were our best value-added performers in 2006. Value added from real estate, managed by our subsidiary Cadillac Fairview, reflects the portfolio's capital appreciation in a strong property market.

Equities

A total of $48.8 billion was invested in equities at year-end 2006 compared to $45.1 billion at December 31, 2005. Equities provided the fund with a 20.3% rate of return compared to a benchmark of 20.0%, adding $120 million in value. On a four-year basis, equities generated an 18.1% rate of return, outperforming the four-year benchmark for equities by 2.3%, totalling $3.1 billion in value added.

EQUITIES
(as at December 31, 2006) ($ billions)



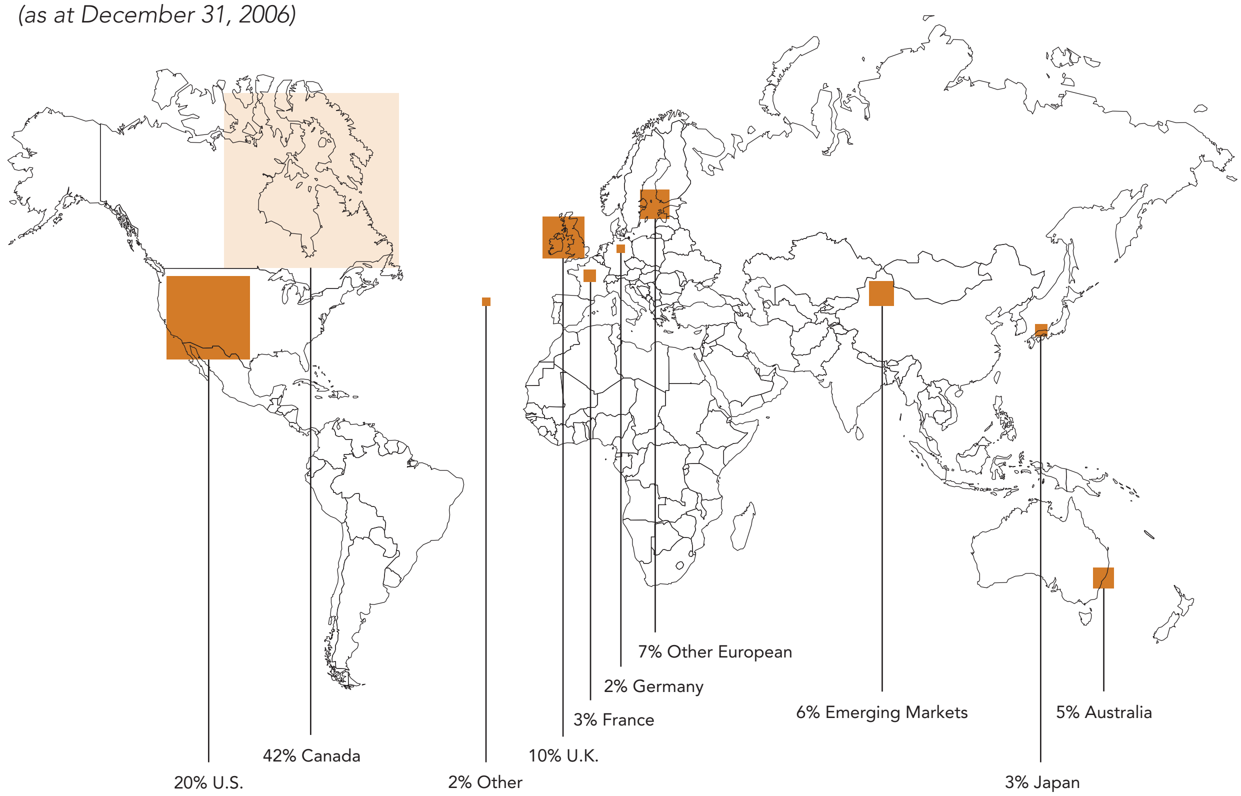
We ended 2006 with $48.8 billion invested in equities, compared to $45.1 billion at year-end 2005. Despite a lower allocation to equities, this asset class remains the largest.

We invest in public equities in two major ways: 1) stock market indices and 2) active management, including large-scale strategic relationship investments.

As a large pension plan, we are well-positioned with the expertise and ability to make significant direct investments. In addition, we can leverage the plan's broader resources, including our fixed income, public trading and private capital groups, to give our partners objective capital markets perspectives and complete financing solutions.

Over the past seven years, we have developed the ability internally to manage portfolios that are invested in public companies around the world. Previously, we focused on Canadian companies and used external managers to gain exposure to foreign markets. This shift toward internal management has been successful. Our global perspective has provided us with many more opportunities to create value.

STOCKS BY GEOGRAPHIC REGION
(as at December 31, 2006)



We have diversified holdings around the world (includes stocks held in other asset classes).

For the past 15 years, our most profitable public equities investments have been those in which we acquire a large stake in a public company and work with the company to create long-term value. We call these our "relationship investments." We took a major step forward in this regard in 2006, working with Sherritt International Corporation, in which we have been invested for many years. This saw the spinoff of its Luscar asset to form the Royal Utilities Income Fund, which will develop its substantial Canadian coal reserves with a view to supplying energy.

Canadian equities

Canadian equities totalled $16.4 billion at the end of 2006, compared with $19.3 billion in 2005. Canadian equities delivered a one-year rate of return of 12.5% compared to a benchmark of 17.3%. A few of our large Canadian public equity investments lagged the strong Canadian stock market last year. We are comfortable holding these investments for the long term because they represent good value. On a four-year basis, Canadian equities returned 23.9%, while the benchmark returned 20.5% over the same period, adding $1.8 billion in value to the fund.

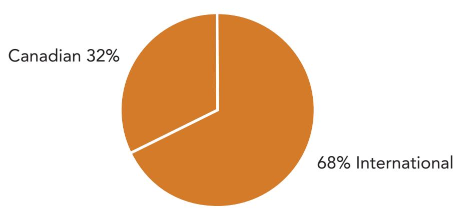
In 2006, approximately 50% of our Canadian equities were actively managed – through enhanced index and quantitative strategies, active selection and private equity – reflecting our commitment to search for value beyond index holdings.

Non-Canadian equities

Our non-Canadian equities, including the U.S., Europe, Asia, Far East and emerging markets, are managed through a combination of active strategies, by both internal and external managers and are backed by the use of derivative-based index funds. Non-Canadian equities ended the year at $32.4 billion with index funds representing $11.7 billion or 36%, compared to a total of $25.8 billion at year-end 2005. These investments delivered a one-year return of 25.0% compared to a benchmark of 21.5%, and on a four-year basis returned 13.5% compared to a benchmark of 12.1%, adding $1.3 billion in value above the benchmark over the same period.

Teachers' Private Capital's private equity investments are embedded in our Canadian and non-Canadian equities. They outperformed the benchmark by 7.3% in 2006, with a one-year rate of return of 26.9%, adding $350 million in value. At year-end, Teachers' Private Capital had $6.1 billion in private equity investments, compared to $5.1 billion in 2005. Over the past four years, private equity has achieved a rate of return of 33.3%, compared to 21.4% for its benchmark.

