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 judgments. The accounting policies followed in the preparation of these consolidated financial statements conform to 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 members of the Board. The Board is assisted in its responsibilities by the Audit & Actuarial Committee, consisting of six Board members 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 & 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.

Jim Leech
President and Chief Executive Officer
February 23, 2010

David McGraw
Senior Vice-President and Chief Financial Officer

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, 2009 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 consolidated 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, 2009 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
Licensed Public Accountants
February 23, 2010

Actuaries' Opinion

Mercer (Canada) 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, 2009, 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 Board.

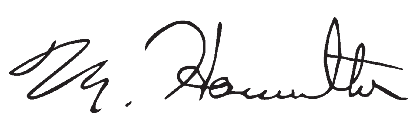
The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board as at December 31, 2008;
- 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 2009;
- 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; and
- information obtained from the Ontario Ministry of Labour and other published data on negotiated wage settlements in the 2009/2010 to the 2011/2012 school years.

The objective of the financial statements is to fairly present the financial position of the Plan on December 31, 2009 as a going concern. This is different from the statutory valuation (the actuarial valuation required by the *Pension Benefits Act (Ontario)*), which establishes 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 2009, 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 in Canada.



Scott B. McManus, F.C.I.A.
February 23, 2010

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

Consolidated statement of net assets available for benefits and accrued pension benefits and deficit

as at December 31, 2009 ($ millions)	*2009*	*2008*
Net assets available for benefits		
Assets		
Investments (note 2)	**$123,900**	$132,045
Receivable from the Province of Ontario (note 3)	**2,524**	2,187
Receivable from brokers	**93**	182
Cash	**493**	186
Fixed assets	**43**	33
	127,053	134,633
Liabilities		
Investment-related liabilities (note 2)	**30,391**	46,944
Due to brokers	**79**	88
Accounts payable and accrued liabilities	**181**	168
	30,651	47,200
Net assets available for benefits	**96,402**	87,433
Actuarial asset value adjustment (note 4)	**12,704**	19,524
Actuarial value of net assets available for benefits	**$109,106**	$106,957
Accrued pension benefits and deficit		
Accrued pension benefits (note 5)	**$131,858**	$118,141
Deficit	**(22,752)**	(11,184)
Accrued pension benefits and deficit	**$109,106**	$106,957

On behalf of the Plan Administrator:

Chair

Board Member

Consolidated statement of changes in net assets available for benefits

for the year ended December 31, 2009 ($ millions)	*2009*	*2008*
Net assets available for benefits, beginning of year	$87,433	$108,546
Investment operations		
Investment income/(loss) (note 9)	10,891	(19,039)
Administrative expenses – Investments (note 14a)	(214)	(155)
Net investment operations	10,677	(19,194)
Member service operations		
Contributions (note 12)	2,723	2,311
Benefits paid (note 13)	(4,393)	(4,195)
Administrative expenses – Member Services (note 14b)	(38)	(35)
Net member service operations	(1,708)	(1,919)
Increase/(decrease) in net assets available for benefits	8,969	(21,113)
Net assets available for benefits, end of year	$96,402	$ 87,433

Consolidated statement of changes in accrued pension benefits

for the year ended December 31, 2009 ($ millions)	*2009*	*2008*
Accrued pension benefits, beginning of year	$118,141	$115,459
Increase in accrued pension benefits		
Interest on accrued pension benefits	4,709	5,352
Benefits accrued	3,571	3,458
Changes in actuarial assumptions (note 5a)	9,941	(2,319)
Experience (gains)/losses (note 5c)	(111)	386
	18,110	6,877
Decrease in accrued pension benefits		
Benefits paid (note 13)	4,393	4,195
Net increase in accrued pension benefits	13,717	2,682
Accrued pension benefits, end of year	$131,858	$118,141

Consolidated statement of changes in deficit

for the year ended December 31, 2009 ($ millions)	*2009*	*2008*
Deficit, beginning of year	$(11,184)	$(10,542)
Increase/(decrease) in net assets available for benefits	8,969	(21,113)
Change in actuarial asset value adjustment (note 4)	(6,820)	23,153
Increase in actuarial value of net assets available for benefits	2,149	2,040
Net increase in accrued pension benefits	(13,717)	(2,682)
Deficit, end of year	$(22,752)	$(11,184)

Notes to consolidated financial statements

for the year ended December 31, 2009

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* (*Ontario*) (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 co-sponsors). The terms of the Plan are set out in the Partners' Agreement.

The Plan is registered with the Financial Services Commission of Ontario (FSCO) and under the *Income Tax Act* (*Canada*) (the ITA) (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 are matched by either the Province or 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 50. An unreduced retirement pension is available at age 65 or if the sum of a member's age and qualifying service equals 85.

(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 in January each year for inflation at 100% of the change in the Consumer Price Index, subject to a limit of 8% in any one year with any excess carried forward. The Plan was amended in 2008 to reduce the level of guaranteed inflation protection for credit earned after December 31, 2009, to 50% of the change in the Consumer Price Index. Starting in January 2011, inflation adjustments by the co-sponsors above that level will depend upon the Plan's funded status.

(g) Retirement Compensation Arrangement

Restrictions in the ITA and its regulations 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 (the RCA) was established 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 $132,037 (CPP-exempt members $122,222) in 2009 and $126,220 (CPP-exempt members $116,667) in 2008; 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.

NOTE 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 fair value of assets and liabilities and the results of operations of subsidiary companies and variable interest entities (VIEs) where the Plan is the primary beneficiary are consolidated as part of the Plan's financial statements.

A VIE is an entity which does not have sufficient equity at risk to finance its activities without additional subordinated financial support or an entity in which the holders of the equity at risk lack the characteristics of a controlling financial interest. The primary beneficiary, which is the enterprise that absorbs the majority of the expected losses or is entitled to the majority of the expected residual returns, is required to consolidate the VIE in its financial statements.

VIEs in which the Plan is the primary beneficiary or in which it has a significant variable interest are primarily private equity and alternative investments limited partnerships.

The Plan's consolidated financial statements also include its proportionate share of the fair value of assets, liabilities and operations of investments in 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) Changes in accounting policies

In 2009, the Plan adopted the amendments to the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, Financial Instruments – Disclosure. The amendments require the Plan to disclose and classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. These disclosures have been included in Note 2b.

(c) Investments

Valuation of investments

Investments and investment-related 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 closing mid-market prices or discounted cash flows based on current market yields, when closing mid-market prices are unavailable.
b. Bonds are valued on the basis of quoted closing mid-market prices. If quoted closing mid-market 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 closing prices. When the market for a public equity is not active or when there are restrictions on the sale of all or part of a public equity imposed on the Plan by external parties, management estimates the fair value by using appropriate techniques including valuation models.

d. Real estate, private equities, infrastructure and timber are valued based on estimated fair values determined by using appropriate techniques and best estimates by management, appraisers, or both. Where external appraisers are engaged to perform the valuation, management ensures the appraisers are independent and compares the assumptions used by the appraisers with management's expectations based on current market conditions and industry practice to ensure the valuation captures the business and economic conditions specific to the investment.

   At least 70% of the value of the rental property portfolio covering all product types and geographic regions is independently appraised annually. At a minimum, 90% of the real estate portfolio will be valued by independent appraisers at least every three years. The same appraisal firm is not permitted to value the same property more than three years in a row.

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

f. Alternative investments, comprised of hedge funds and managed futures accounts, are recorded at fair value based on net asset values obtained from each of the funds' administrators. These net asset values are reviewed by management.

The Plan uses a number of valuation techniques to determine the fair value of investments for which observable prices in active markets for identical investments are not available. These techniques include: valuation methodologies based on observable prices for similar investments; present value approaches where future cash flows generated by the investment are estimated and then discounted using a risk-adjusted interest rate; and option-pricing models. The principal inputs to these valuation techniques are listed below. Values between and beyond available data points may be obtained by interpolation and extrapolation.

- Bond prices – quoted prices are generally available for government bonds, certain corporate bonds and some other debt-related products.
- Credit spreads – where available, credit spreads are derived from prices of credit default swaps or other credit-based instruments, such as debt securities. For others, credit spreads are obtained from pricing services.
- Interest rates – principally derived from benchmark interest rates such as quoted interest rates from central banks and in swap, bond and futures markets. Benchmark interest rates are considered when determining discount rates used in the present-value approaches.
- Foreign currency exchange rates – there are observable markets, both spot and forward, and in futures in all major currencies.
- Public equity and equity index prices – quoted prices are generally readily available for equity shares listed on the stock exchanges and for indices on such shares.
- Commodity prices – many commodities are actively traded in spot, forward and futures on exchanges.
- Price volatilities and correlations – volatility is a measure of the tendency of a specific price to change over time. Correlation measures the degree to which two or more prices or other variables are observed to have moved together historically. Volatility is an input in valuing options and certain products such as derivatives with more than one underlying variable that is correlation-dependent. Volatility and correlation values are obtained from broker quotations, pricing services or derived from quoted option prices.
- Forecasts on operating cash flows of real estate, private equities, infrastructure and timber – forecasts include assumptions on revenue, revenue growth, expenses, capital expenditure, and capital structure. They are generally provided by management of the companies in which the Plan invests or external managers. Additional assumptions from external parties, for example, external appraisers, may also be used in the forecast.

The Plan refines and modifies its valuation techniques as markets and products develop and the pricing for individual products becomes more transparent.

While the Plan believes its valuation techniques are appropriate and consistent with other market participants, the use of different techniques or assumptions could result in different estimates of fair value at the balance sheet date. Management has assessed and determined that using possible alternative assumptions will not result in significantly different fair values.

