Management's Responsibility for Financial Reporting

The consolidated financial statements of the Ontario Teachers' Pension Plan have been prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must, of necessity, be based on estimates and judgements. The accounting policies followed in the preparation of these consolidated financial statements conform with Canadian generally accepted accounting principles. Financial information presented throughout the annual report is consistent with the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, a code of conduct, the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization.

Ultimate responsibility for the consolidated financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit and Actuarial Committee, consisting of five directors who are not officers or employees of the plan administrator. In addition, the committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations.

In carrying out its duties and responsibilities, the committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. This committee reviews the consolidated financial statements and recommends them for approval by the Board.

The plan's external auditors, Deloitte & Touche LLP, are directly accountable to the Audit and Actuarial Committee and have full and unrestricted access to the Committee. They discuss with the Committee their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal control systems. The plan's external auditors have conducted an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express the opinion in their Report to the Administrator.

C Lamoureux

Claude Lamoureux
President and
Chief Executive Officer
February 9, 2005

David McGraw

David McGraw
Vice-President, Finance

Auditors' Report to the Administrator

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and deficit of the Ontario Teachers' Pension Plan as at December 31, 2004 and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in deficit for the year then ended. These consolidated financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and deficit of the Plan as at December 31, 2004 and the changes in its net assets available for benefits, accrued pension benefits and deficit for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Toronto, Canada, February 9, 2005

Actuaries' Opinion

Mercer Human Resource Consulting Limited was retained by the Ontario Teachers' Pension Plan Board (the "Board") to perform an actuarial valuation of the assets and the going concern liabilities of the Ontario Teachers' Pension Plan (the "Plan") as at December 31, 2004, for inclusion in the Plan's financial statements. As part of the valuation, we examined the Plan's recent experience with respect to the non-economic assumptions and presented our findings to the Audit and Actuarial Committee of the Board.

The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board as at December 31, 2003;
- methods prescribed by Section 4100 of the Canadian Institute of Chartered Accountants' Handbook for pension plan financial statements;
- real and nominal interest rates on long-term Canada bonds at the end of 2004; and
- assumptions about future events (for example, future rates of inflation and future retirement rates) which have been communicated to us as the Board's best estimate of these events.

The objective of the financial statements is to fairly present the financial position of the Plan on December 31, 2004 as a going concern. This is different from the statutory valuation (the actuarial valuation required by the *Teachers' Pension Act* and the *Pension Benefits Act (Ontario)*), which uses actuarial methods prescribed by the *Teachers' Pension Act* to establish a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements represent the Board's best estimate of future events and market conditions at the end of 2004, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have tested the data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation are appropriate for the purposes of the valuation, and that the assumptions used in the valuation are in accordance with accepted actuarial practice. Our opinions have been given, and our valuation has been performed, in accordance with accepted actuarial practice.

Lester J. Wong, F.C.I.A.

Malcom P. Hamilton, F.C.I.A.

February 9, 2005

Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Deficit

as at December 31, 2004 ($ millions)	2004	2003
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments *(note 2)*	**$103,394**	$85,277
Receivable from the Province of Ontario *(note 3)*	**1,423**	1,360
Receivable from brokers	**1,407**	414
Cash	**81**	32
Fixed assets	**8**	7
	106,313	87,090
Liabilities		
Investment-related liabilities *(note 2)*	**21,675**	10,846
Due to brokers	**106**	412
Accounts payable and accrued liabilities	**206**	155
	21,987	11,413
Net assets available for benefits	**84,326**	75,677
Actuarial asset value adjustment *(note 4)*	**(1,535)**	3,480
Actuarial value of net assets available for benefits	**$ 82,791**	$79,157
ACCRUED PENSION BENEFITS AND DEFICIT		
Accrued pension benefits *(note 5)*	**$ 96,728**	$83,123
Deficit	**(13,937)**	(3,966)
Accrued pension benefits and deficit	**$ 82,791**	$79,157

On behalf of the Board:

Chair

Board Member

Consolidated Statement of Changes in Net Assets Available for Benefits

for the year ended December 31, 2004 ($ millions)	2004	2003
Net assets available for benefits, beginning of year	$ 75,677	$66,213
Investment operations		
Investment income *(note 8)*	10,803	11,424
Investment expenses *(note 13a)*	(187)	(162)
Net investment operations	10,616	11,262
Member service operations		
Contributions *(note 11)*	1,495	1,435
Benefits paid *(note 12)*	(3,428)	(3,199)
Member service expenses *(note 13b)*	(34)	(34)
Net member service operations	(1,967)	(1,798)
Increase in net assets available for benefits	8,649	9,464
Net assets available for benefits, end of year	$ 84,326	$75,677

Consolidated Statement of Changes in Accrued Pension Benefits

for the year ended December 31, 2004 ($ millions)	2004	2003
Accrued pension benefits, beginning of year	$ 83,123	$73,665
Increase in accrued pension benefits		
Interest on accrued pension benefits	4,706	4,311
Benefits accrued	2,299	2,001
Changes in actuarial assumptions *(note 5a)*	10,132	5,560
Experience (gains)/losses *(note 5c)*	(104)	785
	17,033	12,657
Decrease in accrued pension benefits		
Benefits paid *(note 12)*	3,428	3,199
Net increase in accrued pension benefits	13,605	9,458
Accrued pension benefits, end of year	$ 96,728	$83,123

Consolidated Statement of Changes in Deficit

for the year ended December 31, 2004 ($ millions)	2004	2003
(Deficit)/surplus, beginning of year	$ (3,966)	$ 2,192
Increase in net assets available for benefits	8,649	9,464
Change in actuarial asset value adjustment *(note 4)*	(5,015)	(6,164)
Increase in actuarial value of net assets available for benefits	3,634	3,300
Net increase in accrued pension benefits	(13,605)	(9,458)
Deficit, end of year	$(13,937)	$(3,966)

Notes to Consolidated Financial Statements

for the year ended December 31, 2004

Description of Plan

The following description of the Ontario Teachers' Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Teachers' Pension Act* (the TPA) as amended.