PRIVATE EQUITY
(as at December 31, 2006)



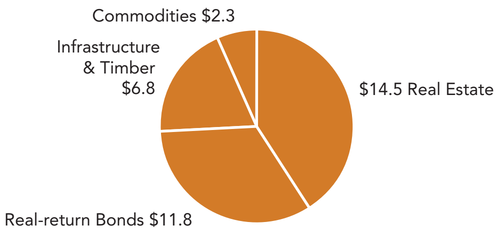
The private equity portfolio, valued at $6.1 billion at year end, has achieved a 33.3% rate of return over the past four years.

We continue to make funds available to private capital activities as we search for value beyond public equity markets. We work independently or with partners in direct private equity, mezzanine debt transactions and venture capital. Although Teachers' Private Capital initially invested only as a minority shareholder with partners, as the fund has grown, we have moved to assume larger positions. Private equity investing has generated value and we believe it continues to be a viable alternative to public equity markets.

Among our acquisitions in 2006:

- the financing of a significant minority interest in Easton-Bell Sports, Inc., a preeminent branded sports equipment company with $600 million (U.S.) in annual revenue;
- a series of transactions in partnership with Providence Equity Partners, including the purchase of Kabel Deutschland, Germany's largest cable operator with 10 million connected households; a significant position in Grupo Corporativo Ono, Spain's largest alternative provider of telecommunications, broadband internet and pay TV; and a major investment in Idea Cellular, one of India's largest cellular companies; and
- a 25% ownership stake in CTVglobemedia (formerly Bell Globemedia), Canada's leading multi-media corporation, which owns The Globe and Mail newspaper, CTV television network and a number of specialty channels. Teachers' Private Capital also helped finance CTVglobemedia's proposed acquisition of CHUM Limited.

INFLATION-SENSITIVE INVESTMENTS
(as at December 31, 2006) ($ billions)



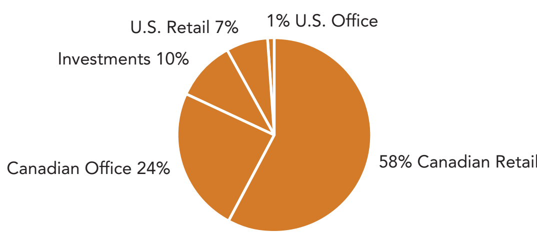
These investments provide stable returns linked to inflation, acting as a hedge against the cost of paying inflation-protected pensions. We had $35.4 billion invested in this asset class at year end, compared to $30.4 billion in 2005.

Inflation-sensitive investments

Investments that tend to correlate closely with changes in inflation act as a hedge against increases in the cost of future pension benefits. Over the past few years, inflation-sensitive investments have played an increasingly important role in meeting our performance objectives and decreasing risk.

At the end of the year, these assets totalled $35.4 billion compared to $30.4 billion at year-end 2005. Inflation-sensitive investments achieved a one-year rate of return of 7.4% against a 1.6% benchmark, adding $1.9 billion in value. On a four-year basis, these investments returned 12.6% against a 7.0% benchmark, generating $5.8 billion in value above the benchmark.

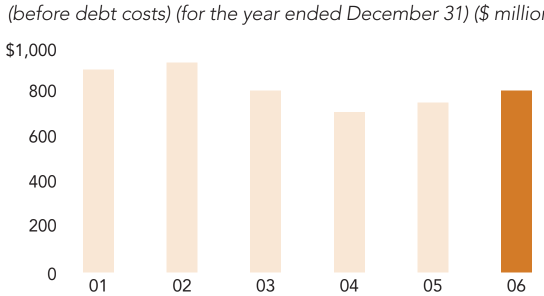
REAL ESTATE PORTFOLIO
(as at December 31, 2006)



Our real estate portfolio was valued at $14.5 billion at year end. It is managed by Cadillac Fairview, one of North America's largest owners and managers of commercial real estate.

Real estate assets totalled $14.5 billion at year end. Managed by our wholly owned subsidiary, Cadillac Fairview, real estate is the largest component of our inflation-sensitive investments. Our aim is to maintain a well-balanced portfolio of retail and office properties that provides dependable cash flows. Real estate is considered a good fit for the pension plan because it provides strong, predictable income and is a good hedge against inflation. At year end, the occupancy rate of the retail space was 95%, while the office occupancy rate was 91%.

INCOME FROM REAL ESTATE
(before debt costs) (for the year ended December 31) ($ millions)



Lower income is a result of rental property sales since 2002.

Cadillac Fairview's most significant transaction during the past year was the June 2006 acquisition of a 46% interest in Multiplan Empreendimentos Imobiliarios S.A., a private real estate company that owns and manages nine regional shopping centres in Brazil. This acquisition reflects our belief in the investment potential of real estate assets in certain emerging markets.

Infrastructure and timber investments provide stable long-term returns, strongly linked to inflation. Within less than five years, infrastructure and timber has grown to comprise 7% of the plan's investments and now includes toll roads, airports, pipelines, electrical power generation, timberlands and marine container terminals valued at $6.8 billion as of December 31, 2006, compared to $4.8 billion a year earlier. In December 2006, we announced our agreement to purchase four marine container terminals in North America from Orient Overseas (International) Limited of Hong Kong for $2.4 billion (U.S.). This investment is expected to produce stable, long-term cash flows well-suited to our growing infrastructure portfolio.

Real-return bonds pay a return that is indexed to inflation, measured by CPI. Real-return bond investments include, among others, U.S. and Canadian Government real-return bonds, as well as Province of Quebec, Highway 407 and U.S. Treasury bonds, and inflation-linked mortgages guaranteed by Canada Mortgage and Housing Corporation.

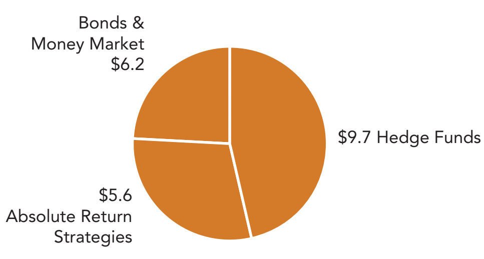
Investments in commodities totalled $2.3 billion at the end of 2006 compared to $2.6 billion a year earlier. We invest in commodities through enhanced index agreements linked to the Goldman Sachs Commodity Index. The commodity index, which has a 70% energy weighting, was hard hit in 2006 by reduced energy prices toward the end of the year. Our one-year return in commodities was -15.1%, matching the benchmark. On a four-year basis, commodities have earned 2.5%.

Fixed income and Absolute return strategies

We have a number of different types of investments in this category: absolute return strategies, including hedge funds and our currency hedge, as well as the traditional fixed-income investments in government and corporate bonds and money-market securities. We include absolute return strategies in this asset class because they provide steady income, similar to fixed income securities, but with an additional risk allocation aimed at adding value above the benchmark.