Fair value hierarchy
Investment assets and investment-related liabilities are classified and disclosed in one of the following categories reflecting the significance of inputs used in making the fair value measurement:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

If different levels of inputs are used to measure the fair value of an investment, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

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 both realized and unrealized gains and losses. Unrealized gains and losses are recognized only when the fair value of the investment is based on a quoted market price in an active market or a valuation using appropriate valuation techniques is performed and approved by management. Since real estate income is determined on a fair value basis, a charge for depreciation and amortization is excluded from the determination of real estate income.

Transaction costs
Transaction costs are incremental costs directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs incurred are expensed and recorded as transaction costs. Any transaction amounts received by the Plan that are directly attributable to the acquisition of an investment are netted against transaction costs paid.

Management fees
Management and performance fees for private equity funds and hedge funds are expensed as incurred.

(d) 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.

(e) 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 beginning 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.

(f) Contributions

Contributions from the members, the Province and designated private schools and organizations are recorded on an accrual basis. Cash received from members for credited service and cash transfers from other pension plans are recorded when received.

(g) Benefits

Benefit 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.

(h) 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 1c explains how estimates are used to derive the fair value of investments and investment-related receivables and liabilities.

NOTE 2.
Investments

The Plan invests, directly or through derivatives, in fixed income, equities and inflation-sensitive investments in accordance with the Board's 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 liabilities, including net accrued interest and dividends of $263 million (2008 – $374 million), before allocating the effect of derivative contracts, as at December 31:

	2009		2008	
($ millions)	*Fair Value*	*Cost*	*Fair Value*	*Cost*
Fixed income				
Debentures	$ 2,499	$ 2,258	$ 4,340	$ 3,868
Bonds	18,089	19,547	21,202	21,947
Money-market securities	3,207	3,308	4,309	4,353
Alternative investments[2]	7,204	7,507	9,659	9,542
	30,999	32,620	39,510	39,710
Equity				
Publicly traded				
Canadian	1,761	1,373	3,302	3,881
Non-Canadian	20,658	19,464	15,051	19,251
Non-publicly traded				
Canadian	2,611	2,707	2,776	2,836
Non-Canadian	8,931	10,282	9,529	11,731
	33,961	33,826	30,658	37,699
Inflation-sensitive investments				
Real estate (note 8)	17,772	13,924	16,680	12,915
Real-rate products				
Canadian	13,031	10,159	10,325	9,053
Non-Canadian	6,518	6,621	7,625	6,913
Infrastructure and timber	15,868	15,528	16,916	16,853
	53,189	46,232	51,546	45,734
	118,149	112,678	121,714	123,143
Investment-related receivables				
Securities purchased under agreements to resell	2,453	2,455	3,002	3,000
Cash collateral deposited under securities borrowing arrangements	983	1,005	155	151
Derivative-related, net	2,315	1,208	7,174	3,882
	5,751	4,668	10,331	7,033
Investments	$123,900	$117,346	$132,045	$130,176

[1] For additional details, refer to the schedule of Investments over $100 million on page 105.

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

	2009		2008	
($ millions)	*Fair Value*	*Cost*	*Fair Value*	*Cost*
Investment-related liabilities				
Securities sold under agreements to repurchase	$ (9,684)	$ (9,701)	$(20,569)	$(20,539)
Securities sold but not yet purchased				
Fixed income	(1,429)	(1,467)	(1,808)	(1,771)
Equities	(983)	(911)	(155)	(152)
Joint ventures (note 6)	(4,933)	(5,453)	(4,944)	(6,262)
Subsidiaries and VIEs (note 7)	(7,318)	(8,029)	(6,872)	(7,629)
Real estate (note 8)	(3,563)	(3,468)	(3,200)	(3,151)
Cash collateral received under credit support annexes	(268)	(268)	(142)	(142)
Derivative-related, net	(2,213)	(1,512)	(9,254)	(1,855)
	(30,391)	(30,809)	(46,944)	(41,501)
Net investments (note 2d)	$93,509	$86,537	$ 85,101	$ 88,675

(b) **Fair value hierarchy**

The schedule below presents the Plan's investments and investment-related liabilities within the fair value hierarchy:

				2009
($ millions)	*Level 1*	*Level 2*	*Level 3*	***Total***
Fixed income	$ 14,144	$ 5,426	$ 11,429	**$ 30,999**
Equity	20,893	351	12,717	**33,961**
Inflation-sensitive investments	19,190	71	33,928	**53,189**
Net investment-related receivables/(liabilities)	(1,617)	(8,048)	(14,975)	**(24,640)**
Net investments	$ 52,610	$ (2,200)	$ 43,099	**$ 93,509**

The schedule below presents a reconciliation of investments and investment-related liabilities measured at fair value using significant unobservable inputs (Level 3) during the year. Realized and unrealized gains (losses) are included in investment income.

($ millions)	*Fixed Income*	*Equity*	*Inflation-sensitive Investments*	*Net Investment-related Receivables/ (Liabilities)*	***Total*** *2009*
Balance, beginning of year	$14,459	$14,235	$32,650	$(15,002)	**$46,342**
Purchases	10,629	2,490	6,504	17,633	**37,256**
Sales	(13,239)	(3,044)	(5,236)	(18,204)	**(39,723)**
Transfers in[3]	50	–	–	–	**50**
Transfers out[3]	(5)	–	–	(103)	**(108)**
Gains/(losses) included in investment income (note 9)					
Realized	(541)	(2,614)	828	555	**(1,772)**
Unrealized	76	1,650	(818)	146	**1,054**
Balance, end of year	$11,429	$12,717	$33,928	$(14,975)	**$43,099**

[3] Transfers in and transfers out of level 3 are due to the change in the availability of data in underlying securities.

(c) 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. They do not necessarily indicate the amounts of future cash flow involved or the current fair value of the derivative contracts and, therefore, do not indicate the Plan's exposure to credit or market risks. The derivative contracts become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates or prices relative to their terms. The aggregate notional amounts and fair values of derivative contracts can fluctuate significantly.

Derivative contracts, transacted either in the OTC market or on regulated exchanges, include:

Swaps

Swaps are OTC contracts in which two counterparties exchange a series of cash flows based on agreed upon rates to a notional amount. The various swap agreements that the Plan enters into are as follows:

Equity and commodity swaps are contracts in which one counterparty agrees to pay or receive from the other cash flows based on changes in the value of an equity or commodity index, a basket of stocks, a single stock or commodities.

Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount.

Currency swaps involve the exchange of fixed payments in one currency for the receipt of fixed payments in another currency.

Forwards and futures
Futures are standardized contracts traded on regulated future exchanges, whereas forward contracts are negotiated agreements that are transacted between counterparties in the OTC market. Examples of futures and forwards are described below:

Equity and commodity futures are contractual obligations to buy or sell at a fixed value (the contracted price) of an equity or commodity index, a basket of stocks, a single stock or commodities at a predetermined future date.

Interest rate futures are contractual obligations to buy or sell an interest-rate sensitive financial instrument on a predetermined future date at a specified price.

Currency forwards and futures are contractual obligations to exchange one currency for another at a specified price or settlement at a predetermined future date.

Options
Options may be acquired in standardized amounts on regulated exchanges or may be customized and acquired in the OTC market. They are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option), a security, exchange rate, interest rate, or other financial instrument or commodity at a predetermined price, at or by a specified future date. The seller (writer) of an option can also settle the contract by paying the cash settlement value of the purchaser's right. The seller (writer) receives a premium from the purchaser for this right. The various option agreements that the Plan enters into include equity and commodity options, interest rate options, and foreign currency options.

Credit derivatives
Credit derivatives are OTC contracts that transfer credit risk related to an underlying financial instrument (referenced asset) from one counterparty to another. Examples of credit derivatives include credit default swaps, equity default swaps, total return swaps, and loan participations.

Credit default swaps and equity default swaps provide protection against the decline in value of the referenced asset as a result of specified events such as payment default or insolvency. These swaps are similar in structure to an option whereby the purchaser pays a premium to the seller of the credit default swap or an equity default swap in return for payment related to the deterioration in the value of the referenced asset. The referenced asset for credit default swaps is a debt instrument while the referenced asset for equity default swap is an equity instrument.

Total return swaps are contracts in which one counterparty agrees to pay or receive from the other cash flows based on changes in the value of the referenced asset.

Loan participations are contracts in which one counterparty provides funding to the other party in exchange for participation interests in sharing the risks and profits of the loans originated by the other party.

Other derivative products
The Plan also transacts in other derivative products including statistic swaps and dividend swaps in the OTC market. An investor may trade the statistic swaps with the objective of adding value or hedging for risks associated with the magnitude of movement, i.e. volatility, variance, correlation, covariance of some underlying products, such as exchange rates, or stock indexes. Dividend swaps are an over-the-counter contract where an investor agrees to match all dividends paid out by an underlying stock or index over a specified time period. In return, the dividend payer receives a fixed amount at expiry called the dividend swap rate.

