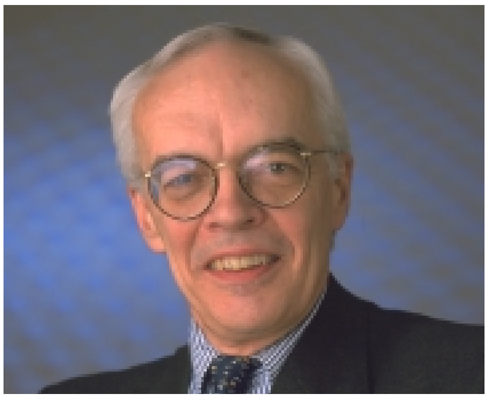
Report to members

2002

TEACHERS' PENSION PLAN ONTARIO

APRIL 2003



Claude Lamoureux, President and CEO

Highlights

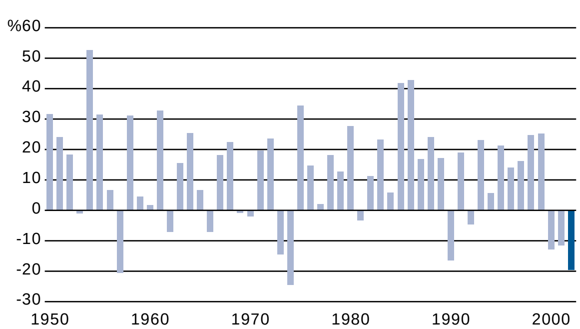
Pension Funding Policy Approved .... (pg 4)
6,800 New Pensioners .... (pg 5)
Top 50 Investments .... (pg 7)

Investment Results

For the first time since 1932, U.S. stock markets recorded their third straight year of declines. At year-end 2002, the Standard & Poor's 500 index ended 22% lower than a year earlier, which meant it was 40% below its all-time high set on September 1, 2000. In Canada, the Toronto Stock Exchange was down 12.4%, roughly the same as in 2001.

While this was an unusual period by historical standards, the Ontario Teachers' Pension Plan was prepared.

Equity Markets Over the Past 50 years
(percent)



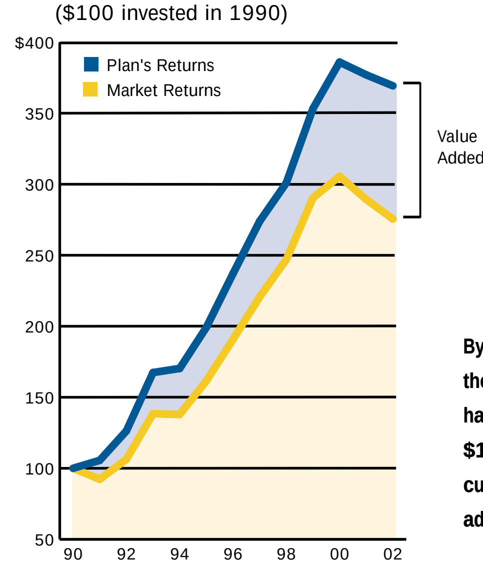
This chart shows the MSCI World index which includes Canada, U.S., and global equity returns. The duration of this downturn is unprecedented in the last 50 years.

We anticipated a period of market weakness (as we reported last year) and, by using a variety of long-term strategies, built an asset-mix policy we believe is right for these difficult economic times. We reduced our exposure to stocks by 10% to approximately 50% of assets from 60% a year earlier.

As a result, the plan outperformed the markets again in 2002 with a minus 2% rate of return, preserving more than $1.9 billion in value over benchmarks. And by reducing our policy exposure to stocks, we preserved an additional $900 million for a total of $2.8 billion.

Over 50% of our investments produced positive rates of return during 2002. As you can see in the chart

Investment Growth
($100 invested in 1990)



By outperforming the markets, we have created $10.1 billion in cumulative value added since 1990.

below, bonds (fixed income) returned 8.6% and inflation-sensitive investments, including real estate, commodities and real-return bonds, were excellent performers for us last year, producing a 13.2% rate of return.