At year end, investments in this category were $21.5 billion or 20% of the fund, compared to $19.3 billion or 20% at the end of 2005. These investments produced a one-year rate of return of 6.1%, outperforming their benchmark of 1.4% and thereby adding $1.0 billion in value to the fund. On a four-year basis, this asset class returned 13.3% compared to a benchmark of 8.1%, adding $3.7 billion in value.

FIXED INCOME
(as at December 31, 2006) ($ billions)



Investments in this category totalled $21.5 billion or 20% of the fund at year end, up from $19.3 billion a year earlier.

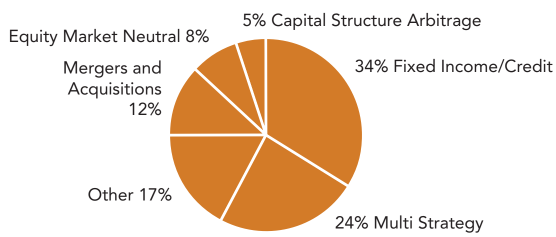
Bond and money market holdings totalled $6.2 billion at year end compared to $9.8 billion at the end of 2005, and added $120 million in value in 2006. The debt on the plan's real estate assets, valued at $3.4 billion at year end, compared to $3.7 billion in 2005, is subtracted from the fixed-income asset class. Investment income from money market and bonds totalled $490 million in 2006.

In 2006, we employed $15.3 billion in absolute return strategies and hedge funds, compared to $9.5 billion in 2005. Our goal with these strategies is to generate positive returns regardless of movements in the markets. Many of these investments use little net capital (we use a balanced combination of long and short positions on instruments, companies, industries or investment styles).

Some absolute return strategies aim to capture tactical opportunities to extract extra returns from under- or overweighting various asset classes. In 2006, these strategies resulted in $170 million of value added.

We include investments in more than 200 externally managed hedge funds valued at $9.7 billion at the end of 2006 (compared to $6.2 billion at the end of 2005). We manage these investments both directly and in fund-of-funds structures designed to earn market-neutral value-added returns consistently, while diversifying risk across many managers and multiple strategies and styles. These hedge fund investments added $420 million in value in 2006.

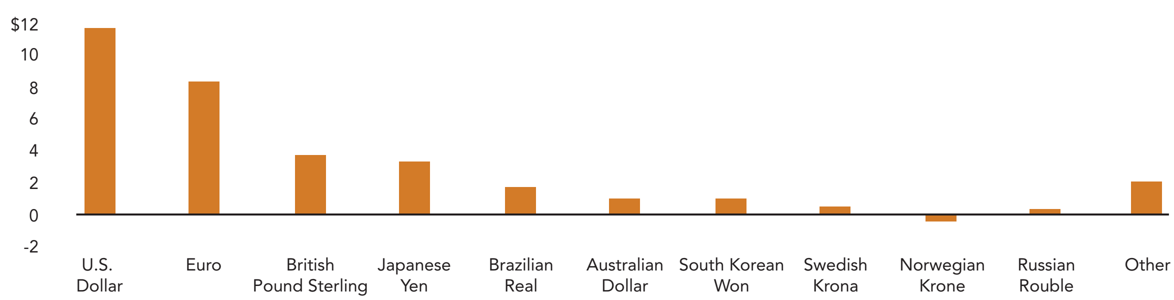
HEDGE FUNDS BY STRATEGY
(as at December 31, 2006)



Investments in more than 200 externally managed hedge funds totalled $9.7 billion at year end, compared to $6.2 billion at the end of 2005.

At year end, in addition to Canadian and U.S. government bonds, we had $790 million in credit-linked portfolios compared to $610 million in 2005, with the addition of new emerging market strategies and an increase in North American high-yield corporate securities. We use these strategies to diversify our bond portfolio, adding to the tools we use to enhance returns overall in the fixed-income asset class.

NET CURRENCY EXPOSURE
(for the year ended December 31, 2006) ($ billions)

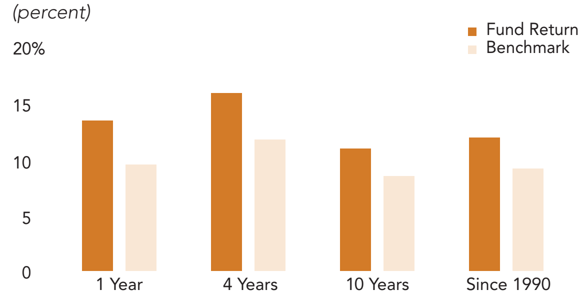


We hedge our exposure to foreign currencies to reduce the impact of currency fluctuations on the value of our foreign investments.

Total fund value added

Since the beginning of 2003, our investment income has totalled $48.6 billion; that total includes $12.6 billion earned above market benchmarks, also known as value added. The graph below illustrates the total value added that has resulted from our various investment strategies.

LONG-TERM PERFORMANCE VS. BENCHMARK
(percent)



Since 1990, outperforming the fund's benchmarks has added $22.7 billion in extra value to the fund.

Investment costs

Total investment management costs were $220 million, compared to $205 million in 2005. This is equivalent to 22 cents per $100 of average net assets, compared to 23 cents in 2005. These costs exclude the commissions paid when trading securities, and management and performance fees for private equity and certain other externally managed funds. However, all such costs are deducted in determining net investment returns.

Risk allocation results

In addition to selecting the best asset mix to pay pensions, we believe that increased use of active management is instrumental in the ongoing success of the plan. Over the past five years, the fund has increased the proportion of assets that are actively managed. While the risk budget (i.e., the risk of not doing as well as the benchmark) has increased, the actual level of total risk (i.e., the risk of not keeping pace with the plan's liabilities) has declined since 2000, as a result of: 1) reducing our equity weighting in our asset-mix policy and 2) greater diversification of investment assets.

Robert Bertram | Executive Vice-President, Investments

Member Services

We are committed to providing Ontario's active and retired teachers with prompt, reliable pension services and information. We collect contributions on behalf of members, administer benefit payments and provide information in person, by phone, letter and e-mail. We also offer comprehensive information and services on our website and a range of printed materials, including regular newsletters.

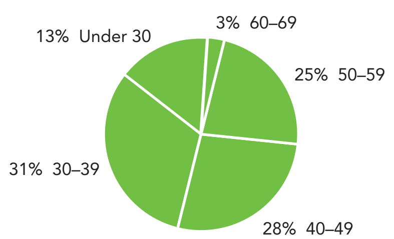
Overview

Plan membership continues to grow as pensioners live longer and retire younger. This changing demographic has a direct influence on our business goals and long-term strategy. We challenge ourselves every year to improve service levels while managing costs effectively.

