TEACHERS' PENSION PLAN ONTARIO

A Matter of Balance | 2006 Report to Members

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Balance is the key to effective pension plan management. We must balance costs and service levels; investment risks and returns; the needs of retiring, young and future generations of plan members; the right mix of assets to meet the plan's long-term requirements. All of these factors are in play as we try to solve the most important equation of all: balancing plan assets and liabilities over time.

This report sets out our 2006 performance for investments and member services, and explains the current status of the pension plan's all important funding balance.

Investment returns top 13%

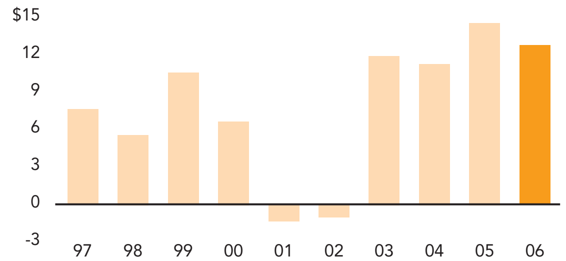
The fund generated $12.3 billion in investment income in 2006 – roughly three years' worth of pension payments – increasing the plan's net assets to $106.0 billion.

Our investment team produced a one-year rate of return of 13.2%, compared to the fund's composite benchmark of 9.4%. This is the seventh straight year our performance has exceeded the fund's composite benchmark.

The difference between the actual return and the benchmark represents an extra $3.4 billion in income (or value added) created by the investment team. We measure our performance against a composite benchmark that is calculated using the actual returns of the markets we invest in, such as the S&P/TSX Composite and real-return bond markets. The actual returns are weighted according to the proportion of assets we place in stocks, bonds and other investments to form the fund's composite benchmark.

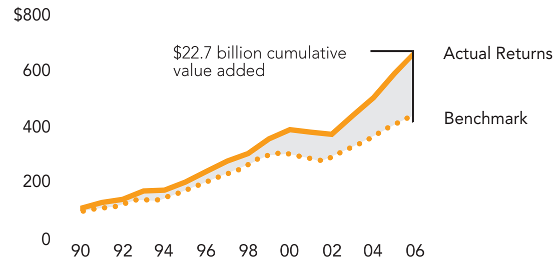
The investment team has achieved these results by managing risk, diversifying the portfolio and taking advantage of opportunities to add value when they arise.

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



The fund earned $12.3 billion in investment income in 2006 and more than $37 billion over the last three years.

INVESTMENT GROWTH
($100 invested in 1990)



Outperforming the fund's benchmark has caused the fund to grow by an additional $22.7 billion above market growth since 1990.

Plan members rate service 9 out of 10

Our Member Services team strives to improve service without increasing costs each year. In 2006, we continued to simplify our business processes and apply innovative technologies that offer more choice to plan members. We reduced costs to $118 per member served, compared to $122 in 2005, and maintained our strong 9.0 Quality Service Index (QSI) rating from plan members.

9
out of
10

We use the QSI to determine whether we are meeting members' service expectations and needs. The QSI is a measurement of service satisfaction, based on quarterly surveys of plan members that are conducted by a third party.

Our 9 out of 10 rating remained unchanged from 2005.

Balancing the pension plan is an ongoing challenge

Maintaining the balance between the plan's current assets and what it will cost to pay pensions in the future is an ongoing challenge – one that requires a significant amount of time and attention.

Last June, the Ontario Teachers' Federation (OTF) and the Ontario government announced contribution increases to rectify a $6.1 billion gap between the plan's assets and the cost of future pensions valued at January 2005. Contributions increased in January and will continue to increase each January until 2009.

While this action eliminated the shortfall measured at January 2005, a number of the factors that led to the 2005 shortfall are still with us: low interest rates, fewer contributors per retiree, and reduced prospects for investment earnings according to our modest outlook for stocks and bonds.

The outcome: a continuing imbalance in the plan's assets and future pension costs that may result in another shortfall next year. A funding valuation at January 1, 2007 showed a preliminary estimated shortfall of $17.4 billion. Using the revised rate of return assumption approved for the last filed valuation (dated January 1, 2005), the plan would have a $3.6 billion funding shortfall.

Without being able to predict real interest rates, it's impossible to tell what the plan's funding status will be in 2008. The January 1, 2008, funding valuation is due to be filed with provincial regulators by September 2008. If a shortfall persists, the plan sponsors will be required to take action to resolve it.