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

		2009		2008	
($ millions)		*Notional*	*Fair Value*	*Notional*	*Fair Value*
Equity and commodity derivatives					
Swaps		$ 15,102	$ 977	$ 14,827	$(3,023)
Futures		6,920	3	2,509	18
Options: Listed	– purchased	136	4	44	3
	– written	213	(6)	688	(11)
OTC	– purchased	4,563	324	10,641	425
	– written	2,924	(216)	1,688	(118)
		29,858	1,086	30,397	(2,706)
Interest rate derivatives					
Swaps		5,146	7	15,945	(253)
Futures		29,669	(8)	42,037	4
Options: Listed	– purchased	–	–	760	4
	– written	73	(1)	968	(3)
OTC	– purchased	5,739	37	3,843	106
	– written	1,098	(20)	809	(83)
		41,725	15	64,362	(225)
Currency derivatives					
Swaps		44	2	162	1
Forwards[(4)]		31,004	138	43,536	6
Futures		16	–	4	–
Options: OTC	– purchased	10,431	180	18,722	847
	– written	8,877	(145)	18,461	(852)
		50,372	175	80,885	2
Credit derivatives					
Loan participations		189	101	207	84
Credit default swaps	– purchased	10,825	209	14,708	1,512
	– written	2,494	(567)	7,898	(2,257)
Total return swaps		37	(16)	829	(264)
		13,545	(273)	23,642	(925)
Other derivatives					
Statistic swaps		15,481	(246)	22,609	(322)
Dividend swaps		263	(28)	299	(23)
		15,744	(274)	22,908	(345)
		151,244	729	222,194	(4,199)
Net cash collateral (received)/paid under derivative contracts		–	(627)	–	2,119
Notional and net fair value of derivative contracts		$151,244	$ 102	$222,194	$(2,080)

[(4)] Excludes currency forwards related to Real Estate assets as disclosed in note 8.

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

($ millions)	2009	2008
Derivative-related receivables	$3,004	$ 7,059
Cash collateral paid under derivative contracts	132	2,236
Derivative-related liabilities	(2,275)	(11,258)
Cash collateral received under derivative contracts	(759)	(117)
	$ 102	$(2,080)

(d) **Investment asset mix**

The Plan had a policy asset mix of 40% equities, 15% fixed income and 45% inflation-sensitive investments at December 31, 2009. The Plan had a policy asset mix of 45% equities, 22% fixed income and 33% inflation-sensitive investments at December 31, 2008.

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:

	2009		2008	
	Effective Net Investments at Fair Value ($ millions)	Asset Mix %	Effective Net Investments at Fair Value ($ millions)	Asset Mix %
Equity				
Canadian	$ 8,427	9%	$ 6,212	7%
Non-Canadian	32,755	35	28,719	34
	41,182	44	34,931	41
Fixed income				
Bonds	16,456	18	14,217	17
Alternative investments	5,300	6	7,795	9
Absolute return strategies	3,121	3	6,956	8
Money market	(15,492)	(17)	(20,975)	(25)
Debt on real estate properties (note 8)	(2,947)	(3)	(2,676)	(3)
	6,438	7	5,317	6
Inflation-sensitive				
Real estate, net (note 8)	17,156	18	16,156	19
Real-rate products	18,888	20	17,415	20
Infrastructure and timber	7,906	9	10,029	12
Commodities	1,939	2	1,253	2
	45,889	49	44,853	53
Net investments	$93,509	100%	$85,101	100%

(e) Risk management

Objectives

The Plan's primary long-term risk is that the Plan's assets will fall short of its liabilities (i.e., benefits owed to members). Therefore, the objective of investment risk management is to achieve a diversifying of risks and returns in a fashion that minimizes the likelihood of an overall reduction in total fund value and maximizes the opportunity for gains over the entire portfolio. This is achieved through asset diversification so that the market and credit exposure to any single issuer and to any single component of the capital markets is reduced to an acceptable level.

The Plan also manages its liquidity risk so that there is sufficient liquidity to meet short-term marked-to-market payments resulting from the Plan's derivative exposure and to give the Plan the ability to adjust the asset mix in response to the changes in the market conditions.

Policies

The Plan does not manage market and credit risk separately. To apply risk management to investments in a consistent manner, the Plan has a number of policies and guidelines, for example:

- Statement of Investment Policies and Procedures – The statement addresses the manner in which the fund shall be invested. Investments shall be selected and held in accordance with the criteria and limitations set forth in the statement and in accordance with all relevant legislation. The Board approves the policies in the statement and reviews them at least annually.
- Total Fund Guidelines and Objectives – They are developed to apply to the total fund and aggregate asset classes. They address the risks that are relevant and material at the total fund level. It includes guidelines on asset mix and risk budget allocation. They list the investment constraints, for example, the maximum exposures permitted for a single issuer, the liquidity requirements, and currency management. The Board approves these guidelines and reviews them regularly.
- Portfolio guidelines for each investment department – They are developed to apply to the individual portfolios within each asset class managed by the Investment Division. All portfolio guidelines include the departments' investment strategies, operating procedures, trading limits and approval requirements, risk factors and a description of how the risks will be managed and reporting requirements for each portfolio manager, particularly relating to reporting deviations from the approved portfolio guideline. All portfolio guidelines are reviewed annually and approved by the Executive Vice-President of the Investment Division and the Vice-President or Senior Vice-President responsible for the department.
- Trade Authorization and Execution Operation Guidelines – They include guidelines on trading with authorized counterparties and the procedures for obtaining authorization to trade with a new counterparty.
- Pre-Trade Clearance Policy – It formalizes the procedures to ensure the data needed for trade capture, pricing, risk management, and accounting is accurate, complete, and can be entered into the Plan's systems of record on a timely basis prior to commencement of trading.

Processes

Each investment department is responsible for managing the investment risks associated with the investments they manage. Each department is subject to compliance with the Statement of Investment Policies and Procedures, the Total Fund Guidelines and Objectives, Trade Authorization and Execution Operation Guidelines, Pre-trade Clearance Policy and the applicable portfolio guidelines, and the risk budget allocated to them. In addition, the Fixed Income Department is responsible to maintain the liquidity positions in accordance with the Plan's guidelines on liquidity. The Finance Division independently measures the investment risk exposure and the liquidity position of the Plan and provides the information to the Investment Division and the Investment Committee of the Board.

Each investment department has an investment committee, or an equivalent, which meets regularly to assess the investment risks associated with the portfolios it manages and determines action plans, if required. Individual managers in each investment department receive limited authority to invest from the Board by sub-delegation from senior management. Trading limits and approval requirements are set out in the portfolio guidelines for the department. For investments not traded on exchanges, such as alternative investments and private equity investments, the investment departments conduct due diligence before acquisition and use it as a tool to monitor the investments after acquisition. The objective is to obtain as much transparency as possible for the departments to assess the risk exposure arising from these private and alternative investments.

The senior representatives from each investment department form the Investment Planning and Risk Committee which focuses on managing investment risks at a total fund level. The Chief Financial Officer attends all meetings of the committee as an observer. This committee brings together the experience, investment and operational business judgment required for assessing and managing market, credit and liquidity risks on a regular basis. It monitors and manages the currency positions, interest rate risk and liquidity risk at the total fund level. The committee meets every other week, or more frequently as required.

The Enterprise Risk Management Committee oversees and manages investment and non-investment risks faced by the Plan. The committee is chaired by the Chief Executive Officer and includes senior representatives from all divisions. The Enterprise Risk Management Committee meets regularly and reports to the Board semi-annually and more frequently as necessary.

The shaded section on pages 28 and 29 of the Management's Discussion and Analysis section provides further information on the risk budgeting process. The shaded section is an integral part of the Consolidated Financial Statements.

(f) Credit risk

The Plan is exposed to the risk that a counterparty defaults or becomes insolvent (credit risk). Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. A credit risk may arise directly from an obligor, an issuer of securities, or indirectly from a guarantor of a credit obligation.

Credit risk management

The Plan actively manages its credit exposures. When over exposures are detected – either in individual exposures or in groups of exposures – the Plan takes action to mitigate the risks. Such actions may include reducing the exposures and using credit derivatives.

Except for debt issued or guaranteed without significant conditions by the Government of Canada, by the government of a province or territory of Canada (with a minimum DBRS credit rating of "AA"), or by the Government of the United States of America, the Plan's total investment in securities of a single issuer across all asset classes shall not exceed 3% of the market value of the total fund without the approval of the Board. Further, not more than 20% of the market value of all bonds, debentures, real return debt products, mezzanine debt and other debt investments (excluding the market value of the non-marketable Ontario Debentures, debt owed by affiliated third parties in relation to real estate properties, and debt associated with an investment strategy approved by the Board) shall be made up of investments rated below a DBRS credit rating of "BBB" or its equivalent or that are unrated.

The Plan has a credit risk assessment process to determine authorized counterparties for repurchase agreements, reverse repurchase agreements, and derivative contracts. The Plan deals primarily with counterparties that have a credit rating of "A" or higher for derivative contracts. Guidelines are also in place to limit the maximum exposures to any individual counterparty for derivative contracts.

Collateral is an important mitigator of counterparty credit risk. The Plan routinely obtains collateral, such as in the case of reverse repurchase agreements and OTC derivative contracts. Note 2i provides further details on securities collateral.

The Plan enters into agreements with counterparties to limit its exposure to credit losses. An International Swaps and Derivatives Association (ISDA) Master Agreement is executed with all OTC derivative counterparties, which allows both parties to settle obligations on a net basis when termination or other pre-determined events occur. The Plan also negotiates a collateral agreement known as Credit Support Annex (CSA) with its key counterparties to further mitigate counterparty credit risk. A CSA gives the Plan the power to realize collateral posted by counterparties in the event of a default by such counterparties.

Maximum exposure to credit risk before collateral held

The following table presents the maximum exposure at December 31 to credit risk of balance sheet and off-balance sheet financial instruments before taking account of any collateral held. The analysis includes financial assets subject to credit risk only; other financial assets, mainly equity securities, as well as non-financial assets are excluded. For guarantees and loan commitments, the maximum exposure to credit risk is the maximum amount that the Plan would have to pay if the guarantees were to be called upon and the full amount of the loan commitments.