More pensioners than ever

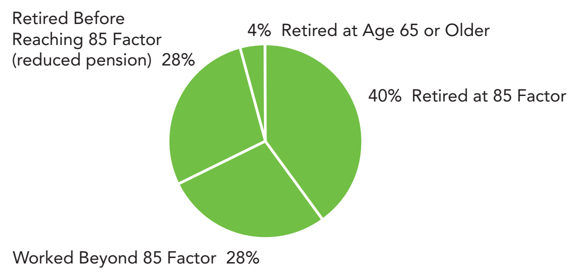
Teachers are collecting their pensions longer than they did 15 years ago by retiring earlier and living longer. The average age at retirement is 57 with an expected 29 years on pension; in 1991, the average age retirees started collecting pensions was 58 and a half years with an expected 25 years on pension. Average life expectancy at retirement is 86. There are 72 pensioners over 100 and 2,200 in their nineties. Not only do we have more pensioners than ever before, but the broad age range of plan members means that we need to offer services over a longer time period and in a number of different ways.

TEACHERS BY AGE



The plan has 167,000 contributing members and 104,000 pensioners.

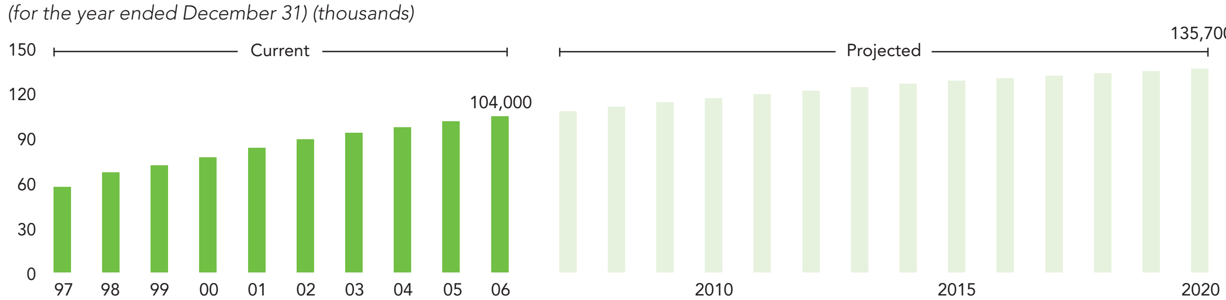
WHEN TEACHERS RETIRE
(averaged since 1999)



Today, the average age at retirement is 57, with an expected 29 years on pension.

Over the next 10 years, we expect that 46,000 teachers will retire and that the number of pensioners will continue to grow, both in absolute terms and as a percentage of the total plan membership.

NUMBER OF PENSIONERS
(for the year ended December 31) (thousands)



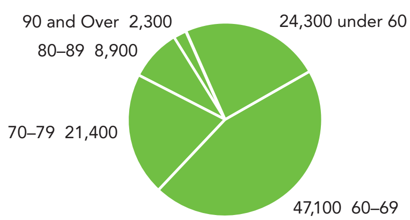
Volumes continue to increase

Approximately 10,400 teachers entered the profession or were re-hired in 2006. We added 4,900 pensioners (retirement and disability) to the pension payroll in 2006, ending the year with 104,000 pensioners in the plan. The number of pensioners has grown every year since 1990. The average pension for a teacher retiring at the 85 factor (the sum of years of age and eligible service) was $40,400 in 2006.

With this growth comes an increase in the volume of communications with members and the processing involved in collecting contributions and service data from their employers.

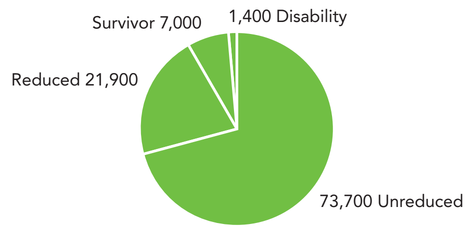
We are responsible for one of the largest payrolls in Canada, paying out $3.8 billion in benefits in 2006. We collected $1.6 billion in contributions from the government and designated employers and 167,000 teachers working for 200 school boards and the designated employers.

PENSIONERS BY AGE



There are 72 pensioners over the age of 100 and 2,200 in their nineties.

PENSIONER PROFILE



We began paying pensions to 4,900 newly retired pensioners in 2006. The number of pensioners has grown every year since 1990.

Because we have the technology and systems in place, we can ensure timely and complete service to members, even during the peak enquiry times of March and April (80% of teachers retire at the end of the school year). In 2006 we achieved our highest quality results ever, resulting in faster, more cost efficient service to our customers. Accuracy rate improvements reduced related costs by 30% from 2005 levels, as a result of:

- increased quality monitoring and automation;
- frequent feedback and management focus on staff performance;
- re-alignment of staff to key processes;
- increase in web-based transactions, which decreases the risk of error;
- improved data quality from employers; and
- greater emphasis on controls.

In 2006, the capacity of these systems was tested by the first strike of unionized employees in the plan's history. In spite of this, key service levels remained high, even during this challenging period.

Changing technology helps us keep pace

Managing and measuring the pace of the adoption of online services is a key focus for the Member Services Division. Ease of use of these services is paramount to our success. In response to feedback from teachers, we continue to actively adopt new communication technologies, while ensuring that members who prefer more traditional communication channels continue to be served effectively.

As members have adapted and become more comfortable with receiving information online, we have been able to offer more direct and timely services, such as:

- the ability to initiate the retirement process online, which was used by 43% of retiring members in 2006;
- improvements to web security; and
- increased online capabilities for personal information updates.

As many members value the ability to call or meet in person with our pension benefit specialists to discuss their personal pension issues and alternatives, we are also improving these interactions.

Goals

Our overall objective is to provide immediate and outstanding service to pension plan members. We strive to constantly improve the level of service we provide.

WE HAVE THREE BROAD SERVICE GOALS:

To implement strategies to serve more members quickly

To obtain accurate and up-to-date service data for members through rigorous systems and processes

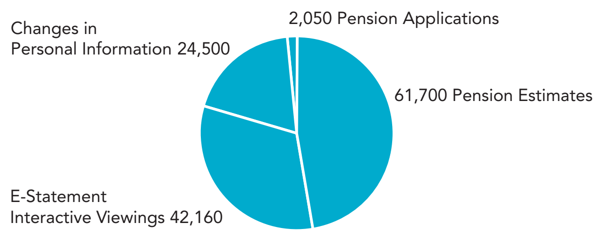
To deliver high-quality service in a cost-effective manner

New technologies improve service

We use technology to enhance and personalize interactions with members as well as to facilitate immediate service, manage costs and improve efficiency.

As mentioned, more members are becoming directly connected online and in real time through our secure website, *i*Access™ Web, so they can check on their personal pension accounts at any time of the day or night.

SELF-SERVICE ACTIVITIES ON *i*Access



Members are using the secure members-only website, *i*Access, to access more services online.

Anticipating members' needs

During the past year, we have focused much of our effort on making better use of the data that employers provide. If we know a member is planning a maternity leave, for example, we automatically send her a customized information package – before she even requests one. The package outlines her options on continuing to build pension credits while she is away from the classroom. During the past year, we developed similarly proactive member information for several other scenarios including retirement preparation, pension buy-back opportunities and long-term disability.