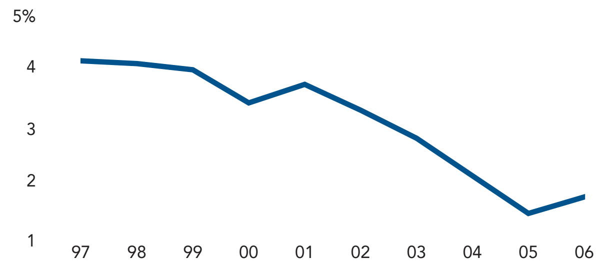
Rest assured pensions being paid to retired members and the value of your pension benefits earned to date cannot be reduced under Ontario's Pension Benefits Act.

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



When real interest rates are low, the cost of future pensions is higher because the pension plan needs more money today to earn the value of pensions to be paid in the future.

Survey on future funding decisions

As part of the 2005 funding valuation filing, the plan sponsors agreed that contributions cannot exceed 15% of base earnings.

This April, a survey of 2,500 working plan members will be conducted by POLLARA to find out how much members would be willing to contribute to maintain their current pension package. Members also will be asked to rank their preferences among some changes that could be made to pension plan provisions in the event of future shortfalls.

These changes might include, for example, one or more of the following options:

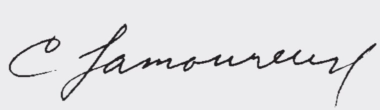
- reducing or eliminating cost-of-living increases on future service when there is a shortfall, and restoring increases when the funding status improves;
- decreasing the level of pension paid for future service (i.e., future credit earned after a plan change); and
- increasing the qualifying factor for an unreduced pension (currently an 85 factor, which is the sum of age plus years of service).

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

In conclusion

Management remains committed to working with the board members to support the OTF and the government as they continue to seek options to manage ongoing funding issues. In this regard, we are fortunate to have four new members on the board. Jill Denham joined the board in 2006, and Hugh Mackenzie, Louis Martel and Jean Turmel joined in 2007.

I extend our appreciation to Carol Stephenson and Douglas Grant, who provided valued counsel to the board and retired at the end of 2006. Above all, I would like to gratefully acknowledge the significant contribution of former chair, Robert Korthals, during his 10 years on the board. Eileen Mercier, a board member since 2005, was named chair in January, and we look forward to working with her during the coming year.



Claude Lamoureux | President and Chief Executive Officer

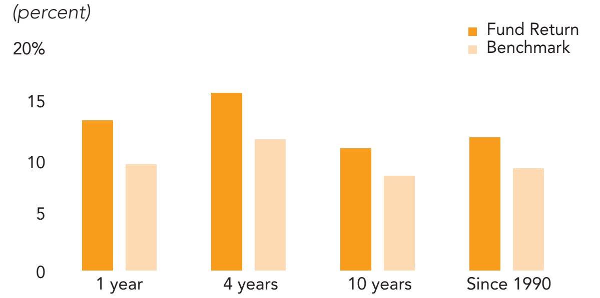
Investment Highlights

GOAL

Beat the fund's composite benchmark and maximize investment returns while taking on less risk

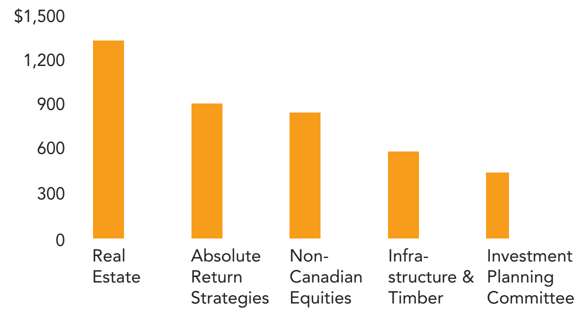
Beating the benchmark

LONG-TERM PERFORMANCE VS. BENCHMARK
(percent)



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

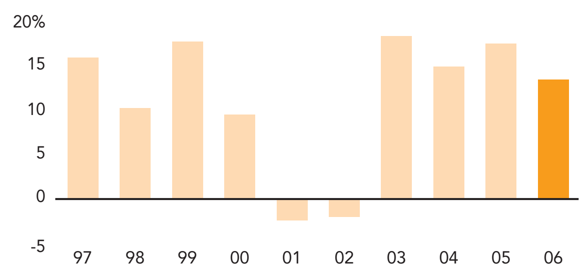
MAJOR SOURCES OF VALUE ADDED
(for the year ended December 31, 2006) ($ millions)



The amounts shown are the returns generated in excess of portfolio benchmarks, or "value added". Value added from real estate, managed by our subsidiary Cadillac Fairview, reflects the portfolio's capital appreciation in a strong property market.

Maximizing returns

RATES OF RETURN
(for the year ended December 31) (percent)



The fund performed well in 2006, but as shown on the adjacent table, recent returns are higher than historical averages.