($ millions)	*2009*	*2008*
On balance sheet:		
Receivable from the Province of Ontario	$ 2,524	$ 2,187
Receivable from brokers	93	182
Cash	493	186
Fixed income		
Debentures	2,499	4,340
Bonds	18,089	21,202
Money-market securities	3,207	4,309
Inflation-sensitive investments		
Real-rate products		
Canadian	13,031	10,325
Non-Canadian	6,518	7,625
Securities purchased under agreements to resell	2,453	3,002
Derivative-related receivables	3,004	7,174
Total on balance sheet	$51,911	$60,532
Off balance sheet:		
Guarantees	$ 3,002	$ 8,521
Loan commitments	611	975
Total off balance sheet	3,613	9,496
Total maximum exposure at December 31	$55,524	$70,028

While the Plan's maximum exposure to credit risk is the carrying value of the assets, or, in the case of off-balance sheet items, the amount guaranteed or committed, in most cases the likely exposure is far less due to collateral, credit enhancements (e.g. guarantees in favour of the Plan) and other actions taken to mitigate the Plan's exposure, as described previously.

Credit risk concentrations

As at December 31, 2009, the Plan has a significant concentration of credit risk with the Government of Canada and the Province. This concentration relates primarily to the holding of $22.0 billion (2008 – $21.2 billion) of Government of Canada issued securities, $2.5 billion (2008 – $4.3 billion) of non-marketable Province of Ontario debentures, $0.8 billion (2008 – $0.7 billion) in Province of Ontario bonds, $2.5 billion (2008 – $2.2 billion) receivable from the Province (see note 3), and future provincial funding requirements of the Plan.

(g) Market risk

Market risk is the risk of loss that results from fluctuations in equity and commodity prices, interest and foreign exchange rates, and credit spreads. The Plan is exposed to market risk from its investing activities. The level of market risk to which the Plan is exposed varies depending on market conditions, expectations of future price and yield movements and the composition of the asset-mix.

Market risk management

The Plan manages market risk primarily through diversifying the investments across industry sectors, investment strategies and on a global basis. A variety of derivative contracts are also utilized to manage the Plan's market risk exposures.

Market and credit risk measurement

The Plan uses a statistical Value-at-Risk (VaR)-type approach, the expected tail loss (ETL) methodology, to measure investment risk comprising of market and credit risk over a one-year horizon at a 99% confidence level. The ETL methodology captures the effect of more extreme loss events than VaR for the same confidence level as it is the average of all the losses in the tail.

The Asset Class Risk Report, reviewed by the Investment Planning and Risk Committee, is prepared using the ETL methodology. The report captures the investment risk exposure by asset class reflecting the risk of potential losses in net assets due to both market and credit risk factors relative to the Plan's pension obligations. Statistically, the Plan would expect to see losses in excess of the risk exposure on the report only 1% of the time over a one year period, subject to certain assumptions and limitations discussed below.

The ETL methodology is a statistical approach that accounts for market volatility and credit risk as well as risk diversification achieved by investing in various products and markets. Risks are measured consistently across all markets and products and can be aggregated to arrive at a single risk number. The one-year 99% ETL number used by the Plan is generated using a historical simulation and bootstrap sampling approach that reflects the expected annual return on the portfolio in the worst 1% of the cases. The Plan currently uses the previous 23 years of market data. When sufficient historical data is not available, proxies and statistical methods are used to complete the data series.

There are limitations to the ETL methodology in use. For example, historical data may not provide the best estimate of future changes. It may fail to capture the correlation in asset returns in extreme adverse market movements which have not occurred in the historical window. The bootstrap sampling approach and long historical window, however, mitigate this limitation to some extent by enabling the generation of a set of scenarios that include extreme adverse events. Another limitation is that the Plan computes the risk relative to pension obligations at the close of the business day. Positions may change substantially during the course of a trading day. These limitations and the nature of the ETL measure mean that the Plan's losses may exceed the risk exposure amounts indicated in any risk reports.

The Plan continuously monitors and enhances the risk calculation methodology, striving for better estimation of risk exposure. The Plan also has a number of initiatives that are underway to enhance the process of collecting the risk system data, particularly for the complex financial instruments that the Plan trades. The new initiatives will focus on the accuracy and completeness of risk system data such as the relevant market information and the data related to the terms and conditions of the financial instruments.

The Plan's risk exposure by asset class as at December 31 is as follows:

($ billions)[1]	*2009*	*2008*
Equity		
Canadian	$ 3.5	$ 3.0
Non-Canadian	15.5	15.0
Fixed income		
Bonds	4.5	4.5
Debt on real estate properties	1.0	1.0
Money market	5.5	8.5
Other	3.0	5.0
Inflation-sensitive		
Real estate, net	6.0	6.0
Real-rate products	3.5	4.0
Infrastructure and timber	2.5	3.5
Commodities	1.0	1.0
Total ETL exposure[2]	$29.0	$29.0

[1]Rounded to the nearest $0.5 billion.

[2]Total ETL Exposure does not equal the sum of ETL exposure for each asset class because diversification reduces total risk exposure.

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.

The Plan manages the interest rate risk by using interest rate derivatives as detailed in note 2c to the financial statements. After giving effect to the derivative contracts and investment-related receivables and liabilities discussed in note 2c, a 1% increase in nominal interest rates would result in a decline in the value of the Plan's investments in fixed-income securities of 6% (2008 – 7%). Similarly, a 1% increase in real interest rates would result in a decline in the value of the Plan's investments in real-rate products of 14% (2008 – 14%).

As at December 31, 2009, 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 18% (2008 – 17%).

Foreign currency risk
Foreign currency exposure arises from the Plan's holdings of foreign currency-denominated investments and related derivative contracts.

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

	2009	*2008*
Currency ($ millions)	*Net Exposure*	*Net Exposure*
United States Dollar	$19,978	$22,077
Euro	5,358	4,941
British Pound Sterling	4,673	4,133
Brazilian Real	4,237	2,494
Japanese Yen	2,155	2,304
Australian Dollar	1,935	2,471
Chilean Peso	1,279	1,120
Swiss Franc	842	850
Hong Kong Dollar	518	287
South Korean Won	391	422
Other	2,014	561
	$43,380	$41,660

The impact of a change in the exchange rate between Canadian dollars and any of the major currencies would be:

- A higher or lower value of investments denominated in the foreign currency
- A higher or lower investment income, arising from changes in the exchange rates used to translate items in the consolidated financial statements

(h) **Liquidity risk**
Liquidity risk refers to the risk that the Plan does not have sufficient cash to meet its current payment liabilities and acquire investments in a timely and cost-effective manner. Liquidity risk is inherent in the Plan's operations and can be impacted by a range of situation specific and market-wide events including, but not limited to, credit events and significant movements in the market.

Liquidity risk management
The liquidity position of the Plan is analyzed daily to ensure the Plan maintains at least 1% of its assets in unencumbered Canadian treasury bills. The Plan also manages its liquidity by holding additional unencumbered Government of Canada securities (bonds, treasury bills and real-rate bonds) and U.S. Government securities that are available for repurchase agreements so that the Plan is able to withstand the liquidity effects of an equity market downturn that have 1-in-10 and 1-in-100 chance of occurring over a three-month time horizon. The Plan's liquidity position is periodically tested by simulations of major events such as significant movements in the market.

Liquid assets
The Plan maintains a portfolio of highly marketable assets including Canada and U.S. government bonds that can be sold or funded on a secured basis as protection against any unforeseen interruption to cash flow. The fair value of the Canada and U.S. government bonds is $28,495 million as at December 31, 2009 (2008 – $28,816 million). The Plan also has publicly traded equities of $22,419 million (2008 – $18,353 million) which are listed on major recognized stock exchanges. These securities are readily realizable and convertible to cash.

Contractual maturity

The Plan does not manage its liquidity based on the contractual maturity of the investment-related liabilities, including derivatives. It may settle the investment-related liabilities, including derivatives, before contractual maturity at fair value. Therefore all investments and investment-related liabilities (other than the consolidated liabilities from subsidiaries, VIEs and joint ventures) are considered to mature within one year. The Plan's other liabilities include due to brokers, accounts payable and accrued liabilities that are also due within one year.

The Plan also has consolidated liabilities from subsidiaries, VIEs and joint ventures as it consolidates subsidiaries and VIEs and proportionately consolidates joint ventures in accordance with Canadian Generally Accepted Accounting Principles. However, the Plan does not have any contractual obligation related to the consolidated liabilities to deliver cash or other financial assets to another party or to exchange any financial instruments with another party under conditions that are potentially unfavorable to the Plan. The Plan's investment-related liabilities by maturity as at December 31 are as follows:

2009

($ millions)	*Within One Year*	*One to Five Years*	*Over Five Years*	*Total*
Securities sold under agreements to repurchase	$ (9,684)	$ –	$ –	**$ (9,684)**
Securities sold but not yet purchased				
Fixed income	(1,429)	–	–	**(1,429)**
Equities	(983)	–	–	**(983)**
Joint ventures	(775)	(1,817)	(2,341)	**(4,933)**
Subsidiaries and VIEs	(1,679)	(3,000)	(2,639)	**(7,318)**
Real estate	(617)	(2,302)	(644)	**(3,563)**
Cash collateral received under credit support annexes	(268)	–	–	**(268)**
Derivative-related, net	(2,213)	–	–	**(2,213)**
Total	$(17,648)	$(7,119)	$(5,624)	**$(30,391)**

2008

($ millions)	*Within One Year*	*One to Five Years*	*Over Five Years*	*Total*
Securities sold under agreements to repurchase	$(20,569)	$ –	$ –	$(20,569)
Securities sold but not yet purchased				
Fixed income	(1,808)	–	–	(1,808)
Equities	(155)	–	–	(155)
Joint ventures	(753)	(1,609)	(2,582)	(4,944)
Subsidiaries and VIEs	(1,768)	(1,070)	(4,034)	(6,872)
Real estate	(487)	(1,907)	(806)	(3,200)
Cash collateral received under credit support annexes	(142)	–	–	(142)
Derivative-related, net	(9,254)	–	–	(9,254)
Total	$(34,936)	$(4,586)	$(7,422)	$(46,944)

(i) **Securities collateral**

Canadian and U.S. government securities with a fair value of $2,378 million (2008 – $2,331 million) have been deposited or pledged with various financial institutions as collateral or margin. The Plan is not allowed to pledge the same securities with other financial institutions or sell them to another entity unless the Plan could substitute such securities with other securities that the counterparties accept.