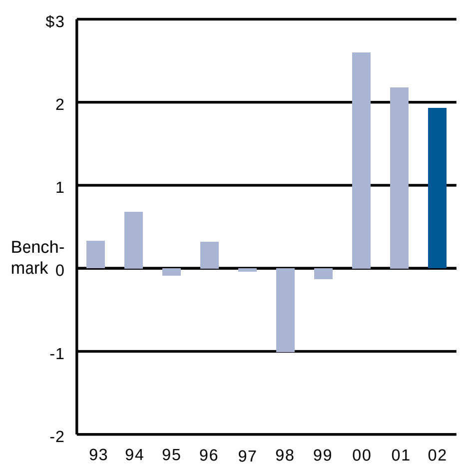
To expect any better results would ignore the realities of capital markets. We have no control over the direction of the markets we invest in, or for that matter, the cost of future pension benefits – the cost we are striving to cover. Both are determined by factors outside our control.

Plan Returns Compared to Benchmarks

(percent)	Plan returns	Benchmark	Composite Benchmark
Fixed income, alternative investments and relative value strategies	**8.6%**	5.1%	Scotia Capital Treasury Bills (91 days) Custom Canada Bond Universe Custom Net Ontario Debenture
Canadian equity	**-7.7**	-12.4	S&P/TSX Composite
U.S. equity	**-22.0**	-22.7	S&P 500
Non-North American equity	**-16.0**	-16.5	Morgan Stanley EAFE, EM Custom NONA National Index
Inflation-sensitive investments	**13.2**	12.0	Custom U.S. Treasury Inflation-Protected Securities Scotia Capital Real-Return Bond Goldman Sachs Commodities CPI+4%
Total Plan	**-2.0%**	**-4.8%**	**Benchmark weighted by the policy asset mix**

All asset classes beat their benchmarks in 2002 and half of our total investments produced positive rates of return. Fixed-income and inflation-sensitive investments performed particularly well.

Value Added Above Benchmarks
(for the year ended December 31)
($ billions)



Bonuses are only paid when staff create value over market returns, as they did again in 2002.

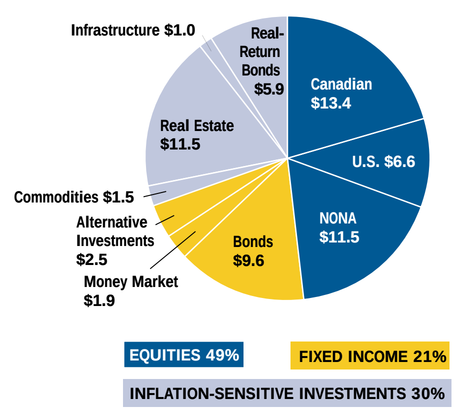
In 1998, the plan had a positive 9.9% rate of return, but was 2% below the benchmark – no long-term bonuses were paid for the 1995 - 98 period.

What we do control, however, is investment and customer service strategies and tactical execution. In these areas, our team strives to make a difference.

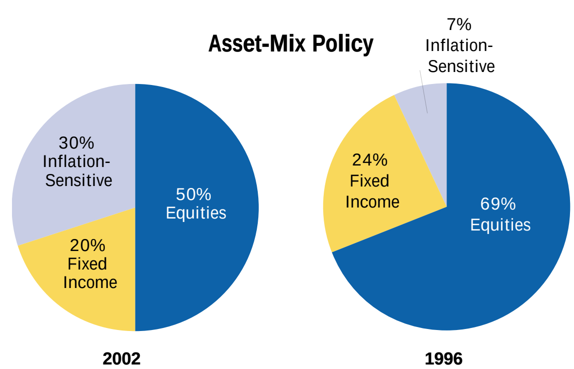
Investing for the Future

- We are actively managing more assets by preferring specific stocks and reducing exposure to market indices.
- We have stepped up our commitment to private equity in Teachers' Merchant Bank – these investments are an important alternative to stock markets.
- We continue to invest prudently in hedge funds.
- We are buying tangible assets, such as electric utilities, highways and airports, because their returns are more closely aligned with the indexed pensions we pay to teachers.
- In real estate, we have several redevelopment projects underway that will increase the value of our assets.