(a) General

The Plan is governed by the TPA. It is a contributory defined benefit pension plan co-sponsored by the Province of Ontario (the Province) and Plan members, represented by the Ontario Teachers' Federation (the OTF). The terms of the Plan are set out in the Partners' Agreement.

The Plan is registered with the Financial Services Commission of Ontario and under the *Income Tax Act (Canada)* (registration number 0345785) as a Registered Pension Plan which is not subject to income taxes.

The Plan is administered and the investments are managed by the Ontario Teachers' Pension Plan Board (the Board). Under the TPA, the Board is constituted as a corporation without share capital to which the *Corporations Act (Ontario)* does not apply.

(b) Funding

Plan benefits are funded by contributions and investment earnings. Contributions are made by active members of the Plan and matched by the Province and designated private schools and organizations. The determination of the value of the benefits and required contributions is made on the basis of periodic actuarial valuations.

(c) Retirement Pensions

A retirement pension is available based on the number of years of credited service, the average of the best five annual salaries and the age of the member at retirement. A member is eligible for a reduced retirement pension from age 55, or age 50 provided the member ceased to be employed in education after June 29, 2001. An unreduced retirement pension is available at age 65 or at any age if the member has 35 years' credit or if the sum of a member's age and qualifying service equals 90, or 85 provided the member ceased to be employed in education after May 31, 1998.

(d) Disability Pensions

A disability pension is available at any age to a disabled member with a minimum of 10 years of qualifying service. The type of disability pension is determined by the extent of the disability.

(e) Death Benefits

Death benefits are available on the death of an active member and may be available on the death of a retired member. The benefit may take the form of a survivor pension, lump sum payment or both.

(f) Escalation of Benefits

Pension benefits are adjusted annually for inflation at 100 percent of the Consumer Price Index, subject to a limit of 8 percent in any one year with any excess carried forward.

(g) Retirement Compensation Arrangement

Restrictions in the *Income Tax Act (Canada)* and its regulations (ITA) on the payment of certain benefits from the registered pension plan for periods of service after 1991 may impact some Plan members. To address affected members, the Retirement Compensation Arrangement (RCA) has been created by agreement between the co-sponsors as a supplementary plan to provide for these benefits. Examples of these benefits include: (1) members of the Plan who retired with average earnings above $100,460 (CPP-exempt members $91,667) in 2004 and $94,765 (CPP-exempt members $86,111) in 2003; and (2) members whose pensions would require a larger reduction for early retirement to comply with the ITA limitations than the Plan would impose. Because the RCA is a separate trust, the net assets available for benefits and accrued benefits and deficit of the RCA are not included in these consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

The financial statements of wholly owned subsidiary companies are consolidated as part of the Plan's financial statements. The Plan's consolidated financial statements include its proportionate share of the fair value of assets, liabilities and operations of investments in significant joint ventures.

Intercompany transactions and balances are eliminated in preparing these consolidated financial statements.

Certain comparative figures have been reclassified to conform with the current year's presentation.

(b) Investments

Valuation of Investments

Investments and investment-related receivables and liabilities are stated at fair value. Fair value 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.

Fair values of investments are determined as follows:

a. Short-term money-market securities are valued using either market quoted prices or discounted cash flows based on current market yields, when market quoted prices are unavailable.

b. Bonds are valued on the basis of market quotes. Where quoted prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

c. Public equities are valued at quoted market prices.[1]

d. Real estate, private equities, infrastructure and timber are valued based on estimated fair values determined using appropriate valuation techniques and management's and/or appraiser's best estimates.

e. All derivative financial instruments are recorded at fair value using market prices. Where quoted market values are not readily available, appropriate valuation techniques are used to determine fair value.

Trade-Date Reporting

Purchases and sales of investments and derivative contracts are recorded as of the trade date (the date upon which the substantial risks and rewards have been transferred).

Investment Income

Dividend income is recognized based on the ex-dividend date, and interest income and real estate income are recognized on the accrual basis as earned. Investment income also includes gains and losses both realized and unrealized. Since real estate income is determined on a fair value basis, a charge for depreciation and amortization is excluded.

[1] *In the event a security halts trading for an unspecified period of time, management will estimate the fair value based on discussions with external parties and independent research.*

(c) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing on the year-end date. Income and expenses are translated into Canadian dollars at the exchange rates prevailing on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included within net realized and unrealized gains on investments in investment income.

(d) Accrued Pension Benefits

The value of accrued pension benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made as at the start of the year and then extrapolated to year end. It uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation date, of various economic and non-economic assumptions.

(e) Contributions

Contributions from the members and the Province are recorded on an accrual basis. Cash received from members for credited service and from other pension plans for transfers are recorded when received.

(f) Benefits

Benefits payments to members and others, commuted value payments and refunds to former members and transfer payments to other plans are recorded in the period in which they are paid. Any benefit payment accruals not paid are reflected in accrued pension benefits.