Canadian and U.S. government securities with a fair value of $269 million (2008 – $712 million) have been received from various financial institutions as collateral. The Plan holds the collateral received as long as the Plan is not a defaulting party or an affected party in connection with a specified condition listed on the contractual agreements and there is no early termination of the contractual agreement. The Plan is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral but it has not sold or repledged any collateral as of December 31, 2009 and 2008.

NOTE 3.

Receivable from the Province of Ontario

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

($ millions)	***2009***	*2008*
Contributions receivable	**$2,445**	$2,120
Accrued interest receivable	**79**	67
	$2,524	$2,187

The receivable as at December 31, 2009, from the Province consists of $1,245 million, which was received in January 2010, and an estimated $1,279 million to be received with interest in 2011. The receivable as at December 31, 2008, from the Province consisted of $1,070 million, which was received in January 2009, and an initial estimate of $1,117 million to be received in January 2010.

NOTE 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 loss/(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, and 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 decrease in actuarial asset value adjustment for the year was $6,820 million (2008 – $23,153 million increase).

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:

	Unamortized (Gains)/Losses	*Unamortized (Gains)/Losses To Be Recognized In*				*Unamortized (Gains)/Losses*
($ millions)	***2009***	*2010*	*2011*	*2012*	*2013*	*2008*
2005	**$ –**	$ –	$ –	$ –	$ –	$ (1,186)
2006	**(1,268)**	(1,268)	–	–	–	(2,536)
2007	**1,637**	819	818	–	–	2,456
2008	**15,593**	5,198	5,198	5,197	–	20,790
2009	**(3,258)**	(815)	(815)	(814)	(814)	–
	$12,704	$3,934	$5,201	$4,383	$(814)	$19,524

NOTE 5.

Accrued pension benefits

(a) Actuarial assumptions

The actuarial assumptions used in determining the value of accrued pension benefits of $131,858 million (2008 – $118,141 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, plus 50 basis points to reflect the credit risk of the Province of Ontario. 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:

	2009	*2008*
Discount rate	**4.60%**	4.00%
Salary escalation rate	**3.55%**	2.35%
Inflation rate	**2.55%**	1.35%
Real rate	**2.05%**	2.65%

The primary economic assumptions were changed as a result of changes in capital markets during 2009. These changes resulted in a net increase in the value of accrued pension benefits of $9,941 million (2008 – $2,319 million decrease). There were no changes to the non-economic assumptions in 2008 and 2009. The changes in all assumptions resulted in a net increase in the value of accrued pension benefits of $9,941 million (2008 – $2,319 million decrease).

(b) Plan provisions

No material amendments were made to the Plan provisions in 2009. The Plan was amended in 2008 to introduce conditional inflation protection for credit accrued after 2009 as described in paragraph (f) of the Description of Plan note and to alter the re-employment provisions for pensioners.

(c) Experience gains and losses

Experience gains of $111 million (2008 – $386 million losses) arose from differences between the actuarial assumptions and actual results.

NOTE 6.

Investments in joint ventures

The Plan's proportionate share of the fair value of assets and liabilities in joint ventures as at December 31, 2009 (excluding joint ventures related to real estate which are disclosed in note 8) is $7,996 million (2008 – $7,783 million) and $4,933 million (2008 – $4,944 million), respectively.

NOTE 7.

Consolidation of subsidiaries and variable interest entities

Subsidiaries and variable interest entities

The Plan's fair value of assets and liabilities of subsidiaries (excluding the real estate subsidiaries included in note 8) and VIEs at December 31, 2009, is $11,665 million (2008 – $11,198 million) and $7,318 million (2008 – $6,872 million), respectively.

NOTE 8.

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:

	2009		2008	
($ millions)	*Fair Value*	*Cost*	*Fair Value*	*Cost*
Assets[1]				
Real estate properties[2]	**$15,461**	**$12,167**	$15,391	$11,317
Investments[3]	**1,992**	**1,509**	1,089	1,384
Other assets[2]	**319**	**248**	200	214
Total assets	**17,772**	**13,924**	16,680	12,915
Liabilities[1]				
Debt on real estate properties[2]	**2,947**	**2,984**	2,676	2,658
Other liabilities[2]	**616**	**484**	524	493
Total liabilities	**3,563**	**3,468**	3,200	3,151
Net investment in real estate	**$14,209**	**$10,456**	$13,480	$ 9,764

(1) As at December 31, 2009, U.S. Dollar and British Pound Sterling net assets have been hedged by way of foreign currency forward contracts for a notional amount of $1,698 million (2008 – $2,276 million) with a combined fair value of $71 million (2008 – $(13) million).

(2) Includes the proportionate share of assets and liabilities in real estate joint ventures of $3,489 million (2008 – $3,435 million) and $1,371 million (2008 – $1,030 million), respectively.

(3) As at December 31, 2008, investments include a total return equity swap with a notional value of $191 million and a fair value of $2 million.

(b) **Real estate income/(loss)**

The Plan's real estate income/(loss) for the year ended December 31, is as follows:

($ millions)	*2009*	*2008*
Revenue		
Rental	$1,698	$ 1,631
Investment and other	106	87
	1,804	1,718
Expenses		
Property operating	724	722
General and administrative	28	23
Other[7]	11	17
	763	762
Operating income (note 9)	1,041	956
Interest expense (note 9)	(158)	(158)
	883	798
Net investment gain/(loss) on real estate assets and other liabilities[4][6]	95	(1,685)
Net investment gain/(loss) on debt on real estate properties[5][6]	75	(68)
Net real estate income/(loss)	$1,053	$ (955)

[4]Includes unrealized net loss on real estate assets and other liabilities, of $18 million (2008 – $1,201 million).

[5]Includes unrealized net gain on debt on real estate properties of $55 million (2008 – losses of $69 million).

[6]This amount is included in net realized and unrealized gain/(loss) on investments shown in note 9.

[7]Includes transaction costs of $3 million in 2009 (2008 – $10 million).

NOTE 9.

Investment income/(loss)

(a) Investment income/(loss) before allocating net realized and unrealized gains/(losses) on investments, direct management fees and transaction costs to asset classes

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

($ millions)	*2009*	*2008*
Fixed income interest		
Debentures	$ 306	$ 476
Money-market securities	9	104
Bonds	923	1,409
Net repo interest expense	(41)	(557)
Net swap interest expense	(171)	(440)
Real estate interest expense (note 8b)	(158)	(158)
	868	834
Equity dividend income		
Canadian equity	137	204
Non-Canadian equity	662	1,042
	799	1,246
Inflation-sensitive investment income		
Real estate operating income (note 8b)	1,041	956
Real-rate products		
Canadian	330	220
Non-Canadian	173	111
Infrastructure and timber	221	385
	1,765	1,672
	3,432	3,752
Net realized and unrealized gain/(loss) on investments[1][2]	7,669	(22,519)
Direct management fees	(190)	(168)
Transaction costs	(20)	(104)
Investment income/(loss)	$10,891	$(19,039)

[1] Includes unrealized net gains of $10,546 million (2008 – net losses of $16,330 million).

[2] Includes net foreign currency gains of $1,607 million (2008 – losses of $3,066 million).

(b) **Investment income/(loss)**

Investment income/(loss) by asset class, after allocating net realized and unrealized gains and losses on investments, direct management fees, and transaction costs for the year ended December 31, is as follows:

($ millions)	*2009*	*2008*
Fixed income	**$ 1,799**	$ (6,004)
Canadian equity	**1,140**	(3,792)
Non-Canadian equity	**6,087**	(9,589)
Inflation-sensitive investments	**1,865**	346
	$10,891	$(19,039)

NOTE 10.

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:

	2009		*2008*	
(percent)	*Investment Returns*	*Investment Benchmark Returns*	*Investment Returns*	*Investment Benchmark Returns*
Fixed income[1]	**23.6%**	**(4.8)%**	(46.0)%	8.2%
Canadian equity	**23.5**	**31.9**	(32.3)	(31.2)
Non-Canadian equity	**21.2**	**13.6**	(24.2)	(26.6)
Inflation-sensitive investments	**4.0**	**5.4**	0.5	4.0
Total Plan[2]	**13.0%**	**8.8%**	(18.0)%	(9.6)%

[1]Includes currency policy hedge trading, internal absolute return strategy investments and alternative investments. The currency policy hedge trading was eliminated effective April 1, 2008.