Asset Mix
(as at December 31, 2002)
($ billions)



Asset-Mix Policy



We review expected market conditions annually and choose an asset-mix policy that will best enable the plan to meet the pension funding objective.

Organizational Mandate

OTF and Ontario government (plan sponsors)	Ontario Teachers' Pension Plan
Responsible for funding pension plan	Administer pension plan
Negotiate benefit changes and contribution rate	Pay pensions, collect contributions
Share surplus or deficit	Set investment strategy, invest assets

The Plan's Long-term Challenge

Although our investment results are good compared to markets and represent billions of dollars in added value, pensions are based on a defined benefit formula, not based on the rate of return on investments.

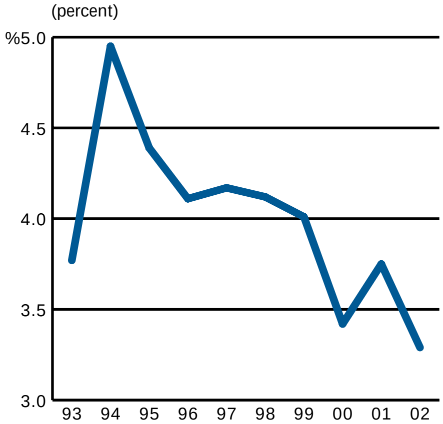
With the increase in benefit levels resulting from plan changes in the last few years, the plan now needs a 5% real rate of return over the long term (instead of 4.5%) to deliver the pensions promised. History shows this kind of return is not easy to achieve, especially if there are periods of extended low returns such as we may be experiencing in this decade.

At the beginning of 2003, the plan had an estimated surplus of $1.5 billion, compared to $1.9 billion at January 1, 2002. However, there are some clouds on the horizon.

First of all, the cost of future benefits earned by plan members increased by almost $5 billion due to a significant drop in real interest rates (the basis for estimating future cost).

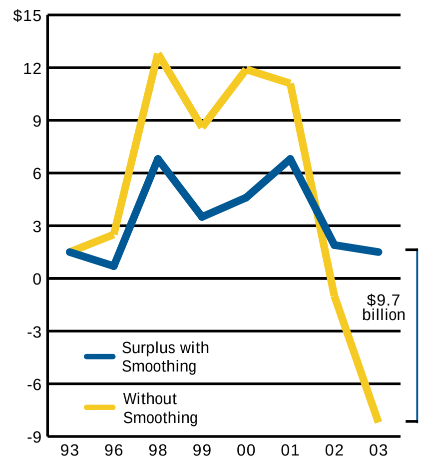
Secondly, it is a standard actuarial practice to smooth equity gains and losses over five years to avoid short-term changes in the surplus, which could affect the contribution rate. During the 1990s, the plan accumulated and smoothed

Declining Real Interest Rates
(as at December 31)
(percent)



If real interest rates drop by 1%, it will take 20% more assets today to pay the pensions promised to teachers in the future.

Funding Surplus
(as at January 1)
($ billions)



Why the drop? Coupled with the recent effects of negative markets, $18.6 billion in surplus was spent by the OTF and Ontario government to pay for benefit improvements (e.g. 85 factor and higher pensions) and to eliminate the government's unfunded liability payments.

equity gains. But since stock markets around the world have declined over the past three years, there are $9.7 billion in unrecognized losses which have been deferred to the next four years. (Equity returns are considered a "loss" if they are below 6% plus inflation which is the assumption for equities over the long-term.)