AVERAGE RATE OF RETURN AFTER INFLATION

(percent)	*1-year*	*10-year*	***50-year***
Canadian equities	15.4	7.8	**5.6**
Canadian long bond	1.5	7.1	**3.5**
Canadian inflation rate	1.6	2.0	**4.1**

Over the past 50 years, average real returns (after inflation) for equities have been much lower than recent returns. Equities have outperformed bonds by only 2.1% over the long term – consistent with our lower expectations.

RATES OF RETURN COMPARED TO BENCHMARK

(percent)	*1-year Return*	*1-year Benchmark*
Equities	20.3	20.0
Fixed income	6.1	1.4
Inflation-sensitive investments	7.4	1.6
Total Fund	13.2	9.4*

* Composite benchmark weighted by the asset-mix policy.

A list of the market benchmarks used for each asset class is available in our online annual report at www.otpp.com.

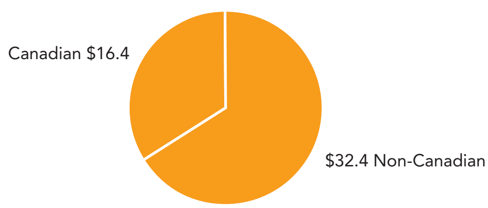
Minimizing risk

ASSET-MIX POLICY

(for the year ended December 31) (percent)	*2000*	*2006*
Equities	60	45
Inflation-sensitive investments	22	33
Fixed income	18	22

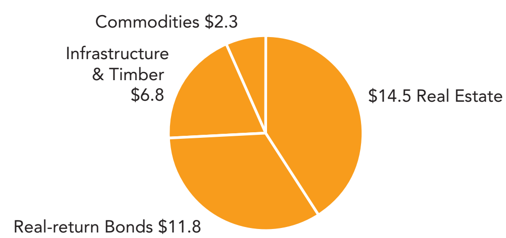
Equities are more volatile than other assets we hold. We have lowered the fund's overall exposure to equities since 2000 to reduce volatility in the contribution rate.

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



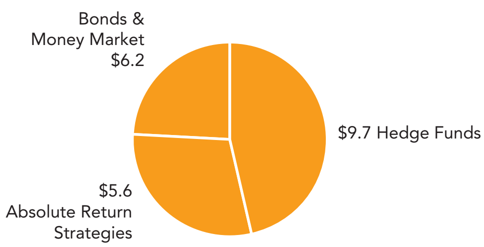
We ended 2006 with $48.8 billion invested in equities, compared to $45.1 billion at year-end 2005. This asset class remains the largest, although we have reduced the proportion of equities in our asset-mix policy.

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.

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



We have expanded this asset class to include absolute return strategies and hedge funds, totalling $21.5 billion at the end of 2006, compared to $19.3 billion in 2005. Our goal with these strategies is to generate positive returns whether global stock and bond markets rise or fall.

"The fund broke the $100 billion mark in 2006, ending the year at $106 billion on the strength of a 13.2% rate of return."

Robert Bertram | Executive Vice-President, Investments

Major Investments

(as at December 31, 2006)

Bonds and Real-Return Investments

($ billions)

Government of Canada bonds	$9.4
Canadian inflation-sensitive bonds, notes and mortgages	9.3
Canadian and international corporate bonds	9.2
Province of Ontario debentures and provincial bonds	8.1
International government and real-return bonds and debt	3.8
Commercial paper and bank notes	3.4
Canadian treasury bills	1.3

Real Estate Managed by Subsidiary

($ billions)

The Cadillac Fairview Corporation Limited	$14.5

Top 10 Real Estate Holdings

Chinook Centre, Calgary
Le Carrefour Laval, Montreal
Les Promenades St. Bruno, Montreal
Lime Ridge Mall, Hamilton
Markville Shopping Centre, Markham
Pacific Centre, Vancouver
Polo Park Mall, Winnipeg
Sherway Gardens, Toronto
Toronto-Dominion Centre Office Complex, Toronto
Toronto Eaton Centre, Toronto

Top 10 Private Companies and Partnerships

Bernstein Global Long/Short Equity Portfolio L.P.
CTVglobemedia Inc.
Canary Wharf Group plc
Hancock Timber Resource Group
InterGen N.V.
Multiplan Empreendimentos Imobilarios S. A.
Orbis Sicav Global Equity Fund
Relational Investors LLC
Resource Management Service Inc.
Scotia Gas Networks PLC

Corporate Share/Units

Security Name (millions)	*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
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

*Includes fair market value of VVPR STRIP securities

For a full list of equities and trust units valued at more than $50 million, please visit www.otpp.com > Investments > Major Investments.

Member Service Highlights

GOAL

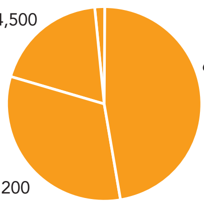
Continually improve the level of service we offer plan members, without increasing costs

Improving service for members

During 2006, we expanded the range and scope of our secure member website, *i*Access Web.