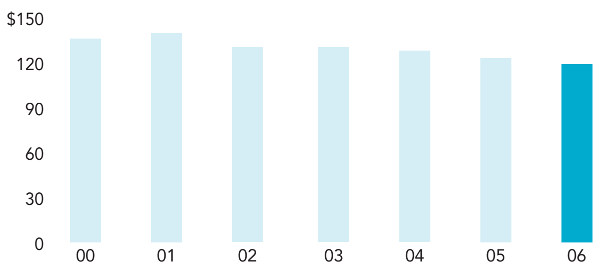
We also continued to simplify procedures wherever possible. For instance, early in the year, we replaced our bulky print-based pension application kit with a streamlined web-based document that members can complete in just a few minutes. Innovations like these are helping us save time and money while providing a broader range of service options to our members.

At the same time, we continue to improve communications with school boards and other employers by routinely auditing the information they send to us and ensuring the member data we receive is accurate. As part of the process, we are asking the finance officers at employers to certify the data, much like public companies now certify their financial statements, in order to increase their focus on the accuracy and reliability of the data. Comprehensive, accurate data allows us to reduce costly mistakes and minimize inconvenience for our members.

We have also been taking the lead with employers to streamline the reporting processes. We work with more than 200 school boards and designated employers, which employ a wide variety of payroll reporting systems. We continue to build personal relationships with employers, often visiting them on-site to promote the adoption of best practices and to find more efficient ways to exchange information. Our secure website for employer reporting fosters collaboration and augments payroll data accuracy, which further facilitates service improvements to members.

Looking ahead, we recognize that there are limits to the information technology resources available. We also know that many members will continue to prefer personal contact with our employees amid a growing range of service options. Accordingly, we will continue to prioritize our goals and initiatives by choosing improvement projects that we believe will have the most positive impact on our members' satisfaction for the resources expended.

COST PER MEMBER SERVED
(for the year ended December 31)



We reduced the cost per member served to $118 from $122 in 2005, and also decreased total administration costs to $32.5 million from $33.7 million in 2005.

Managing for Value

Four key elements are paramount in our drive to continuously improve our ability to anticipate and meet members' needs quickly, accurately and cost-effectively: staff and supplier expertise; dialogue with members about service levels; better technology; and continuous improvement in processes.

THE FOLLOWING FOUR KEY PERFORMANCE DRIVERS ENABLE MANAGEMENT TO IMPLEMENT THE STRATEGY:

Expertise	Service	Technology	Processes

Continuous improvement is the common denominator

To achieve our goal of continually improving the level of service we offer plan members, we foster a culture of openness and responsiveness. We emphasize training and use technology to deliver information more quickly, personally and cost-effectively.

In order to excel in customer service:

- we regularly ask our clients to rate our services through a third-party survey. Although we strive for the best results possible, we know that we are not perfect. When we fall short, we use client feedback to improve service levels, change processes and provide valuable direction to staff;
- client satisfaction is a part of our compensation. All employees, from executive to new recruit, receive a variable component of compensation based on client satisfaction;
- we benchmark our services against the leading pension plans around the world. To be the best, we focus on learning from the best practices and the highest standards in the global market;
- organizational goals are set annually to drive continuous improvement. Success with these goals then drives individual performance and compensation; and
- we invest in people. When compared to other organizations, we spend more on training, coaching and developing our staff. Technology costs are focused on improving staff effectiveness. To measure our success, we regularly ask our staff to grade us as an employer and to identify areas for improvement.

Performance

We measured our 2006 performance against our strategic goals for service, accuracy and costs.

GOAL	MANAGING FOR VALUE	PERFORMANCE
1. Simplify business processes and improve immediate service	Enhance business processes to address plan changes and regulatory requirements Improve final retirement process by implementing automated tools to assess and monitor quality and streamlining processing Develop a plan to reduce reported service business complexity Implement changes to contribution rates	All completed on time, on budget
2. Manage cost per member to prior year's cost plus inflation	Deliver information more cost-effectively Reduce rework by improving accuracy of processes and calculations	Reduced cost per member served to $118 ($122 in 2005) Accuracy rate improvements reduced related costs by 30%

Composite Quality Service Index (QSI) and Cost Effective Measurement (CEM) study

Our QSI ratings held steady in 2006 from 2005. As the following charts indicate, we have made changes to our survey methodology. The new methodology was tracked but not reported in 2005. The chart below shows the transition from the old to the new, more comprehensive measurements.

In 2006, for instance, we included services such as e-mails for the first time and placed more emphasis on web activity; it is tougher to score high marks in these channels with comparatively lower personal service. We are also mindful of the fact that the year included a five-week strike of unionized employees that began in April 2006, and continued throughout the busy spring retirement period. Thanks to good contingency planning and the commitment of staff, we are pleased to report that every pension was paid on time.

The table on this page indicates the key areas for which QSI ratings are calculated. In addition, we measure our performance against national and international organizations.

NEW QUALITY SERVICE INDEX (QSI) MODEL *(on a scale of 0 to 10)*	*2006*	*2005*
Corporate QSI	**9.0**	9.0
Service QSI (85%)	**9.0**	9.0
Communications QSI (15%)	**8.8**	8.8

PREVIOUS QSI MODEL *(on a scale of 0 to 10)*	*2005*
Corporate QSI	9.2
Service QSI (75%)	9.3
Communications QSI (25%)	8.8

The new QSI model includes ratings for secure member website activity and e-mail inquiry services, in addition to changes in category weightings.

We participate annually in an independent study prepared by Cost Effective Measurement (CEM) that evaluates the costs and services of 54 pension plans around the world. In 2006, we had the fourth highest total service level score overall. Our services rated first for mass communications, including websites, electronic delivered services, newsletters and annual statements. Considering that member costs at one of the highest ranking plans are twice as high as ours, we believe that our ranking reflects the best relative value for our members.

Statistical highlights

We fulfilled 175,000 member requests, compared to 190,000 in 2005 and dealt with 95,800 telephone inquiries, 3.3% less than a year earlier. Our website, www.otpp.com, had over one million visitors, an increase of 30% from 2005 and an increase of 67% from 2004. Our secure member website, *i*Access™ Web, had 130,000 sessions, up from 102,000 sessions in 2005.

Expense management

Holding the line on costs is a responsibility we take seriously. While service ratings are critical to our performance, we also seek to be as efficient as possible in achieving the results that give us high ratings. In 2006, our services were provided at a cost of $118 per member, compared to $122 in 2005. This lower cost is largely the result of our continued focus on cost reduction, but also reflects the impact of the five-week strike of unionized employees, which lowered annual payroll costs. Accordingly, we expect costs to increase slightly in 2007 from 2006 levels after adjusting for inflation.

The CEM study mentioned earlier also compares our costs to our peer group. Our annual service cost is above the median of this group, primarily because we are responsible for providing services directly to members. Many other pension plans in the study do not provide services to members directly. They are partially administered to some degree by employers, reducing the direct cost to their pension plans of providing services.