This situation could cause a deficit in the future unless equity markets recover dramatically, which is not expected to happen, or real interest rates increase. The next funding valuation must be filed no later than 2006. If there is a deficit, the OTF and the Ontario government, who are the co-sponsors of this plan, will have to take steps to rectify the situation by either increasing contributions for teachers and the government, or reducing future benefits (current pensions would not be affected).

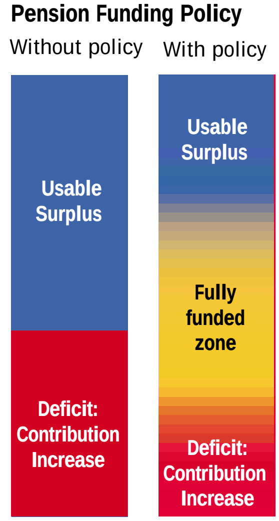
However, we will continue to do our best to build on what works and take innovative investment approaches where we see opportunities to add extra value. In the midst of this concern about the future, there is one good piece of news: a pension funding policy.

Pension Funding Policy

The plan's co-sponsors, the Ontario Teachers' Federation and the Government of Ontario, have taken an innovative step.

In March 2003, they approved a pension funding policy that gives the plan greater stability in the face of a possible deficit and codifies the more pleasant task of using future surpluses to create a cushion or eventually to lower contribution rates or improve benefit levels.

Pension Funding Policy



The funding zone will provide greater stability for contribution rates for active members.

The current surplus, estimated at $1.5 billion, is near the bottom of the zone.

- The policy defines a 'fully funded zone' in which the co-sponsors will maintain a cushion to protect the plan from short-term deficits that could otherwise trigger a major contribution increase.
- This cushion will help balance out periods of surplus and deficit but will not entirely shelter teachers and the government from a future contribution increase.

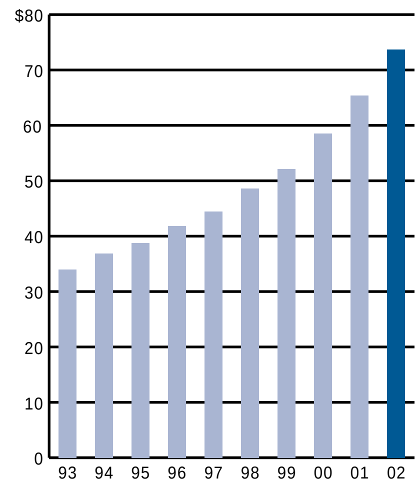
  Rather, it will ensure any necessary increases would be smaller and more manageable.
- Benefit improvements or reduced contributions could be negotiated when the surplus rises above the fully funded zone, and the fund is in a strong financial position.

How does this policy help?

The funding zone will provide greater stability for contribution rates for active members. Our investors will have the freedom to continue to use investment risk prudently to lower the overall cost of the plan with the assurance that some of the gains from future market booms would be set aside to cushion the impact of inevitable market downturns.

We applaud the co-sponsors for their forward thinking and co-operative approach.

Cost of Future Benefits
(as at December 31)
($ billions)



The cost of future benefits for plan members increased by 13% in 2002 due to a drop in real interest rates.

In Closing

2002 brought challenges for all investors – we were no exception. While we can't control volatile investment markets or the aging demographics of our members, rest assured we are doing everything we can to deal with these realities.

Yours sincerely,

C Lamoureux

CLAUDE LAMOUREUX
President and Chief Executive Officer

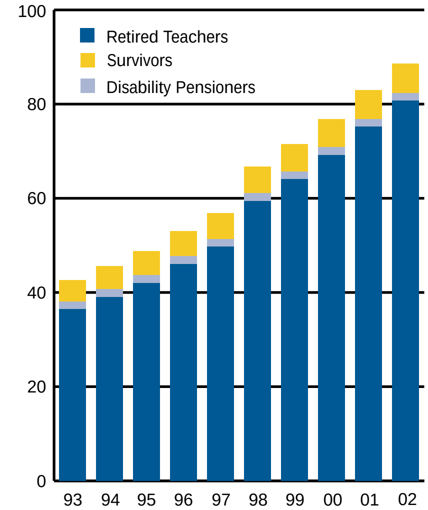
OUTSTANDING SERVICE TODAY...