(g) Use of Estimates

In preparing these consolidated financial statements, management uses estimates and assumptions that primarily affect the reported values of assets and liabilities, and related income and expenses. Significant estimates are used primarily in the determination of accrued pension benefits and the fair value of investments and investment-related receivables and liabilities. *Note 5* explains how estimates are used in determining accrued pension benefits and *Note 1b* explains how estimates are used to derive the fair value of investments and investment-related receivables and liabilities.

2. Investments

The Plan invests directly or through derivatives in fixed income, equities and inflation-sensitive investments in accordance with its policy of asset diversification.

(a) Investments[1] before Allocating the Effect of Derivative Contracts

The schedule below summarizes the Plan's investments and investment-related receivables and liabilities, including net accrued interest and dividends of $379 million (2003 – $441 million), before allocating the effect of derivative contracts, as at December 31:

($ millions)		2004		2003
	Fair Value	*Cost*	*Fair Value*	*Cost*
Fixed income				
Debentures	$ 11,361	$ 9,178	$ 12,608	$ 9,963
Bonds	16,555	16,500	14,053	14,028
Money-market securities	6,240	6,231	5,212	5,202
Alternative investments[2]	4,768	4,340	4,029	3,518
	38,924	36,249	35,902	32,711
Equity				
Publicly traded				
Canadian	12,788	8,101	10,700	7,537
United States	3,306	3,237	3,586	3,492
Non-North American	6,502	5,764	5,594	5,351
Non-publicly traded				
Canadian *(note 6)*	2,395	2,398	2,204	2,104
United States	1,183	1,515	1,122	1,366
Non-North American	935	1,079	1,319	1,243
	27,109	22,094	24,525	21,093
Inflation-sensitive investments				
Real estate *(note 7)*	11,362	9,922	10,397	9,734
Real-rate products				
Canadian	8,515	6,178	6,498	5,035
United States	2,752	2,600	771	649
Infrastructure and timber	3,277	2,953	2,222	2,085
	25,906	21,653	19,888	17,503
	91,939	79,996	80,315	71,307
Investment-related receivables				
Securities purchased under agreements to resell	8,594	8,601	1,740	1,742
Cash collateral deposited under securities borrowing arrangements	13	13	–	–
Derivative-related, net	2,848	960	3,222	565
	11,455	9,574	4,962	2,307
Investments	103,394	89,570	85,277	73,614
Investment-related liabilities				
Securities sold under agreements to repurchase	(10,439)	(10,449)	(2,211)	(2,214)
Securities sold but not yet purchased				
Fixed income	(4,567)	(4,550)	(1,520)	(1,532)
Equities	(13)	(13)	–	–
Significant joint ventures *(note 6)*	(772)	(798)	(815)	(815)
Real estate *(note 7)*	(4,165)	(3,852)	(4,202)	(3,926)
Derivative-related, net	(1,719)	(740)	(2,098)	(1,061)
	(21,675)	(20,402)	(10,846)	(9,548)
Net investments *(note 2c)*	$ 81,719	$ 69,168	$ 74,431	$64,066

[1] *For additional details, refer to the schedule of Investments over $50 Million on page 52.*

[2] *Comprised of hedge funds and managed futures accounts.*

(b) Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, commodities, indices, interest rates or currency rates. Derivative contracts are transacted either in the over-the-counter (OTC) market or on regulated exchanges.

Notional amounts of derivative contracts represent the contractual amount to which a rate or price is applied for computing the cash to be paid or received. Notional amounts are the basis upon which the returns from, and the fair value of, the contracts are determined.

The following schedule summarizes the notional amounts and fair value of the Plan's derivative contracts held as at December 31:

($ millions)		2004		2003
	Notional	*Fair Value*	*Notional*	*Fair Value*
Equity and Commodity Derivatives				
Swaps	$20,746	$ 633	$20,993	$1,514
Futures	3,894	1	5,870	(50)
Options: Listed – purchased	63	1	63	–
– written	59	–	102	(1)
OTC – purchased	594	4	1,883	41
– written	846	(14)	2,129	(46)
		625		1,458
Interest Rate Derivatives				
Swaps	35,131	(332)	32,694	(182)
Futures	58,583	(10)	35,663	(9)
Options: Listed – purchased	3,637	2	5,302	4
– written	1,802	(3)	2,461	(5)
OTC – purchased	13,920	133	11,077	132
– written	13,627	(122)	11,500	(106)
		(332)		(166)
Currency Derivatives				
Swaps	666	102	529	53
Forwards[1]	52,913	417	36,692	259
Futures	62	–	–	–
Options: OTC – purchased	14,478	187	4,234	59
– written	2,096	(24)	568	(18)
		682		353
Credit Derivatives				
Credit default swaps – purchased	494	145	380	85
– written	306	(1)	403	1
Total return swaps	564	(2)	583	(5)
		142		81
Other Derivatives				
Volatility/variance swaps	3,690	13	951	3
Dividend swaps	124	37	107	19
		50		22
		1,167		1,748
Less: Net cash collateral received under derivative contracts		(38)		(624)
Net fair value of derivative contracts		$1,129		$1,124

[1] *Excludes currency forwards related to Real Estate assets as disclosed in* Note 7.