[2]Starting January 1, 2009, asset returns generated by the Investment Planning and Risk Committee (IPRC) are attributed to the respective investment asset classes and aggregated to the Total Plan return based on asset-mix weightings. 2008 comparative returns have been reclassified to reflect this change. This change had no impact on Total Plan returns.

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 based on the investment strategies employed by the investment managers identified for the asset class.

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 weights.

Effective April 1, 2009 and March 1, 2008, certain benchmarks have been revised to reflect changes in investment strategy and objectives.

NOTE 11.

Statutory actuarial valuations

Statutory actuarial valuations are prepared periodically to determine the funding requirements of the Plan. Active members are currently required to contribute 10.4% of the portion of their salaries covered by the CPP and 12.0% of salaries above this level. Member contributions are matched by the Province and other employers. In addition, the Funding Management Policy established by the co-sponsors provides procedures for the co-sponsors 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 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, 2009, by Mercer (Canada) Limited and disclosed a funding surplus of $765 million.

Using the assumptions prescribed by the Funding Management Policy, the estimate of the funding deficit is approximately $17,086 million as at January 1, 2010, assuming no change to the contribution rates, and that conditional indexing for post-2009 service will be at the 100% level. A funding valuation is not required to be filed with FSCO until 2012.

NOTE 12.

Contributions

($ millions)	*2009*	*2008*
Members		
Current service	**$1,259**	$1,098
Optional credit	**19**	19
	1,278	1,117
Province of Ontario		
Current service	**1,332**	1,089
Interest	**60**	50
Optional credit	**16**	17
	1,408	1,156
Other employers	**24**	21
Transfers from other pension plans	**13**	17
	37	38
	$2,723	$2,311

NOTE 13.

Benefits paid

($ millions)	2009	2008
Retirement pensions	$4,086	$3,898
Death benefits	234	228
Disability pensions	31	32
Commuted value transfers	28	22
Refunds	8	7
Transfers to other plans	6	8
	$4,393	$4,195

NOTE 14.

Administrative expenses

(a) Investment expenses

($ millions)	2009	2008
Salaries, incentives and benefits	$133.4	$ 79.2
Premises and equipment	23.7	21.1
Professional and consulting services	20.8	18.4
Information services	12.6	11.6
Custodial fees	10.3	12.2
Communication and travel	9.3	8.4
Statutory audit fees	1.2	0.9
Board and committee remuneration	0.7	0.6
Other	2.2	2.1
	$214.2	$154.5

(b) Member Services expenses

($ millions)	2009	2008
Salaries, incentives and benefits	$24.8	$23.9
Premises and equipment	7.9	6.9
Professional and consulting services	3.3	2.2
Communication and travel	1.2	1.1
Statutory audit fees	0.4	0.3
Board and committee remuneration	0.2	0.2
Other	0.8	0.9
	$38.6	$35.5

NOTE 15.

Capital

Under CICA Section 1535, Capital Disclosures, the Plan is required to disclose the Plan's capital and how it is managed. For disclosure purposes under this requirement, the funding surpluses or deficits determined regularly in the funding valuations prepared by an independent actuary are described as the Plan's capital in the consolidated financial statements. The actuary's funding valuation is used to measure the long-term health of the Plan. The actuary tests the Plan's ability to meet its obligations to all current Plan members and their survivors. Using an assumed rate of return, the actuary projects the Plan's benefits to estimate the current value of the liability (see note 5), which is compared to the sum of the Plan assets, the future contributions for all current Plan members and the present value of the contribution increases for future members. The result of the comparison is either a surplus or a deficit.

The objective of managing the Plan's capital is to ensure the Plan is fully funded to pay the plan benefits over the long term. The co-sponsors change the benefit and contribution levels to eliminate any deficits. The Funding Management Policy set by the co-sponsors in the Partners' Agreement provides guidance on how the co-sponsors manage the Plan's capital.

A funding valuation including a plan to eliminate any deficit is required to be filed with the pension regulator at least every three years. A preliminary funding valuation is performed by the actuary when the valuation is not filed with the regulator assisting the co-sponsors in managing the Plan's capital.

The most recent funding valuation filed and preliminary funding status are disclosed in note 11.

NOTE 16.

Retirement Compensation Arrangement (RCA)

Restrictions in the 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 RCA was established by agreement between the co-sponsors as a supplementary plan to provide 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 and the Plan does not hold any variable interest in the RCA, the net assets available for benefits and the value of accrued benefits and deficit, referred to below, have not been included in the 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 Plan by teachers, the Province and designated private schools and organizations. The portion is based on a limit on contributions to the Plan with contributions above the limit being remitted to the RCA. The limit is determined annually by the Plan's independent actuary such that the RCA contributions are expected to be sufficient to pay the benefits over the next 12 months. At the beginning of 2010, the actuary determined that the limit should decrease from $14,800 to $14,000. Due to the funding policy adopted by the co-sponsors, the net assets available for benefits will continue to be substantially less than the accrued benefits.

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)	*2009*	*2008*
Statement of net assets available for benefits and accrued benefits and deficit		
Net assets available for benefits		
Assets	$ 14,931	$ 15,594
Liabilities	(1,206)	(1,854)
	$ 13,725	$ 13,740
Accrued benefits and deficit		
Accrued benefits	$295,992	$227,294
Deficit	(282,267)	(213,554)
	$ 13,725	$ 13,740
Statement of changes in net assets available for benefits		
Contributions	$ 4,446	$ 6,788
Investment income	27	165
	4,473	6,953
Benefits paid	4,425	3,712
Expenses	63	78
	4,488	3,790
(Decrease)/increase in net assets	$ (15)	$ 3,163

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% 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.

NOTE 17.

Commitments

The Plan has committed to enter into investment and other transactions, which may be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2009, these commitments totalled $8,831 million (2008 – $11,439 million).

NOTE 18.

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 facility amount up to US$25 million as at December 31, 2009 (2008 – US$25 million) plus interest and transaction costs. These letters of credit facilities have a term of two years and are renewable. As at December 31, 2009, the counterparty has issued US$18 million in letters of credit which are guaranteed by the Plan (2008 – US$18 million).

In 2006, as part of an investment transaction, the Plan agreed to guarantee an equipment lease of a counterparty. In the event the counterparty defaults on the lease, the Plan would assume 25% of the lease amount up to $28 million as at December 31, 2009 (2008 – $28 million). The guarantee expires on December 1, 2013, upon termination of the lease agreement. No payments have been made by the Plan regarding this guarantee.

Certain joint ventures and subsidiaries have provided performance guarantees and/or letters of credit facilities during their normal course of business. The beneficiaries of these guarantees and/or letters of credit facilities have the ability to draw against these facilities to the extent the contractual obligations, as defined in the related agreements, are not met. The term of these guarantees and/or facilities can range from one year to twenty years. As at December 31, 2009, the maximum exposure is $461 million (2008 – $573 million).

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 2c. In 2009, net payments related to written credit derivatives were made in the amount of $239 million (2008 – $6 million).

Indemnifications

The Plan provides that Board members, employees and certain others are to be indemnified against the expenses related to certain 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, its subsidiaries and joint ventures 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.

NOTE 19.
BCE Litigation

In 2007, the Board on behalf of the Plan made an equity commitment in respect of a proposed transaction pursuant to which a corporation (the "Purchaser") organized by several investors was proposing to acquire BCE Inc. ("BCE"). Pursuant to the definitive agreement that was entered into between BCE and the Purchaser in respect of the proposed transaction, a break-up fee would have been payable by BCE in certain circumstances, and a reverse break-up fee would have been payable by the Purchaser in certain circumstances. Certain of the investors, including the Board, are parties to a limited guarantee of this reverse break-up fee. The transaction was terminated in 2008 because not all of the conditions required under the definitive agreement could be satisfied. In connection with the BCE transaction, the Board has been named as a defendant in the following cases:

BCE break fee litigation

BCE has made a claim in the Superior Court of Quebec for the reverse break-up fee of $1.2 billion under the BCE acquisition agreement. The Board would be responsible for 58.7% of such fee if the claim is successful. This action is at a very early stage. At this time it is not possible to predict the outcome.

BCE proposed class action

A proposed class action lawsuit was commenced in the Province of Saskatchewan in October 2008 regarding the non-payment of second and third quarter common share dividends by BCE. This action is at a very early stage – no certification motion has yet been scheduled. At this time it is not possible to predict the outcome.