MEMBER SERVICES

We are striving to do all we can in the area of member service to meet both the short- and long-term needs of our members for pension information.

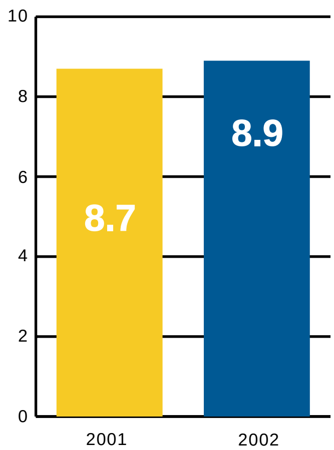
We continued to introduce new services for members and employers, including a secure Web site. We encourage all members to sign up for these services over the Internet so they have direct access to their personal pension information.

Number of Pensioners
(thousands)



Last year, 6,800 pensioners and 600 survivors (spouses) were added to the pension payroll.

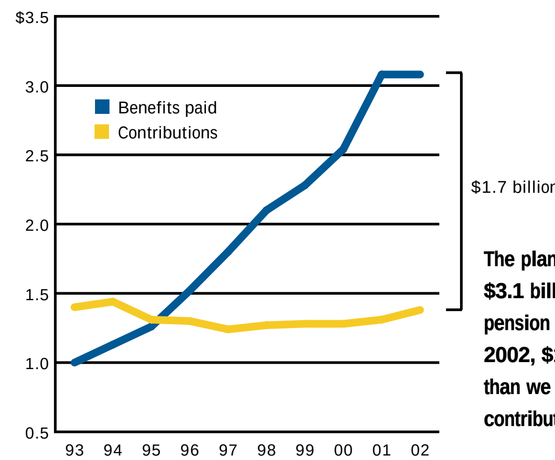
Quality Service Index
(scale of zero to 10)



In 2002, plan members gave us our highest ever rating on our Quality Service Index (QSI).

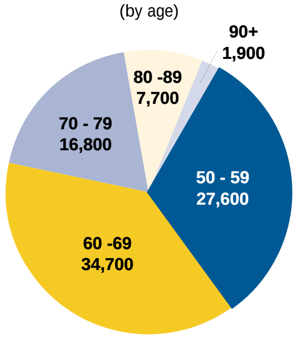
We survey members regularly to evaluate our service and communications.

Contributions vs. Benefits Paid
(for the year ended December 31)
($ billions)



The plan paid $3.1 billion in pension benefits in 2002, $1.7 more than we received in contributions.

Pensioner Profile
(by age)



One third of all retired teachers are now under age 60. The average age for retirement is 55.4 years.

(From left to right)

Phil Nichols
Vice-President,
MIS Member Services

Allan Reesor
Executive Vice-President,
Member Services and Chief
Information Officer

Rosemarie McClean
Vice-President, Client Services

INVESTMENTS

Our strategy is to create long-term value for members. We fine-tuned our investment program in 2002 to reduce the impact of negative returns.

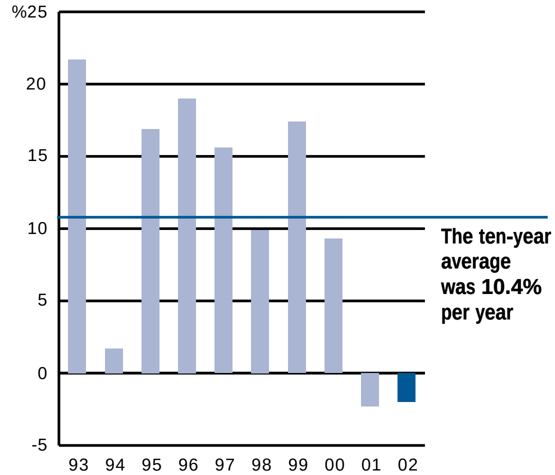
Investment Performance as at December 31