(b) Derivative Contracts (continued)

The net fair value of derivative contracts as at December 31 on the previous page is represented by:

($ millions)	*2004*	*2003*
Derivative-related receivables	**$ 2,988**	$ 3,941
Cash collateral paid under derivative contracts	**302**	157
Derivative-related liabilities	**(1,821)**	(2,193)
Cash collateral received under derivative contracts	**(340)**	(781)
	$ 1,129	$ 1,124

The derivative contracts on the previous page mature within one year except for the following, which have a weighted average maturity (in years) as follows:

		2004		*2003*
	Notional ($ millions)	*Weighted Average Maturity (years)*	*Notional ($ millions)*	*Weighted Average Maturity (years)*
Equity and Commodity Derivatives				
Swaps	**$ 1,878**	**2.6**	$ 3,260	2.6
Interest Rate Derivatives				
Swaps	**33,056**	**5.0**	30,064	7.3
OTC options	**10,478**	**3.6**	5,900	3.8
Currency Derivatives				
Swaps	**569**	**4.0**	530	4.2
Forwards	**541**	**1.0**	681	1.1
Credit Derivatives				
Credit default swaps	**693**	**4.2**	630	3.9
Total return swaps	**549**	**5.2**	572	4.6
Other Derivatives				
Volatility/variance swaps	**54**	**2.5**	220	2.3
Dividend swaps	**1**	**2.8**	80	3.3

(c) Investment Asset Mix

The Plan has a policy asset mix of approximately 45% equities, 23% fixed income and 32% inflation-sensitive investments at December 31, 2004. At December 31, 2003, the Plan's policy asset mix was approximately 50% equities, 20% fixed income and 30% inflation-sensitive investments.

Direct investments, derivative contracts, and investment-related receivables and liabilities are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolios of the Plan. The Plan's net investments as at December 31 are summarized below:

	2004		2003	
	Effective Net Investments at Fair Value ($ millions)	*Asset Mix %*	*Effective Net Investments at Fair Value ($ millions)*	*Asset Mix %*
Equity				
Canadian	**$16,797**	**21%**	$15,193	20%
United States	**7,746**	**9**	6,752	9
Non-North American	**15,341**	**19**	12,386	17
	39,884	**49**	34,331	46
Fixed income				
Bonds	**8,301**	**10**	10,303	14
Alternative investments	**4,481**	**5**	4,088	5
Absolute return strategies	**6,705**	**8**	6,599	9
Money market	**(1,875)**	**(2)**	2,056	3
Debt on real estate properties *(note 7)*	**(3,706)**	**(4)**	(3,670)	(5)
	13,906	**17**	19,376	26
Inflation-sensitive				
Real estate, net *(note 7)*	**10,903**	**13**	9,865	13
Real-rate products	**11,902**	**14**	7,069	9
Infrastructure and timber	**2,994**	**4**	1,900	3
Commodities	**2,130**	**3**	1,890	3
	27,929	**34**	20,724	28
Total net investments	**$81,719**	**100%**	$74,431	100%

(d) Interest Rate Risk

Interest rate risk refers to the effect on the market value of the Plan's assets and liabilities due to fluctuations in interest rates. The value of the Plan's assets is affected by short-term changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates as well as expectations for salary escalation.

As at December 31, 2004, holding the inflation and salary escalation assumptions constant, a 1% decrease in the assumed long-term real rates of return would result in an increase in the pension liabilities of approximately 16% (2003 – 15%).

After giving effect to the derivative contracts and investment-related receivables and liabilities discussed in *Note 2b*, a 1% increase in nominal interest rates would result in a decline in the value of the fixed income securities of 6.5% (2003 – 6.2%). Similarly, a 1% increase in real interest rates would result in a decline in the value of the real-rate products of 17% (2003 – 16%).

(e) Credit Risk

The Plan is exposed to the risk that a counterparty defaults or becomes insolvent (credit risk).

As at December 31, 2004, the Plan's most significant concentration of credit risk is with the Government of Canada and the Province of Ontario. This concentration relates primarily to the holding of $14.7 billion of Government of Canada issued securities, $11.4 billion of non-marketable Province of Ontario Debentures, $0.1 billion in Province of Ontario bonds, a receivable from the Province of Ontario of $1.4 billion (see *Note 3*), and future provincial funding requirements of the Plan.

The Plan limits derivative contract credit risk by dealing principally with counterparties that have a credit rating of A or higher, and by utilizing an internal credit-limit monitoring process, as well as through the use of credit mitigation techniques such as master-netting arrangements (which provide for certain rights of offset) and obtaining collateral where appropriate.

(f) Foreign Currency Risk

Foreign currency exposure arises from the Plan's holdings of foreign currency-denominated investments and related derivative contracts. Fluctuations in the relative value of the Canadian dollar against foreign currencies can result in a positive or negative effect on the fair value of investments.

As at December 31, the Plan had investments exposed to foreign currency. In Canadian dollars this exposure is as follows:

($ millions)	*2004*	*2003*
Currency	*Net Exposure*	*Net Exposure*
Japanese Yen	**$ 3,938**	$ 2,267
Euro	**3,176**	3,726
United States Dollar	**2,574**	5,146
British Pound Sterling	**1,999**	1,641
Australian Dollar	**724**	1,069
Korean Won	**634**	432
Swiss Franc	**450**	156
Hong Kong Dollar	**421**	293
Taiwan Dollar	**333**	186
Other	**2,365**	1,732
	$16,614	$16,648

(g) Securities Lending

The Plan lends securities as a means of generating incremental income or supporting other investment strategies. As at December 31, 2004, the Plan's investments included loaned securities with a fair value of $4,809 million (2003 – $6,108 million). The fair value of securities collateral received in respect of these loans was $4,677 million (2003 – $6,015 million).

(h) Securities Collateral

Securities with a fair value of $544 million (2003 – $775 million) have been deposited or pledged with various financial institutions as collateral or margin. Securities with a fair value of $12 million (2003 – $12 million) have been received from various financial institutions as collateral.