Major investments

(as at December 31, 2009)

Fixed income and short-term investments over $100 million

Type ($ millions)	*Maturity*	*Coupon (%)*	*Fair Value*	*Cost*
Government of Canada bonds	2010–2041	2.75–9.75	$10,762	$11,011
Canadian corporate bonds	2012–2085	0.00–16.00	2,712	2,879
Securities purchased under agreements to resell	2010–2010	0.00–0.25	2,453	2,455
International corporate bonds	2010–2049	0.00–16.57	2,021	2,900
Canada treasury bills	2010–2010	0.00–0.00	1,953	1,952
Bank notes	2010–2010	0.00–5.43	420	416
Securities sold under agreements to repurchase	2010–2010	0.12–0.5	(9,684)	(9,701)

Inflation-sensitive investments over $100 million

Type ($ millions)	*Maturity*	*Coupon (%)*	*Fair Value*	*Cost*
Real-return Canada bonds	2021–2041	2.00–4.25	$9,279	$7,768
United States treasury inflation protection	2025–2032	1.75–3.88	6,518	6,621
Real-return Canada corporate bonds	2016–2046	0.00–5.33	1,758	849
Real-return provincial bonds	2013–2036	2.00–4.50	1,754	1,333
Index-linked mortgages	2022–2030	4.63–5.53	240	210

Province of Ontario debentures over $100 million

Maturity Date ($ millions)	*Coupon (%)*	*Fair Value*	*Cost*
2010–2012	10.11–11.40	$2,499	$2,258

Corporate shares/units over $50 million

(as at December 31, 2009) (millions)

Security Name	*Shares*	*Fair Value*
OGX Petróleo e Gás Participações S.A.	283.4	$2,913.6
Multiplan Empreendimentos Imobiliários S.A.	52.1	1,018.0
Transurban Group	180.3	962.0
LLX Logistica S.A.	124.1	747.3
Deutsche Telekom AG	45.2	699.9
Northumbrian Water Group plc	138.6	644.5
Hammerson plc	82.2	590.0
Maple Leaf Foods Inc.*	50.4	569.0
Vodafone Group Plc	226.9	556.6
Eni S.p.A.	15.0	401.2
Akzo Nobel N.V.	4.7	329.4
UBS AG	16.9	274.8
MacDonald, Dettwiler and Associates Ltd.	6.1	258.0
Hitachi, Ltd.	74.0	236.7
Dell Inc.	13.6	205.3
Canon Inc.	4.1	183.4
Total SA*	2.9	182.4
NuVista Energy Ltd.	14.3	178.5
Cisco Systems, Inc.	6.9	173.4
The McGraw-Hill Companies, Inc.	4.7	164.1
Microsoft Corporation	4.8	154.9
HSBC Holdings plc	12.6	152.6
BRF – Brasil Foods S.A.*	5.6	152.5
JPMorgan Chase & Co.*	3.4	146.8
The Walt Disney Company	4.2	144.5
CRH plc	4.9	140.2
Pfizer Inc.	7.2	136.8
Mitsubishi UFJ Financial Group, Inc.	25.9	131.7
Unilever N.V.	3.8	131.2
3M Company	1.5	128.9
Safeway Inc.	5.7	127.4
DaimlerChrysler AG	2.3	126.6
Goldcorp Inc.	3.0	125.5
DIRECTV	3.5	123.1
XTO Energy Inc.	2.5	120.7
Union Pacific Corporation	1.7	115.2
Hewlett-Packard Company	2.1	114.4
Nippon Telegraph and Telephone Corporation	2.8	113.5
Norfolk Southern Corporation	2.1	113.3
MMX Mineracao e Metalicos SA	15.2	112.8
Intel Corporation	5.1	108.9
Comcast Corporation	6.0	106.4
Henkel AG & Co. KGaA	1.9	105.8
Starwood Hotels & Resorts Worldwide, Inc.	2.6	101.5
Gazprom*	14.6	$97.3
Barrick Gold Corporation	2.3	95.4
Lockheed Martin Corporation	1.2	93.9
SAP AG	1.9	93.8
Actividades de Construccion y Servicios, S.A	1.8	93.5
Chesapeake Energy Corporation	3.4	92.2
Novartis AG	1.6	90.1
Siemens AG	0.9	89.2
Nokia Oyj	6.5	87.8
Samsung Electronics Co., Ltd.	0.1	86.6
Portugal Telecom, SGPS, SA	6.5	83.5
THK CO., LTD.	4.5	83.4
Koninklijke (Royal) Philips Electronics N.V.	2.7	82.9
Lafarge SA	0.9	82.0
Rio Tinto plc	1.4	81.8
Accor SA	1.4	80.7
Talisman Energy Inc.	4.1	80.4
Johnson & Johnson	1.2	80.1
E.ON AG	1.8	78.9
Idea Cellular Limited	58.8	77.1
Cheung Kong (Holdings) Limited	5.5	74.4
Publicis Groupe S.A.	1.7	73.1
Fairfax Financial Holdings Limited	0.2	71.5
Daiwa Securities Group Inc.	13.5	70.5
Viacom Inc.	2.2	69.7
Lexmark International, Inc.	2.6	69.6
Kroger Co., The	3.1	65.7
Carnival Corporation	1.9	63.2
Illinois Tool Works Inc.	1.2	63.0
China Mobile Limited	6.2	61.2
Bank of America Corporation*	3.9	61.1
International Business Machines Corporation	0.4	58.6
BAE Systems plc	9.3	56.8
Deere & Company	1.0	56.8
The Bank of New York Mellon Corporation	1.9	56.5
Applied Materials, Inc.	3.8	55.8
France Telecom SA	2.1	55.7
Nestlé SA	1.1	54.3
InterContinental Hotels Group PLC	3.6	53.9
Qwest Communications International, Inc.	12.1	53.4
Woodside Petroleum Ltd.*	1.3	52.8

* Includes fair market value of warrants and subscription receipts.

Real estate investments over $100 million

(as at December 31, 2009)

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian regional shopping centres		
Champlain Place, Dieppe	812	100%
Chinook Centre, Calgary	1,158	100%
Erin Mills Town Centre, Mississauga	806	50%
Fairview Mall, Toronto	878	50%
Fairview Park Mall, Kitchener	748	100%
Fairview Pointe Claire, Montreal	1,028	50%
Georgian Mall, Barrie	626	100%
Hillcrest Mall, Richmond Hill	586	100%
Le Carrefour Laval, Montreal	1,299	100%
Les Galeries d'Anjou, Montreal	1,222	50%
Les Promenades St. Bruno, Montreal	1,137	100%
Lime Ridge Mall, Hamilton	814	100%
Market Mall, Calgary	971	50%
Markville Shopping Centre, Markham	1,015	100%
Masonville Place, London	687	100%
Pacific Centre, Vancouver	1,440	100%
Polo Park Mall, Winnipeg	1,232	100%
Regent Mall, Fredericton	490	100%
Richmond Centre, Richmond	493	100%
Rideau Centre, Ottawa	695	69%
Sherway Gardens, Toronto	985	100%
Shops at Don Mills, Toronto	467	100%
The Promenade, Toronto	704	100%
Toronto Eaton Centre, Toronto	1,724	100%

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian office properties		
Granville Square, Vancouver	407	100%
HSBC Building, Vancouver	395	100%
Pacific Centre Office Complex, Vancouver	1,549	100%
RBC Centre, Toronto	1,230	100%
Toronto-Dominion Centre Office Complex, Toronto	4,442	100%
Toronto Eaton Centre Office Complex, Toronto	1,895	100%
Waterfront Centre, Vancouver	410	100%
Yonge Corporate Centre, Toronto	669	100%
Canadian properties under development		
Maple Leaf Square, Toronto	N/A	37.5%
The Residences at The Ritz-Carlton, Toronto	N/A	40%
U.S. regional shopping centres		
Lakewood Mall, Lakewood, California	2,080	49%
Los Cerritos Center, Cerritos, California	1,281	49%
Queens Center, Queens, New York	967	49%
Washington Square, Tigard, Oregon	1,327	49%
U.K. office properties		
Thomas More Square Estate, London	566	50%

Private companies and partnerships over $100 million

AB Acquisitions Holdings Ltd.
Aguas Nuevo Sur Maule, S.A.
Alexander Forbes Limited
Alliance Laundry Systems, LLC
AOT Bedding Holding Corp.
Apollo Overseas Partners (Delaware 892) VI, L.P.
Aquilex Holdings, LLC
Ares Corporate Opportunities Fund II, L.P.
Ares Corporate Opportunities Fund III, L.P.
Ashmore Global Special Situations Fund 4 Limited Partnership
Avaya Inc.
BC European Capital VII
BC European Capital VIII
BDCM Offshore Fund II Ltd.
BDCM Offshore Opportunity Fund II Ltd.
Birmingham International Airport
Bridgewater Pure Alpha Fund II Ltd.
Bristol Airport (Bermuda) Limited
Canary Wharf Group plc
Crestline Offshore Opportunity Fund, Ltd.
CTVglobemedia Inc.
DaVinci Re Holdings Ltd.
Donnet Participações S.A.
Downsview Managed Account Platform Inc.
Drawbridge Global Macro Fund Ltd.
Easton-Bell Sports, LLC
Education Management Corporation
Empresa de Servicios Sanitarios del Bio-Bio S.A.
Esval S.A.
Express Pipeline Ltd.
GCT Global Container Terminals Inc.
Glenstone Capital Inc.
GMO Mean Reversion Fund (Offshore) L.P.
GNC Corporation, Inc.
Hancock Timber Resource Group
Hudson Catastrophe Fund, Ltd.
IIG Trade Finance Partners Ltd.
IntelSat, Ltd.
InterGen N.V.
International Finance Participation Trust (2004)
Kabel Deutschland GmbH
KKR Strategic Capital Overseas Fund, Ltd.
Maple Financial Group Inc.
Maple Leaf Sports & Entertainment Ltd.
Marathon Special Opportunity Fund Ltd.
MBK Partners, L.P.
MBK Partners Fund II, L.P.
Northern Star Generation LLC
OLE Media Management, L.P.
Orbis SICAV Global Equity Fund
Park Square Capital, LLC
Pershing Square International Ltd.
Providence Equity Partners V L.P.
Providence Equity Partners VI L.P.
R3, Ltd
Resource Management Service Inc.
Rhône Offshore Partners III L.P.
Scotia Gas Networks PLC
Silver Creek Low Vol CO Cayman LP
Silver Creek Special Opportunities Fund Cayman II, L.P.
Silver Lake Partners III, L.P.
Sociedad Austral de Electricidad S.A.
Southern Cross Airports Corporation Holdings Inc.
The Hillman Companies, Inc.
York Street Capital Partners II, L.P.