9
out of
10

Members continue to rate our services highly: 9 out of 10. We have adapted the QSI to take members' growing online activities into account.

Rosemarie McClean | Senior Vice-President, Member Services

We believe good governance is good business.

The Ontario Teachers' Pension Plan adheres to high standards of governance aligned with current regulatory requirements and best practices for public companies. Critical to achieving high standards of governance is the quality of the board. The OTF and the Ontario government, who each appoint board members and jointly appoint the chair, have successfully attracted board members with the appropriate qualifications in investments, finance, accounting, law, actuarial science, business management and technology to properly oversee management's actions and decisions.

Following is an overview of our governance disclosure, which underscores our ongoing commitment to transparency. For more information, follow the links to our website as indicated.

MANDATE, ROLES AND RESPONSIBILITIES DISCLOSED

See: www.otpp.com > About Us/Plan Overview or Plan Governance.

INDEPENDENT BOARD

- Each co-sponsor appoints four board members for staggered two-year terms. The co-sponsors jointly appoint the chair as the ninth member of the board.
- Board members are required to act independently of both the co-sponsors and the plan's managers.
- Chair and CEO roles are separate.
- The board members met 10 times without management present.
- No member of management is a member of the board or any of its committees, including the Audit & Actuarial Committee.
- The board members require the plan's managers to establish corporate strategy and objectives and a financial plan annually and to review progress against these and other objectives.

For more information see: Page 52 of this report or www.otpp.com > About Us/Plan Overview or Plan Governance.

BOARD DISCLOSURE

- Number of board and committee meetings reported:
  - 18 board and Investment Committee, 3 Governance Committee, 4 Human Resources & Compensation Committee, 8 Audit & Actuarial Committee, and 2 Benefits Adjudication Committee meetings
- Committee terms of reference disclosed
- Board member orientation, continuing education and self-assessment processes in place and disclosed
- Code of business conduct disclosed

For more information see: www.otpp.com > About Us/Plan Overview or Plan Governance.

COMPENSATION

- Board members' remuneration and management compensation and pension benefits reported
- Compensation advisor disclosed

For more information see: Pages 77 and 78 of this report.

AUDIT AND NON-AUDIT FEES

Amount paid to auditor disclosed

Summary of Plan's Auditors' Fees
(for the year ended December 31, 2006) ($ millions)

Audit	$2.5
Audit-related	–
Non-audit related	0.2
Total	$2.7

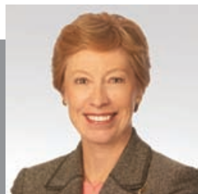
ACCOUNTABILITY

- The board reports to the plan sponsors on a regular basis and issues this annual report, including audited consolidated financial statements, and an actuarial opinion.
- CEO and CFO certify our annual consolidated financial statements.

For more information see: Pages 53 to 55 of this report.

Board Members

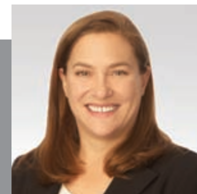
All board members serve on the Investment Committee. Board and committee attendance was 95% for 2006. Individual attendance is reported below. For more information on board members, please see our website, www.otpp.com > About Us > Board Members.



Appointed 2005
Attendance 96%

Eileen Mercier

Former Senior Vice-President and CFO of Abitibi-Price Inc., Fellow of the Institute of Canadian Bankers
Chair of the Board (as of January 1, 2007)



Appointed 2006
Attendance 88%

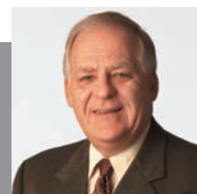
Jill Denham

Former Vice Chair, Retail Markets, Canadian Imperial Bank of Commerce
Member of the Governance and Human Resources & Compensation Committees*

Appointed 2005
Attendance 92%

Helen Kearns

President, R.S. Bell and Associates, Former President, Nasdaq Canada, Former director, Toronto Stock Exchange
*Member of the Benefits Adjudication** and Audit & Actuarial Committees*



Appointed 2006
Attendance 100%

Raymond Koskie

Former partner in the law firm Koskie Minsky, Former member of the Economic Council of Canada
Member of the Human Resources & Compensation and Governance Committees

Appointed 2007

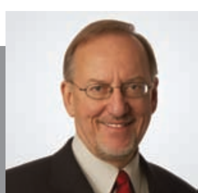
Hugh Mackenzie

Principal, Hugh Mackenzie and Associates economic consulting,
Member of the Audit & Actuarial and Benefits Adjudication Committees

Appointed 2007

Louis Martel

Vice-President, Product Development and Client Service, Greystone Managed Investments, Inc.
Member of the Audit & Actuarial and Governance Committees



Appointed 2002
Attendance 100%

Guy Matte

Former Executive Director of l'Association des enseignantes et des enseignants franco-ontariens
Member of the Benefits Adjudication, Governance*, Audit & Actuarial and Human Resources & Compensation Committees*

Appointed 2003
Attendance 100%

Thomas C. O'Neill

Former Chair of PwC Consulting, Fellow of the Institute of Chartered Accountants of Ontario
Member of the Investment, Audit & Actuarial and Human Resources & Compensation Committees*

Appointed 2007

Jean Turmel

President, Perseus Capital Inc, and Chair, Montreal Exchange
Member of the Audit & Actuarial Committee and Human Resources & Compensation Committees*

*Committee Chair **Committee Vice-Chair

Investments over $100 million

(as at December 31, 2006)

Fixed income and short-term investments

Type ($ millions)	*Maturity*	*Coupon (%)*	*Fair Value*	*Cost*
Government of Canada bonds	2007–2037	2.75–9.75	$9,386	$9,014
Canadian corporate bonds	2007–2085	0.00–16.00	7,254	7,262
Securities purchased under agreements to resell	2007–2007	3.55–5.03	6,848	6,814
Commercial paper	2007–2007	0.00–5.66	3,110	3,100
International corporate bonds	2007–2049	0.00–9.86	1,967	1,939
Canadian treasury bills	2007–2007	0.00–0.00	1,334	1,324
Emerging markets sovereign debt	2007–2038	1.33–14.50	902	858
Bank notes	2007–2007	0.00–5.43	298	296
United States treasury bonds	2008–2016	4.25–4.63	243	248
Provincial bonds	2008–2018	4.42–5.93	183	181
Securities sold under agreements to repurchase	2007–2007	0.55–5.25	(17,252)	(17,187)

Inflation-sensitive investments

Type ($ millions)	*Maturity*	*Coupon (%)*	*Fair Value*	*Cost*
Real-return Canada bonds	2021–2036	3.00–4.25	$4,652	$3,735
Inflation-indexed notes	2026–2029	3.88–4.25	2,272	1,713
United States treasury inflation protection	2015–2032	1.88–3.88	2,244	2,229
Real-return Canadian corporate bonds	2016–2039	0.00–5.33	1,521	756
Real-return provincial bonds	2026–2036	2.00–4.50	595	441
Real-return international bonds	2015–2045	0.50–6.00	412	412
Index-linked mortgages	2022–2030	4.63–5.53	281	237