3. Receivable from the Province of Ontario

The receivable from the Province consists of required matching contributions and interest thereon.

($ millions)	*2004*	*2003*
Contributions receivable	**$1,370**	$1,303
Accrued interest receivable	**53**	57
	$1,423	$1,360

The receivable as at December 31, 2004 from the Province consists of $708 million, which was received in January 2005, and $715 million to be received with interest in 2006. The receivable as at December 31, 2003 from the Province consists of $683 million, which was received in January 2004 and an initial estimate of $677 million to be received in January 2005.

4. Actuarial Asset Value Adjustment

The actuarial value of net assets available for benefits is determined by reference to market rates consistent with assumptions underlying the valuation of accrued pension benefits. The adjustment represents accumulated deferred net gains, being the unamortized difference between the actual, and management's best estimate of, return on the Plan's equity investments (including real estate, commodities, alternative investments, infrastructure, and timber). Annual returns that are in excess of (gains) or below (losses) management's best estimate of returns are amortized over five years. The change in actuarial asset value adjustment for the year was $(5,015) million (2003 – $(6,164) million).

Fixed income securities are valued at fair value on a basis consistent with the discount rate used to value the Plan's accrued pension benefits, and therefore do not give rise to the need for an adjustment to net assets.

The following schedule summarizes the composition of the actuarial asset value adjustment as at December 31:

($ millions)	Unamortized (Gains)/Losses 2004	Unamortized (Gains)/Losses to Be Recognized In 2005	2006	2007	2008	Unamortized (Gains)/Losses 2003
2000	$ –	$ –	$ –	$ –	$ –	$ 224
2001	1,311	1,311	–	–	–	2,622
2002	3,303	1,651	1,652	–	–	4,954
2003	(3,240)	(1,080)	(1,080)	(1,080)	–	(4,320)
2004	(2,909)	(727)	(728)	(727)	(727)	–
	$(1,535)	$ 1,155	$ (156)	$(1,807)	$(727)	$ 3,480

5. Accrued Pension Benefits

(a) Actuarial Assumptions

The actuarial assumptions used in determining the value of accrued pension benefits of $96,728 million (2003 – $83,123 million), reflect management's best estimate of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, salary escalation rate and the inflation rate. The discount rate is based on the market rate, as at the valuation date, of long-term Government of Canada Real-Return Bonds which have characteristics similar to the Plan's liabilities.

The inflation rate is the difference between the yield on Government of Canada long-term nominal bonds and Government of Canada real-return bonds. The salary escalation rate incorporates the inflation rate assumption and long-term expectation of growth in real wages.

A summary of the primary economic assumptions, as at December 31, is as follows:

	2004	2003
Discount rate	5.35%	5.70%
Salary escalation rate	3.75%	3.35%
Inflation rate	2.75%	2.35%
Real rate	2.60%	3.35%

The primary economic assumptions were changed as a result of changes in capital markets during 2004. These changes resulted in a net increase in the value of accrued pension benefits of $9,952 million (2003 – $5,525 million increase). In addition, changes in non-economic assumptions increased the value of accrued pension benefits by $180 million (2003 – $35 million) resulting in a net increase in the value of accrued pension benefits of $10,132 million (2003 – $5,560 million).

(b) Plan Provisions

No material amendments were made to the Plan in 2004 or in 2003.

(c) Experience Gains and Losses

Experience gains of $104 million (2003 – $785 million loss) arose from differences between the actuarial assumptions and actual results.

6. Investments in Significant Joint Ventures

The Plan's proportionate share of the fair value of assets and liabilities in significant joint ventures at December 31, 2004 is $1,520 million (2003 – $1,647 million) and $772 million (2003 – $815 million) respectively.

7. Investment in Real Estate

(a) Investment in Real Estate

The Plan's investment in real estate, which is comprised of real estate-related investments that are either owned or managed on behalf of the Plan by The Cadillac Fairview Corporation Limited, a wholly owned subsidiary, as at December 31 is as follows:

($ millions)	*2004*		*2003*	
	Fair Value	*Cost*	*Fair Value*	*Cost*
Assets[1]				
Real estate properties	**$10,695**	**$9,183**	$10,002	$9,316
Investments	**553**	**585**	246	265
Other assets	**114**	**154**	149	153
Total assets	**11,362**	**9,922**	10,397	9,734
Liabilities[2]				
Debt on real estate properties	**3,706**	**3,512**	3,670	3,503
Other liabilities	**459**	**340**	532	423
Total liabilities	**4,165**	**3,852**	4,202	3,926
Net investment in real estate	**$ 7,197**	**$6,070**	$ 6,195	$5,808

(b) Real Estate Income

The Plan's real estate income for the year ended December 31 is as follows:

($ millions)	*2004*	*2003*
Revenue		
Rental	**$1,456**	$1,522
Investment	**(5)**	17
	1,451	1,539
Expenses[3]		
Property operating	**675**	699
General and administrative	**55**	20
Other	**11**	18
	741	737
Operating income (*note* 8)	**710**	802
Interest expense (*note* 8)	**(237)**	(242)
	473	560
Net investment gain on real estate assets[4, 6]	**926**	285
Net investment gain/(loss) on debt on real estate properties[5, 6]	**(26)**	162
Net real estate income	**$1,373**	$1,007

1 *As at December 31, 2004, U.S. dollar and British pound sterling assets have been hedged by way of foreign currency forward contracts for a notional amount of $1,556 million (2003 – $1,181 million) with a combined fair value of $16 million (2003 – $13 million).*

2 *As at December 31, 2004, there are contingent liabilities for the obligations of certain co-owners in the aggregate amount of $66.1 million (2003 – $67.2 million). However, in each case the co-owners' share of the assets was available for the purpose of satisfying such obligations.*

3 *Included in expenses are audit fees of $1.1 million (2003 – $1.1 million) incurred in connection with the audit of the real estate portfolio.*

4 *Includes unrealized net gains on real estate assets, net of other liabilities, of $767 million (2003 – $305 million loss).*

5 *Includes unrealized net loss on debt on real estate properties of $27 million (2003 – $171 million gain).*

6 *This amount is included in net realized and unrealized gain on investments shown in* Note 8.