Eleven-year review

($ billions)	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
CHANGE IN NET ASSETS											
Income											
Investment income	**$ 10.89**	$ (19.03)	$ 4.68	$ 12.31	$ 14.09	$ 10.80	$11.42	$ (1.41)	$ (1.74)	$ 6.21	$10.12
Contributions											
Members/transfers	**1.29**	1.13	1.06	0.83	0.79	0.75	0.71	0.68	0.64	0.62	0.63
Province of Ontario	**1.43**	1.18	1.08	0.82	0.78	0.75	0.72	0.70	0.68	0.66	0.66
Province of Ontario – special payments	**–**	–	–	–	–	–	–	–	–	–	0.13
Total income	**13.61**	(16.72)	6.82	13.96	15.66	12.30	12.85	(0.03)	(0.42)	7.49	11.54
Expenditures											
Benefits paid	**4.39**	4.20	4.02	3.82	3.62	3.43	3.20	3.08	3.08	2.54	2.28
Investment expenses	**0.21**	0.15	0.23	0.22	0.21	0.19	0.16	0.10	0.12	0.10	0.09
Client service expenses	**0.04**	0.04	0.04	0.03	0.03	0.03	0.03	0.03	0.04	0.03	0.03
Total expenditures	**4.64**	4.39	4.29	4.07	3.86	3.65	3.39	3.21	3.24	2.67	2.40
Increase/(decrease) in net assets	**$ 8.97**	$ (21.11)	$ 2.53	$ 9.89	$ 11.80	$ 8.65	$ 9.46	$ (3.24)	$ (3.66)	$ 4.82	$ 9.14
NET ASSETS											
Investments											
Fixed income	**$ 6.44**	$ 5.32	$ 18.68	$ 21.44	$ 19.33	$ 13.91	$19.38	$ 13.96	$ 7.09	$ 13.32	$17.30
Equities											
Canadian	**8.43**	6.21	13.73	16.39	19.26	16.80	15.19	13.43	17.06	17.74	19.89
Non-Canadian	**32.75**	28.72	36.31	32.42	25.78	23.09	19.13	18.19	24.28	23.14	21.76
Inflation-sensitive investments											
Commodities	**1.94**	1.25	3.02	2.32	2.65	2.13	1.89	1.48	1.09	2.10	1.09
Real estate	**17.16**	16.16	16.36	14.53	12.45	10.90	9.87	11.49	11.59	6.20	2.82
Infrastructure & timberland	**7.90**	10.03	8.84	6.78	4.77	2.99	1.90	0.97	0.03	–	–
Real-rate products	**18.89**	17.41	11.06	11.80	10.56	11.90	7.07	5.92	6.98	9.55	4.24
Net investments	**93.51**	85.10	108.00	105.68	94.80	81.72	74.43	65.44	68.12	72.05	67.10
Receivable from Province of Ontario	**2.52**	2.19	1.84	1.58	1.50	1.42	1.36	1.32	1.28	1.25	1.25
Other assets	**31.02**	47.35	48.19	35.47	20.90	23.17	11.30	23.45	24.26	13.15	7.04
Total assets	**127.05**	134.64	158.03	142.73	117.20	106.31	87.09	90.21	93.66	86.45	75.39
Liabilities	**(30.65)**	(47.20)	(49.48)	(36.72)	(21.07)	(21.98)	(11.41)	(24.00)	(24.20)	(13.33)	(7.08)
Net assets	**96.40**	87.44	108.55	106.01	96.13	84.33	75.68	66.21	69.46	73.12	68.31
Smoothing reserve	**12.71**	19.52	(3.63)	(11.16)	(7.44)	(1.54)	3.48	9.65	2.97	(4.34)	(8.32)
Actuarial value of net assets	**109.11**	106.96	104.92	94.85	88.69	82.79	79.16	75.86	72.43	68.78	59.99
Accrued pension benefits	**131.86**	118.14	115.46	110.50	110.53	96.73	83.12	73.67	65.43	58.56	52.11
(Deficit)/surplus	**$(22.75)**	$ (11.18)	$ (10.54)	$ (15.65)	$(21.84)	$(13.94)	$ (3.96)	$ 2.19	$ 7.00	$ 10.22	$ 7.88
PERFORMANCE (%)											
Rate of return	**13.0**	(18.0)	4.5	13.2	17.2	14.7	18.0	(2.0)	(2.3)	9.3	17.4
Benchmark	**8.8**	(9.6)	2.3	9.4	12.7	10.6	13.5	(4.8)	(5.3)	5.3	17.6

Funding valuation history

Funding valuations must be filed with the pension regulator at least every three years. Valuation dates and voluntary filings are determined by the OTF and the Ontario government. Filings must show the plan has sufficient assets to pay all future benefits to current plan members. For reference, all previously filed funding valuations and decisions made to use surplus or address shortfalls are detailed in this section. Assumptions used for each valuation are also reported below.

FILED FUNDING VALUATIONS[1]

(as at January 1) ($ billions)	***2009***	*2008*	*2005*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1996*
Net assets	**$ 87.4**	$ 108.5	$ 84.3	$ 66.2	$ 69.5	$ 73.1	$ 68.3	$ 59.1	$ 54.5	$ 40.1
Smoothing adjustment	**19.5**	(3.6)	(1.5)	9.7	3.0	(4.3)	(7.3)	(5.1)	(6.0)	(1.8)
Value of assets	**106.9**	104.9	82.8	75.9	72.5	68.8	61.0	54.0	48.5	38.3
Future contributions										
Current members	**25.9**	23.6	16.7	14.7	13.7	14.4	13.4	12.0	12.6	14.5
Special contribution increases[2]										
Current members	**4.0**	4.2	4.3	–	–	–	–	–	–	–
Future members	**1.5**	1.4	1.9	–	–	–	–	–	–	–
Special payments[3]	**–**	–	–	–	–	–	–	3.7	8.5	8.4
Actuarial assets	**138.3**	134.1	105.7	90.6	86.2	83.2	74.4	69.7	69.6	61.2
Future benefits										
Current members	**(137.5)**[4]	(134.1)[4]	(105.6)	(89.1)	(84.3)	(76.4)	(69.8)	(66.2)	(62.8)	(60.5)
Surplus	**$ 0.8**	$ 0.0	$ 0.1	$ 1.5	$ 1.9	$ 6.8	$ 4.6	$ 3.5	$ 6.8	$ 0.7

[1] Valuation filing dates determined by the plan sponsors.

[2] The preliminary 2005 funding valuation showed a $6.1 billion shortfall. The plan sponsors introduced special contribution increases to 2021 to address the shortfall, allowing a balanced funding valuation to be filed as required by the Ontario Pension Benefits Act.

[3] Owed by the Ontario government to pay off the plan's initial unfunded liability in 1990. The government used its portion of plan surpluses in the 1990s to eliminate the remaining payments.

[4] Assumes 100% inflation protection.

ASSUMPTIONS USED FOR FILED VALUATIONS

(as at January 1) (percent)	***2009***	*2008*	*2005*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1996*
Rate of return	**5.00**	5.65	6.475	6.40	6.30	6.25	6.50	7.50	7.50	8.0
Inflation rate	**1.35**	2.20	2.750	2.05	1.90	2.20	2.25	3.50	3.50	4.0
Real rate of return	**3.65**	3.45	3.725	4.35	4.40	4.05	4.25	4.00	4.00	4.0

Funding decisions

The plan sponsors jointly decide what benefits the plan will provide; the contribution rate paid by working members and matched by government and other designated employers; and how any funding shortfall is addressed and any surplus is used. A history of the sponsors' plan funding decisions follows:

1990: Unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.

1993: $1.5 billion surplus; $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).

1996: $0.7 billion surplus; $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).

1998: $6.8 billion surplus; $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the government; OTF and Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion would be available to the OTF for benefit improvements.

1999: $3.5 billion surplus; $3.5 billion to eliminate government's remaining special payments.

2000: $4.6 billion surplus; no changes to benefits or contribution levels.

2001: $6.8 billion surplus; $6.2 billion to pay for benefit improvements: permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions; $76 million was set aside in a contingency reserve to be used by the OTF at a later date.

2002: $1.9 billion surplus; no changes to benefits or contribution levels.

2003: $1.5 billion surplus; no changes to benefits or contribution levels; Funding Management Policy adopted by plan sponsors.

2005: $6.1 billion preliminary funding shortfall resolved, leaving plan with a $0.1 billion surplus; plan sponsors introduced special contribution rate increases to resolve the shortfall, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers; the OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.

2008: $12.7 billion preliminary funding shortfall resolved, leaving the plan in a balanced position; plan sponsors introduced conditional inflation protection for pension benefits earned after 2009 and increased the basic contribution rate to 9% from 8%.

2009: $2.5 billion preliminary funding shortfall resolved primarily by assuming a slightly higher long-term rate of return on investments: RRB yield plus 1.5% versus RRB plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.

Design: THE WORKS www.worksdesign.com

Corporate directory

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Madhav Murti, Vice-President

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Marcia Mendes-d'Abreu, Vice-President

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Melissa Kennedy, General Counsel and Secretary, Senior Vice-President, Corporate Affairs

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General Counsel and Secretary
Sandra J. Hardy, Executive Vice-President

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Andrea Stephen, Executive Vice-President

Operations
Ron Wratschko, Executive Vice-President

Annual Meeting
April 9, 2010, at 5 p.m.
The Carlu
444 Yonge Street, 7th floor
Toronto

We welcome your comments and suggestions on this annual report.

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