Province of Ontario debentures

Maturity Date ($ millions)	*Coupon (%)*	*Fair Value*	*Cost*
2007–2009	10.15–15.38	$5,053	$4,596
2010–2012	10.11–11.31	2,821	2,258
Total		$7,874	$6,854

Corporate shares/units over $100 million

(as at December 31, 2006) (millions)

Security Name	*Shares*	*Fair Value*
Nexen Inc.	30.1	$1,933.2
BCE Inc.	42.8	1,357.5
Macquarie Infrastructure Group	285.5	933.7
Northumbrian Water Group plc	129.7	916.6
Microsoft Corporation	25.1	875.0
Royal Bank of Scotland Group, plc	11.9	541.8
Fording Canadian Coal Trust	21.2	529.5
Maple Leaf Foods Inc.	42.7	527.3
Royal Bank of Canada	8.9	496.5
Royal Utilities Income Fund	40.3	460.1
Transurban Group	58.3	421.9
Manulife Financial Corporation	10.7	420.5
Nestlé SA	0.9	387.3
Pfizer Inc.	12.3	370.1
Suncor Energy, Inc.	3.6	329.9
Citigroup Inc.	5.0	323.0
Sanofi-Aventis	3.0	322.2
Toronto-Dominion Bank, The	4.6	317.6
EnCana Corp.	5.7	305.8
Vodafone Group Plc	87.8	288.3
MacDonald, Dettwiler and Associates Ltd.	6.1	259.2
Samsung Electronics Co., Ltd.	0.4	253.6
Canadian National Railway Company	4.9	245.8
Barrick Gold Corporation	6.8	245.4
Petroleo Brasileiro S.A.	2.1	243.3
Canadian Imperial Bank of Commerce	2.5	243.2
Total SA	2.8	235.5*
CRH plc	4.8	232.3
Canadian Natural Resources Ltd.	3.5	220.4
Yellow Pages Income Fund	16.7	217.0
Eni S.p.A.	5.5	214.5
Cisco Systems, Inc.	6.6	211.2
Alcan Inc.	3.6	206.9
Bank of Nova Scotia	3.9	206.2
American International Group, Inc.	2.5	205.3
Bank of Montreal	3.0	204.3
Altria Group, Inc.	1.9	190.0
China Mobile Limited	18.8	189.5
Sun Life Financial Inc.	3.7	184.2
Manitoba Telecom Services Inc.	3.9	184.0
Research In Motion Limited	1.2	171.5

Security Name	*Shares*	*Fair Value*
Companhia Vale do Rio Doce	5.2	$168.6
General Electric Company	3.9	168.5
JPMorgan Chase & Co.	3.0	168.0
Verizon Communications Inc.	3.8	165.0
Old Mutual plc	39.7	157.8
WestJet Airlines Ltd.	10.5	156.7
ConocoPhillips	1.8	153.9
Intel Corporation	6.4	151.8
Telefonica S.A.	5.8	148.7
Goldcorp Inc.	4.4	147.0
ABN AMRO Holding NV	3.9	146.9
TransCanada Corporation	3.5	145.1
Telefonos de Mexico SA de CV	44.0	143.6
Rogers Communications, Inc.	4.1	143.0
Teck Cominco Limited	1.6	142.8
Talisman Energy Inc.	7.1	141.3
The Jean Coutu Group (PLC) Inc.	10.2	140.3
International Business Machines Corporation	1.2	139.9
ING Groep N.V.	2.7	138.9
Merck & Co. Inc.	2.6	132.7
MDS Inc.	6.0	128.8
Telus Corporation	2.3	122.3
Kobenhavns Lufthavne A/S	0.3	121.9
Bayerische Motoren Werke AG	1.8	119.4
Brookfield Asset Management Inc.	2.1	118.9
Freddie Mac	1.5	118.2
Berkshire Hathaway Inc.	0.03	116.7
Wolseley plc	4.1	115.9
UniCredito Italiano SpA	11.3	115.2
Canadian Oil Sands Trust	3.4	110.4
Royal Dutch Shell PLC	2.7	109.8
Bristol-Myers Squibb Company	3.6	109.5
Sasol Limited	2.5	108.9
Liberty International PLC	3.4	108.3
Sprint Nextel Corporation	4.8	106.4
Bell Aliant Regional Communications Income Fund	3.9	106.3
Gazprom	2.0	106.3
Time Warner Inc.	4.1	105.1
Petro-Canada	2.2	104.7
Gannett Company, Inc.	1.5	104.4

*Includes fair market value of VVPR STRIP securities.

For equities over $50 million, please visit our website at: www.otpp.com.

Real estate assets over $100 million

(as at December 31, 2006)

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian Regional Shopping Centres		
Champlain Place, Dieppe	809	100%
Chinook Centre, Calgary	1,188	100%
Erin Mills Town Centre, Mississauga	801	50%
Fairview Mall, Toronto	792	50%
Fairview Park Mall, Kitchener	739	100%
Fairview Pointe Claire, Montreal	1,023	50%
Georgian Mall, Barrie	593	100%
Hillcrest Mall, Richmond Hill	586	100%
Le Carrefour Laval, Montreal	1,317	100%
Les Galeries d'Anjou, Montreal	1,248	50%
Les Promenades St. Bruno, Montreal	1,133	100%
Lime Ridge Mall, Hamilton	815	100%
Market Mall, Calgary	915	50%
Markville Shopping Centre, Markham	1,018	100%
Masonville Place, London	686	100%
Pacific Centre, Vancouver	1,318	100%
Polo Park Mall, Winnipeg	1,224	100%
Regent Mall, Fredericton	487	100%
Richmond Centre, Richmond	491	100%
Rideau Centre, Ottawa	741	31%
Sherway Gardens, Toronto	987	100%
The Promenade, Toronto	689	100%
Toronto Eaton Centre, Toronto	1,723	100%

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian Office Properties		
Granville Square, Vancouver	409	100%
HSBC Building, Vancouver	398	100%
Pacific Centre Office Complex, Vancouver	1,549	100%
Toronto-Dominion Centre Office Complex, Toronto	4,442	100%
Toronto Eaton Centre Office Complex, Toronto	1,896	100%
Waterfront Centre, Vancouver	410	100%
Yonge Corporate Centre, Toronto	674	100%
U.S. Regional Shopping Centres		
Lakewood Mall, Lakewood, California	2,086	49%
Los Cerritos Center, Cerritos, California	1,290	49%
Stonewood Center, Downey, California	919	49%
Washington Square, Tigard, Oregon	1,324	49%
U.S. Office Properties		
Redmond Town Center Office, Redmond, Washington	582	49%