8. Investment Income

(a) Investment Income before Allocating Net Realized and Unrealized Gains on Investments to Asset Classes

Investment income, before allocating the net realized and unrealized gains on investments to asset classes, for the year ended December 31, is as follows:

($ millions)	*2004*	*2003*
Fixed income interest		
Debentures	$ 1,072	$ 1,220
Money-market securities	130	106
Bonds	756	775
Net repo interest expense	(10)	(80)
Net swap interest expense	(532)	(515)
Real estate interest expense *(note 7b)*	(237)	(242)
	1,179	1,264
Equity dividend income		
Canadian equity	379	277
United States equity	177	113
Non-North American equity	453	299
	1,009	689
Inflation-sensitive investment income		
Real estate operating income *(note 7b)*	710	802
Real-rate products		
Canadian	215	175
United States	26	24
Infrastructure and timber	142	92
	1,093	1,093
	3,281	3,046
Net gain on investments[1, 2]	7,522	8,378
Investment income	$10,803	$11,424

[1] *Includes unrealized net gains of $2,186 million (2003 – $6,676 million).*

[2] *Includes foreign currency gains of $1,156 million (2003 – $2,057 million).*

(b) Investment Income

Investment income by asset class, after allocating net realized and unrealized gains and losses on investments for the year ended December 31, is as follows:

($ millions)	*2004*	*2003*
Fixed income	$ 931	$ 2,931
Canadian equity	2,474	2,911
United States equity	1,005	336
Non-North American equity	2,751	3,172
Inflation-sensitive investments	3,642	2,074
	$10,803	$11,424

9. Investment Returns and Related Benchmark Returns

Investment returns and related benchmark returns by investment asset class for the year ended December 31 are as follows:

	2004		2003	
	Investment Returns	*Investment Benchmark Returns*	*Investment Returns*	*Investment Benchmark Returns*
Fixed income[1]	**13.3%**	**8.6%**	18.8%	10.8%
Canadian equity	**21.1**	**14.5**	31.5	26.7
United States equity	**3.0**	**3.3**	6.3	5.3
Non-North American equity	**13.2**	**11.3**	15.2	14.5
Inflation-sensitive investments	**15.9**	**10.2**	9.8	6.6
Total Plan	**14.7%**	**10.6%**	18.0%	13.5%

[1] *Includes currency policy hedge trading, absolute return strategy investments and alternative investments.*

Investment returns have been calculated in accordance with the acceptable methods set forth by the CFA Institute and the Pension Investment Association of Canada.

The Plan identifies benchmarks to evaluate the investment management performance. The performance of each asset class is measured against benchmarks that simulate the results of the investment strategies employed by the investment managers.

The total Plan return is measured against a Canadian dollar-denominated composite benchmark produced by aggregating returns from each of the policy asset class benchmarks, using the Plan's asset-mix policy weight.

10. Statutory Actuarial Valuations

Statutory actuarial valuations are prepared periodically in accordance with the *Teachers' Pension Act* to determine the funding requirements of the Plan. Active members are currently required to contribute 7.3 percent of the portion of their salaries covered by the Canada Pension Plan and 8.9 percent of salaries above this level. Member contributions are matched by the Province and other employers. In addition, the Funding Management Policy established by the Partners provides a procedure for the Partners to determine contributions and benefits.

The actuarial methods used to prepare statutory actuarial valuations are different than those used to prepare a financial statement actuarial valuation and the amounts disclosed in these consolidated financial statements. The statutory actuarial valuations use a valuation method prescribed in the *Teachers' Pension Act*, which takes into account future benefits to be earned and future contributions to be made by members of the Plan as at the valuation date.

The most recent statutory actuarial valuation that has been filed with regulatory authorities was prepared as at January 1, 2003 by Mercer Human Resource Consulting Limited and disclosed a funding surplus of $1,540 million. As at January 1, 2005, the Plan is estimated to have a funding deficit of $19,356 million. A statutory actuarial valuation is not required to be filed as at January 1, 2005. The next required filing is no later than as at January 1, 2006.

11. Contributions

($ millions)	2004	2003
Members		
Current service	$ 702	$ 672
Optional credit	23	21
	725	693
Province of Ontario		
Current service	689	664
Interest	38	42
Optional credit	19	7
	746	713
Other employers	12	12
Transfers from other pension plans	12	17
	24	29
	$1,495	$1,435

12. Benefits Paid

($ millions)	2004	2003
Retirement pensions	$3,187	$2,969
Death benefits	168	159
Disability pensions	33	33
Commuted value transfers	24	22
Refunds	10	10
Transfers to other plans	6	6
	$3,428	$3,199

13. Administrative Expenses

(a) Investment Expenses

($ millions)	2004	2003
Salaries, incentives and benefits	$105.2	$ 95.2
External investment management fees	43.0	33.6
Professional and consulting services[1]	11.9	7.9
Custodial fees	8.0	7.2
Premises and equipment	7.5	9.1
Information services	7.4	6.4
Communication and travel	4.2	3.8
Statutory audit fees	0.7	0.7
Other	0.8	1.0
Recovery of Goods and Services Tax	(1.6)	(2.8)
	$187.1	$162.1