	2002	2001
Net assets ($ billions)	**$66.2**	69.5
Rate of return on investments (%)		
Annual	**-2.0%**	-2.3%
Composite benchmark	**-4.8**	-5.3

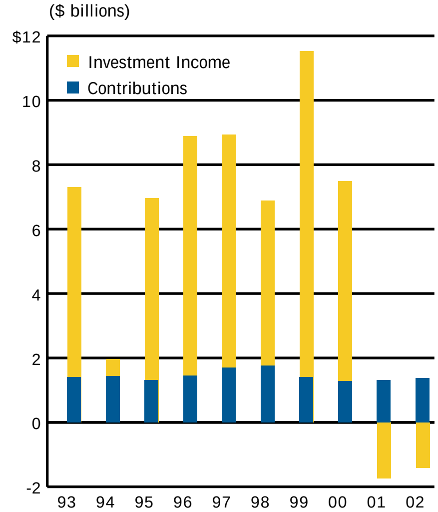
Average annual compound rates of return (%)

	1 yr	4 yr	5 yr	10 yr	Since 1990
Our return	-2.0	5.3	6.2	10.4	10.6
Benchmark	-4.8	2.8	4.5	9.1	8.1

Rates of Return
(for the year ended December 31)



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



We don't expect to be able to match the investment returns of the 1990s.

(Below left to right)

Morgan McCague
Senior Vice-President, Quantitative Investments

Robert Bertram
Executive Vice-President, Investments

Neil Petroff
Senior Vice-President, International Equity Indices, Fixed Income & Alternative Investments

Anticipating negative stock markets worldwide, we reduced our stock portfolio by 10%. This decision saved the plan almost $1 billion.

Top 50 Investments

AS AT DECEMBER 31, 2002

Subsidiary Companies

Subsidiary Companies	($ billions)
The Cadillac Fairview Corporation Ltd.	$11.5

Bonds

Bonds	($ billions)
Province of Ontario bonds and debentures	$15.1
Government of Canada bonds	7.1
Canadian corporate bonds	3.4
Real-return Canada, Quebec and corporate bonds	3.4
Canadian treasury bills and term deposits	2.6
Inflation indexed notes	2.4
International corporate bonds	1.1
Commercial paper	1.0
Index-linked mortgages	0.3
United States TIPS	0.3
Term Deposits	0.1

Corporate Shares (millions)

	Shares	Fair Value
Nexen Inc.	19.7	$675.4
Capital International Emerging Countries Fund	13.9	522.1
Shoppers Drug Mart Corporation	20.5	503.6
Maple Leaf Foods Inc.	42.7	467.9
Royal Bank of Canada	7.5	433.3
BCE Inc.	13.6	387.5
Bank of Nova Scotia, The	6.8	359.0
Macquarie Infrastructure Group	114.8	326.4
Macerich Company, The	5.5	269.6
Bank of Montreal	6.1	254.4
EnCana Corporation	4.8	233.8

Corporate Shares (continued) (millions)

	Shares	Fair Value
Alcan Inc.	4.7	$219.1
Sun Life Financial Services of Canada Inc.	8.0	214.8
WestJet Airlines Ltd.	12.4	200.9
Toronto-Dominion Bank, The	5.5	188.3
Macdonald, Dettwiler and Associates Ltd.	8.1	181.2
Canadian Imperial Bank of Commerce	3.9	168.1
Canadian National Railway Company	2.4	156.4
Magna International Inc.	1.8	154.2
Manulife Financial Corporation	4.3	147.9
Barrick Gold Corporation	5.8	141.0
TransCanada PipeLines Limited	5.5	125.4
Petro-Canada	2.5	121.4
Suncor Energy, Inc.	4.7	115.6
Talisman Energy Inc.	2.0	112.8
Telefonos de Mexico SA	27.6	109.6
Nortel Networks Corporation	42.6	107.3
Canadian Natural Resources Ltd.	2.2	104.3
Fording Inc.	3.2	104.0
Inco Limited	2.8	95.8
Placer Dome Inc.	5.3	95.4
Thomson Corporation, The	2.2	94.4
Canada Life Financial Corporation	2.3	91.7
Southern Cross FLIERS Trust	1.0	91.3
ENI S.p.A.	3.4	84.5
National Bank of Canada	2.6	84.4
FleetBoston Financial Corporation	2.2	84.1
Maple Leaf Sports & Entertainment Ltd.	(undisclosed)	