Private companies and partnerships over $100 million

Alliance Laundry Systems, LLC
Almatis Holdings S.a.r.l.
AOT Bedding Holding Corp.
AQR Offshore Multi-Strategy Fund, Ltd
Ashmore Local Currency Debt Portfolio
Auriel Global Macro Fund
BC European Capital VII
BDC Offshore Fund II Ltd.
Bernstein Global Long/Short Equity Portfolio L.P.
Bridgewater Pure Alpha Fund II Ltd
Canary Wharf Group plc
Canyon Value Realization Fund (Cayman) Ltd
CFM Corporation
Crestline Offshore Fund Ltd
CTVglobemedia Inc.
Davidson Kempner International Ltd
Easton-Bell Sports, LLC
Express Pipeline Ltd.
GCAN Holdings Inc.
GMO Mean Reversion Fund (Offshore) L.P.
Gottex ABL Fund
Grupo Corporativo Ono, S.A.
Hancock Timber Resource Group
Highland Crusader Fund Ltd.
IIG Trade Finance Partners Ltd.
InterGen N.V.
Kabel Deutschland GmbH
Macquarie Airports Group Limited
Maple Financial Group Inc.
Maple Leaf Sports & Entertainment Ltd.
Marathon Special Opportunity Fund Ltd.
Multiplan Empreendimentos Imobilarios S.A.
North American Oil Sands Corporation
Northern Star Generation LLC
Orbis Institutional Africa (Rand) Fund
Orbis Institutional Japan (Yen) Fund
Orbis Sicav Global Equity Fund
Park Square Capital, LLC
Providence Equity Partners Fund IV
Providence Equity Partners Fund V
Prudential Timber Investments Inc.
Relational Investors LLC
Resource Management Service Inc.
Samsonite Corporation
Scotia Gas Networks PLC
Silver Creek Low Vol Strategies, Ltd.
Silver Creek Low Vol Strategies II, Ltd.
Southern Cross Airports Corporation Holdings Inc.
van Biema Value Fund, Ltd.
York Street Capital Partners

Eleven-Year Review

($ billions)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
CHANGE IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31											
Income											
Investment Income	$ 12.31	$ 14.09	$ 10.80	$11.42	$ (1.41)	$(1.74)	$ 6.21	$10.12	$ 5.14	$ 7.25	$ 7.44
Contributions											
Members/Transfers	0.83	0.79	0.75	0.71	0.68	0.64	0.62	0.63	0.61	0.59	0.62
Province of Ontario	0.82	0.78	0.75	0.72	0.70	0.68	0.66	0.66	0.65	0.65	0.67
Province of Ontario – special payments	–	–	–	–	–	–	–	0.13	0.49	0.46	0.15
Total income	13.96	15.66	12.30	12.85	(0.03)	(0.42)	7.49	11.54	6.89	8.95	8.88
Expenditures											
Benefits paid	3.82	3.62	3.43	3.20	3.08	3.08	2.54	2.28	2.10	1.80	1.52
Investment expenses	0.22	0.21	0.19	0.16	0.10	0.12	0.10	0.09	0.07	0.06	0.04
Client service expenses	0.03	0.03	0.03	0.03	0.03	0.04	0.03	0.03	0.03	0.03	0.03
Total expenditures	4.07	3.86	3.65	3.39	3.21	3.24	2.67	2.40	2.20	1.89	1.59
Increase (decrease) in net assets	$ 9.89	$ 11.80	$ 8.65	$ 9.46	$ (3.24)	$(3.66)	$ 4.82	$ 9.14	$ 4.69	$ 7.06	$ 7.29
NET ASSETS AS AT DECEMBER 31											
Investments											
Fixed income	$ 21.44	$ 19.33	$ 13.91	$19.38	$13.96	$ 7.09	$13.32	$17.30	$11.48	$10.28	$10.62
Equities											
Canadian	16.39	19.26	16.80	15.19	13.43	17.06	17.74	19.89	17.61	19.43	17.37
Non-Canadian	32.42	25.78	23.09	19.13	18.19	24.28	23.14	21.76	24.02	19.96	16.01
Inflation-sensitive investments											
Commodities	2.32	2.65	2.13	1.89	1.48	1.09	2.10	1.09	0.40	0.13	–
Real estate	14.53	12.45	10.90	9.87	11.49	11.59	6.20	2.82	1.58	1.56	1.27
Infrastructure and timber	6.78	4.77	2.99	1.90	0.97	0.03	–	–	–	–	–
Real-rate products	11.80	10.56	11.90	7.07	5.92	6.98	9.55	4.24	3.02	1.60	1.07
Net investments	105.68	94.80	81.72	74.43	65.44	68.12	72.05	67.10	58.11	52.96	46.34
Receivable from Province of Ontario	1.58	1.50	1.42	1.36	1.32	1.28	1.25	1.25	1.23	1.26	1.29
Other assets	35.47	20.90	23.17	11.30	23.45	24.26	13.15	7.04	5.39	8.54	3.29
Total assets	142.73	117.20	106.31	87.09	90.21	93.66	86.45	75.39	64.73	62.76	50.92
Liabilities	(36.72)	(21.07)	(21.98)	(11.41)	(24.00)	(24.20)	(13.33)	(7.08)	(5.56)	(8.27)	(3.48)
Net assets	106.01	96.13	84.33	75.68	66.21	69.46	73.12	68.31	59.17	54.49	47.44
Smoothing reserve	(11.16)	(7.44)	(1.54)	3.48	9.65	2.97	(4.34)	(8.32)	(4.79)	(5.58)	(4.42)
Actuarial value of net assets	94.85	88.69	82.79	79.16	75.86	72.43	68.78	59.99	54.38	48.91	43.02
Accrued pension benefits	110.50	110.53	96.73	83.12	73.67	65.43	58.56	52.11	48.64	44.46	41.83
(Deficit)/surplus	$(15.65)	$(21.84)	$(13.94)	$ (3.96)	$ 2.19	$ 7.00	$10.22	$ 7.88	$ 5.74	$ 4.45	$ 1.19
PERFORMANCE (%) FOR THE YEAR ENDED DECEMBER 31											
Rate of return	13.2	17.2	14.7	18.0	(2.0)	(2.3)	9.3	17.4	9.9	15.6	19.0
Benchmark	9.4	12.7	10.6	13.5	(4.8)	(5.3)	5.3	17.6	11.9	15.6	18.1

Corporate Directory

Ontario Teachers' Pension Plan

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David McGraw, Vice-President and Chief Financial Officer

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John Brennan, Vice-President

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Roger Barton, Vice-President, General Counsel and Secretary

Information & Technology
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Finance and Taxation
Ian MacKellar, Executive Vice-President and Chief Financial Officer

Investments
Andrea Stephen, Executive Vice-President

General Counsel and Secretary
Peter Barbetta, Executive Vice-President

Annual Meeting
April 20, 2007
The Carlu, Toronto

We welcome your comments and suggestions on this annual report.

Please contact:
Deborah Allan
Director, Communications and Media Relations
Tel: 416.730.5347
E-mail: communications@otpp.com

Ontario Teachers' Pension Plan
5650 Yonge Street, Toronto, Ontario M2M 4H5

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