[1] *Included in professional and consulting services are other audit-related fees of $0.1 million (2003 – $0.4 million) and non-audit-related fees nil (2003 – nil) that were paid to the auditors of the Plan.*

(b) Member Service Expenses

($ millions)	2004	2003
Salaries, incentives and benefits	$21.9	$21.9
Premises and equipment	7.2	7.1
Professional and consulting services	2.1	2.1
Communication and travel	1.5	1.6
Board and Committee remuneration	0.2	0.2
Statutory audit fees	0.2	0.2
Other	0.8	0.8
Recovery of Goods and Services Tax	(0.2)	(0.4)
	$33.7	$33.5

(c) Remuneration of the Board and Committee Members

Each Board member received an annual retainer of $7,500, plus $7,500 as a member of the Investment Committee. The Board Chair received an additional retainer of $25,000 and the Chairs of the Investment, Governance, Human Resource & Compensation, and Audit & Actuarial Committees received additional retainers of $4,000 each.

Fees for committee meetings and other eligible meetings attended are $625. Board meeting fees are typically combined with Investment Committee fees at $1,250 per day. The Chair of the Benefits Adjudication Committee receives an additional fee of $625 for each Benefits Adjudication meeting or hearing attended, to a maximum of six per annum.

Directors receive no additional benefits other than normal expenses for travel, meals and accommodation, as required.

(d) Executive Compensation

The compensation table represents full disclosure of base salary, annual bonus, long-term incentives and other compensation earned in 2004, 2003 and 2002 by the Chief Executive Officer and the four other most highly compensated executives, excluding subsidiary companies. The Board's advisor for compensation purposes is Towers Perrin.

Name and Principal Position	*Year*	*Base Salary*	*Annual Bonus*[1]	*Long-term Incentive Plan*[2]	*Group Term Life Insurance*	*Other Compensation*	*Total Compensation*
Claude Lamoureux	2004	$446,673	$585,300	$3,500,400	$777	$14,795[3]	$4,547,945
President and CEO	2003	434,169	590,100	1,028,600	846	9,600[4]	2,063,315
	2002	422,000	567,600	973,400	885	9,620[4]	1,973,505
Bob Bertram	2004	351,796	650,600	2,715,200	612	8,000[4]	3,726,208
Executive VP, Investments	2003	338,246	648,300	703,700	659	14,562[3]	1,705,467
	2002	326,115	624,000	618,100	684	14,323[3]	1,583,222
Neil Petroff	2004	234,181	472,400	1,768,900	407	–	2,475,888
Senior VP, TAA &	2003	227,038	457,400	467,400	442	–	1,152,280
Alternative Investments	2002	220,299	434,100	364,900	462	–	1,019,761
Brian Gibson	2004	232,781	464,900	1,624,100	405	–	2,322,186
Senior VP, Public Equities	2003	225,615	454,600	397,000	440	–	1,077,655
	2002	209,708	438,200	282,300	438	–	930,646
Jim Leech	2004	241,846	488,000	1,548,000	421	–	2,278,267
Senior VP, Private Capital	2003	234,292	472,000	246,000	456	–	952,748
	2002	227,769	448,100	–	478	–	676,347

1 *Annual bonuses for Investment executives are based on a combination of total fund, asset class, and individual performance. Investment performance is measured in dollars of value added above established benchmarks. Performance versus benchmark is measured over four annual performance periods. Participants can earn annual bonuses from 0 to 5 times the target level for the position based on performance results over the four-year period. Annual bonuses for other executive staff are based on achievement of corporate and divisional objectives.*

2 *The Investment Long-term Incentive Plan (LTIP) provides initial cash grants to participants as a percentage of annual base salary at the beginning of a performance cycle plus annual bonus from the year preceding the performance cycle. Initial grant values grow with the Total Fund absolute rate of return and by the performance multipliers based on the Total Fund and Asset Class dollar value added performance over established benchmarks. Beginning with the 2001–2004 performance period, the maximum multiplier for combined Total Fund and Asset Class performance increased from 5 times to 10 times.*

Following a competitive review conducted in 2003, initial grant levels under the Investment LTIP have been reduced between 25% and 33%, beginning with the 2004–2007 performance period.

3 *Includes an automobile allowance and unused vacation cashout.*

4 *Automobile allowance.*

(e) Retirement Benefits

Executive employees of the Ontario Teachers' Pension Plan participate in the Public Service Pension Plan (PSPP) and the Public Service Supplementary Benefits Account (SBA). These plans combined provide indexed pension benefits equal to 2% of the executive's best five-year average annual base salary for each year of service, less a Canada Pension Plan integration formula. Benefits under these combined plans are capped by the base salary reached at the maximum pension contribution permitted under the *Income Tax Act (Canada)* regulations. Benefits provided under the PSPP and SBA, combined, are summarized in the chart below:

	Years in Service			
Average Pensionable Earnings	*15*	*20*	*25*	*30*
$150,000	$40,818	$54,423	$68,029	$81,632
172,381	47,532	63,376	79,220	95,064
200,000	47,532	63,376	79,220	95,064
250,000	47,532	63,376	79,220	95,064

Executives earning 2004 annual salaries in excess of $172,381 also participate in a non-registered, unfunded Supplemental Employee Retirement Plan (SERP). This plan provides non-indexed retirement benefits equal to 2% of the executive's best three-year average annual salary for each year of service, less the initial annual pension to which the executive is entitled under the PSPP and SBA, combined.