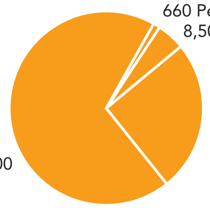
- 43% of retiring members initiated their retirement using our new online process
- 4,900 members updated their beneficiary information online for the first time
- 23,500 members used the online pension calculator to get pension estimates for different retirement scenarios
- 21,400 members viewed their annual pension statement online

SELF-SERVICE ACTIVITIES ON *i*Access



Members are using the secure members-only website to access more services online.

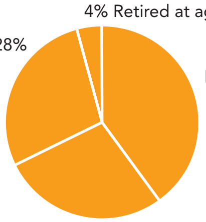
OTHER SERVICES



Members continue to value the ability to call or meet in person with pension benefit specialists to discuss their personal pension information.

WHEN TEACHERS RETIRE

(averaged since 1999)



Teachers are 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 58.5 years, with an expected 25 years on pension.

We expect that 46,000 teachers will retire over the next 10 years.

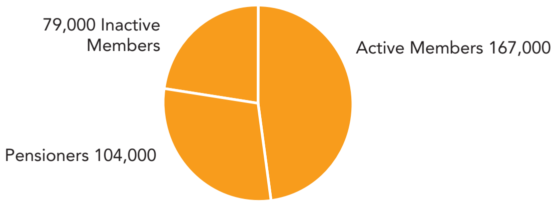
Managing costs

We reduced the cost per member served to $118 in 2006 from $122 in 2005, and also decreased total administration costs by $1.2 million to $32.5 million.

"Visit www.otpp.com to register for *i*Access – an easy, convenient way to get your up-to-date personal pension information."

Rosemarie McClean | Senior Vice-President, Member Services

MEMBER PROFILE



We began paying pensions to 4,900 new pensioners in 2006. The plan has 72 pensioners over age 100, and 2,200 in their nineties.

Corporate Profile

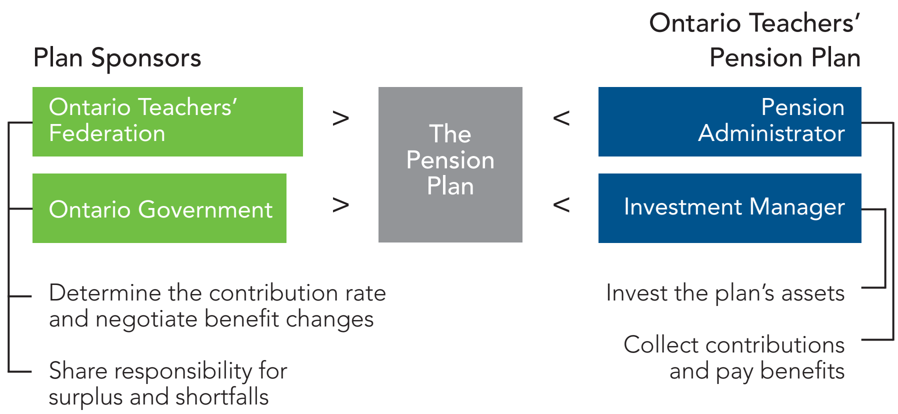
The Ontario Teachers' Pension Plan was created for Ontario teachers in 1917. In 1990, the Ontario government created an independent corporation with the authority to invest the plan's assets in financial markets and administer pensions.

The Ontario Teachers' Federation (OTF) and the Ontario government, the plan sponsors, are responsible for ensuring the pension plan is fully funded over the long term, and for setting plan benefit and contribution levels. The plan sponsors each appoint an equal number of members to the board, and jointly select a chair. Current board members are listed on our website under "About Us."

Today, the Ontario Teachers' Pension Plan is one of the largest plans in Canada with $106.0 billion in net assets. We administer the pension benefits of Ontario's 167,000 elementary and secondary school teachers and 104,000 retired teachers. The plan has one of the largest payrolls in Canada and paid out $3.8 billion in pension benefits in 2006.

Teachers' 615 employees are responsible for setting and implementing investment strategies for the plan's assets and for delivering immediate, personalized services to members in keeping with our vision:

Outstanding service today, retirement security tomorrow.



For more information on roles and responsibilities, please visit our website, www.otpp.com > About Us > Plan Governance.

Contact Us

Our complete 2006 Annual Report and audited financial statements are available on our website at www.otpp.com under Publications. If you would like a print copy, please contact us. We welcome your comments and suggestions on this Report to Members, as well as other aspects of our communications program.

Annual Meeting
Friday, April 20, 2007
The Carlu, Toronto

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