To learn more about our investments, please visit our Web site at www.otpp.com

(From left to right)

Leo de Bever
Senior Vice-President, Research and Economics

Brian Gibson
Senior Vice-President, Active Equities

Jim Leech
Senior Vice-President, Teachers' Merchant Bank

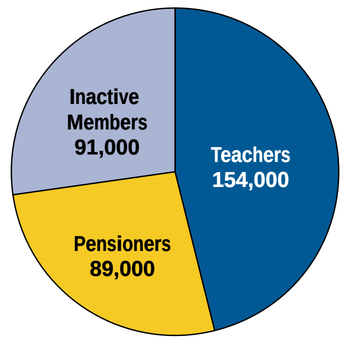
Corporate Profile

The Ontario Teachers' Pension Plan is responsible for the retirement income of 154,000 elementary and secondary school teachers, 89,000 retired teachers and their survivors, and over 91,000 former teachers with money in the plan.

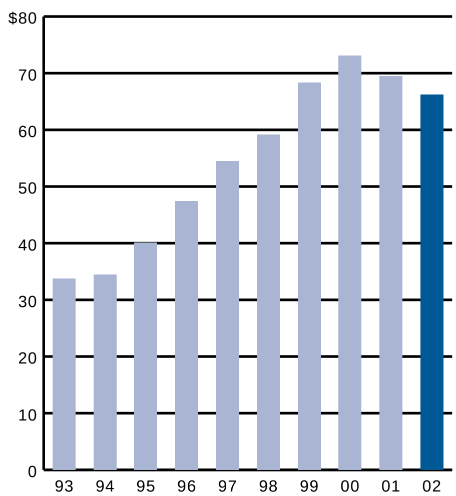
The plan had net assets of $66.2 billion at year-end 2002 and a long-term rate of return of 10.6% per year since 1990. There is an estimated $1.5 billion surplus which is within the fully funded zone (see page 4).

The Ontario government and the Ontario Teachers' Federation, the plan's co-sponsors, are responsible for benefit and contribution levels.

Plan Members

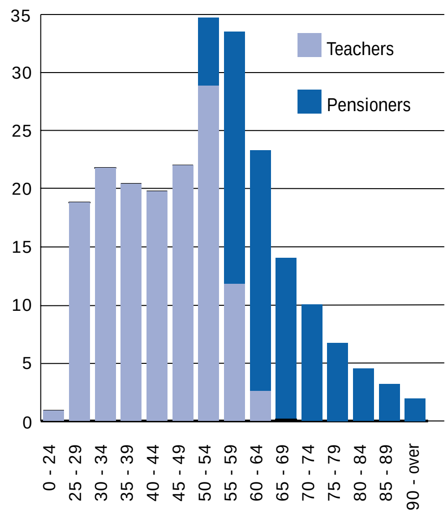


Net Assets
(as at December 31)
($ billions)



Net assets declined to $66.2 billion at year-end.

Age Distribution of Teachers and Pensioners
(thousands)



Over the last 10 years, retirees in their 50s have increased as a percentage of the pensioner population.

To Contact Us

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A copy of the *2002 Annual Report*, containing full audited financial statements, is on our Web site at www.otpp.com. We welcome your comments about the *Report to Members*, as well as other aspects of our communications program.

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