For executives at the Executive Vice-President level and above, average annual salary includes a percentage of annual incentive, building at 20% per year to 100%.

For executives at the Senior Vice-President level, having attained the age of 55, average annual salary includes a percentage of annual incentive, building at 10% per year to 50%.

The total liability for the SERP increased by $1.5 million in 2004 for a total accrued SERP liability of $7.1 million as at December 31, 2004.

The table below outlines the estimated present value of the total pension from all sources (PSPP, SBA, & SERP) and estimated annual pension benefits at age 65 for the Chief Executive Officer and four other most highly compensated executives, excluding subsidiary companies.

Name and Principal Position	*2004 Change in Present Value*	*Present Value of Total Pension*	*Estimated Annual Pension Benefit at Age 65*	*Projected Years of Service at Age 65*
Claude Lamoureux President and CEO	$644,100	$3,637,300	$338,000	17
Bob Bertram Executive VP, Investments	662,200	2,915,400	346,300	19
Neil Petroff Senior VP, TAA & Alternative Investments	334,300	1,141,600	403,200	32
Brian Gibson Senior VP, Public Equities	269,000	935,500	311,400	25
Jim Leech Senior VP, Private Capital	192,100	423,300	129,700	11

The values shown are estimated amounts based on assumptions and represent entitlements that may change over time.

14. Retirement Compensation Arrangement

Restrictions in the *Income Tax Act (Canada)* and its regulations (ITA) on the payment of certain benefits from a registered plan for periods of service after 1991 may impact some Plan members. To address affected members, the Retirement Compensation Arrangement (RCA) has been created by agreement between the Province of Ontario and the Ontario Teachers' Federation (the co-sponsors) as a supplementary plan to provide for these benefits.

The RCA is administered under a trust separate from the assets of the Plan. The Board has been appointed by the co-sponsors to act as the trustee of the RCA.

Because the RCA is a separate trust, the net assets available for benefits and the value of accrued benefits and deficit, referred to below, have not been included in these consolidated financial statements of the Plan.

The RCA is funded on a pay-as-you-go basis from a portion of the contributions made to the Board by teachers, the Province of Ontario and designated private schools and organizations. The portion is based on a rate determined periodically by the Board's independent actuary in a manner that is expected to be sufficient to pay the benefits over the next 12 months. Due to the funding policy adopted by the co-sponsors, the assets will continue to be substantially less than the liabilities.

In addition, because it is difficult to predict the benefits expected to be paid over the next 12 months, it is possible that the assets may be insufficient to pay the benefits. In such a case, the payment of benefits will be temporarily suspended and contributions raised in order to fund the payments that are due under the RCA.

A summary of the financial statements for the RCA as at December 31 is as follows:

($ thousands)	*2004*	*2003*
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS AND DEFICIT		
Net assets available for benefits		
Assets	**$ 9,005**	$ 6,418
Liabilities	**(1,077)**	(1,195)
	$ 7,928	$ 5,223
Accrued benefits and deficit		
Accrued benefits	**$ 188,569**	$ 157,977
Deficit	**(180,641)**	(152,754)
	$ 7,928	$ 5,223
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS		
Contributions	**$ 4,802**	$ 4,868
Investment income	**33**	3
	4,835	4,871
Benefits paid	**2,056**	1,729
Expenses	**74**	68
	2,130	1,797
Increase in net assets	**$ 2,705**	$ 3,074

The actuarial assumptions used in determining the value of accrued benefits are consistent with the assumptions used in the Plan except that the assumed discount rate has been adjusted to reflect the effect of the 50 percent refundable tax under the RCA.

The estimate of the value of accrued benefits is highly sensitive to salary increases, both actual and assumed. Any changes to the salary assumptions will have a significant effect on the liabilities for future benefits. In addition, significant uncertainty exists in projecting the liabilities of the RCA due to changes in the number of future participants as well as changes to the income tax regulations relating to pensions.

15. Commitments

The Plan has committed to enter into investment transactions, which may be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2004, these potential commitments totalled $5,637 million (2003 – $4,579 million).

16. Guarantees and Indemnifications

Guarantees

In 2004, as part of an investment transaction, the Plan agreed to guarantee a letter of credit facility of a counterparty. In the event that the counterparty defaults on the letter of credit, the Plan would assume 50% of the line of credit amount up to US$40 million plus interest and transaction costs. The duration of this obligation cannot be determined until June 29, 2005, the last day on which a letter of credit can be drawn under the guaranteed letter of credit facility. As at December 31, 2004 the counterparty has not drawn down on any letters of credit under this facility.

The Plan also indirectly guarantees the underlying reference obligations when writing credit derivatives. The maximum potential exposure is the notional amount of written credit derivatives as shown in *Note 2b*. No payments related to written credit derivatives have been made in either 2004 or 2003.

Indemnifications

The Plan provides that Board members, employees and certain others are to be indemnified against the expenses related to proceedings against them. In addition, in the normal course of operations, the Plan may, in certain circumstances, agree to indemnify a counterparty. Under these agreements, the Plan may be required to compensate counterparties for costs incurred as a result of various contingencies such as legal claims or changes in laws and regulations. The number of such agreements, the variety of indemnifications and their contingent character prevents the Plan from making a reasonable estimate of the maximum amount that would be required to pay all such counterparties. To date, no payments or accruals have been made under such indemnifications other than legal expenditures for employees amounting to approximately $20,000 in both 2004 and 2003.