Management's Responsibility *for* Financial Reporting

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

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

Ultimate responsibility for the consolidated financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit and Actuarial Committee, consisting of five directors who are not officers or employees of the plan administrator. In addition, the committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. This committee reviews the consolidated financial statements and recommends them for approval by the Board.

The plan's external auditors, Deloitte & Touche LLP, 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. The external auditors have full and unrestricted access to the Audit and Actuarial Committee to discuss their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal control systems.

C Lamoureux

Claude Lamoureux
President and Chief Executive Officer

Andrew Jones

Andrew Jones
Vice-President, Finance

February 11, 2004

Auditors' Report *to the* Administrator

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and (deficit)/surplus of the Ontario Teachers' Pension Plan as at December 31, 2003 and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in (deficit)/surplus for the year then ended. These consolidated financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and (deficit)/surplus of the Plan as at December 31, 2003 and the changes in its net assets available for benefits, changes in accrued pension benefits and changes in (deficit)/surplus for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Canada, February 11, 2004

Actuaries' Opinion

Mercer Human Resource Consulting 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, 2003, 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, 2002;
- 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 2003;
- 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 published reports on negotiated wage settlements in the 2002/03 and 2003/04 school years.

The objective of the financial statements is to fairly present the financial position of the Plan on December 31, 2003 as a going concern. This is different from the statutory valuation (the actuarial valuation required by the *Teachers' Pension Act* and the *Pension Benefits Act (Ontario))*, which uses actuarial methods prescribed by the *Teachers' Pension Act* to establish a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements represent the Board's best estimate of future events and market conditions at the end of 2003, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

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

Lester J. Wong, f.c.i.a

Malcolm P. Hamilton, f.c.i.a. *February 11, 2004*

Consolidated Statement *of* Net Assets Available *for* Benefits *and* Accrued Pension Benefits *and* (Deficit)/Surplus

as at December 31, 2003 ($ millions)	**2003**	2002
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments *(note 2)*	**$85,277**	$88,671
Receivable from the Province of Ontario *(note 3)*	**1,360**	1,324
Receivable from brokers	**414**	82
Cash	**32**	124
Fixed assets	**7**	5
	87,090	90,206
Liabilities		
Investment-related liabilities *(note 2a)*	**10,846**	23,234
Due to brokers	**412**	640
Accounts payable and accrued liabilities	**155**	119
	11,413	23,993
Net assets available for benefits	**75,677**	66,213
Actuarial asset value adjustment *(note 4)*	**3,480**	9,644
Actuarial value of net assets available for benefits	**$79,157**	$75,857
ACCRUED PENSION BENEFITS AND (DEFICIT)/SURPLUS		
Accrued pension benefits *(note 5)*	**$83,123**	$73,665
(Deficit)/surplus	**(3,966)**	2,192
Accrued pension benefits and (deficit)/surplus	**$79,157**	$75,857

On behalf of the Board:

Chair

Board Member

Consolidated Statement *of* Changes *in* Net Assets Available *for* Benefits

for the year ended December 31, 2003 ($ millions)	2003	2002
Net assets available for benefits, beginning of year	$66,213	$69,456
Investment operations		
Investment income/(loss) *(note 8)*	11,424	(1,411)
Investment expenses *(note 13a)*	(162)	(105)
Net investment operations	11,262	(1,516)
Member service operations		
Contributions *(note 11)*	1,435	1,383
Benefits *(note 12)*	(3,199)	(3,076)
Member service expenses *(note 13b)*	(34)	(34)
Net member service operations	(1,798)	(1,727)
Increase/(decrease) in net assets	9,464	(3,243)
Net assets available for benefits, end of year	$75,677	$66,213

Consolidated Statement *of* Changes *in* Accrued Pension Benefits

for the year ended December 31, 2003 ($ millions)	2003	2002
Accrued pension benefits, beginning of year	$73,665	$65,431
Increase in accrued pension benefits		
Interest on accrued pension benefits	4,311	4,081
Benefits accrued	2,001	1,742
Changes in actuarial assumptions *(note 5a)*	5,560	5,276
Experience losses *(note 5c)*	785	211
	12,657	11,310
Decrease in accrued pension benefits		
Benefits paid *(note 12)*	3,199	3,076
Net increase in accrued pension benefits	9,458	8,234
Accrued pension benefits, end of year	$83,123	$73,665

Consolidated Statement *of* Changes *in* (Deficit)/Surplus

for the year ended December 31, 2003 ($ millions)	2003	2002
Surplus, beginning of year	$ 2,192	$ 6,998
Increase/(decrease) in net assets available for benefits	9,464	(3,243)
Change in actuarial asset value adjustment *(note 4)*	(6,164)	6,671
Increase in actuarial value of net assets available for benefits	3,300	3,428
Net increase in accrued pension benefits	(9,458)	(8,234)
(Deficit)/surplus, end of year	$(3,966)	$ 2,192

DESCRIPTION OF PLAN

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

a) General

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

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

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

b) Funding

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

c) Retirement pensions

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

d) Disability pensions

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

e) Death benefits

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

f) Escalation of benefits

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

g) Retirement Compensation Arrangement

The Retirement Compensation Arrangement (RCA) has been created by agreement between the co-sponsors as a supplementary plan to provide the members of the Plan with benefits that, due to limitations imposed by the *Income Tax Act (Canada)* and its regulations, cannot be provided under the Registered Pension Plan. Because the RCA is a separate trust, the net assets available for benefits and accrued benefits of the RCA are not included in these financial statements.

1. Summary of Significant Accounting Policies

a) *Basis of presentation*

These financial statements present the financial position and the results of operations of the Plan and are prepared in accordance with Canadian generally accepted accounting principles.

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

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

b) *Investments and investment-related receivables and liabilities*

Fair value

Investments and investment-related receivables and liabilities are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Where ascertainable, fair values are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not ascertainable, fair values are derived using methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate.

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 is recognized on the accrual basis as earned. Investment income also includes realized and unrealized gains and losses. Since real estate income is determined on a fair value basis, a charge for depreciation and amortization is excluded.

c) *Foreign currency translation*

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

d) *Accrued pension benefits*

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

e) *Use of estimates*

In preparing these financial statements, management must make certain estimates and assumptions that primarily affect the reported values of assets and liabilities, related income and expenses and related disclosures.

2. Investments

The Plan invests directly or through derivatives in fixed income, equities and inflation-sensitive investments in accordance with its policy of asset diversification. The purpose of such diversification is to minimize the likelihood of an overall reduction in surplus and maximize the opportunity for gains across the investment portfolio.

a) *Investments[1] before allocating the effect of derivative contracts and investment-related receivables and liabilities*

The schedule below summarizes the Plan's investments, including net accrued interest and dividends of $441 million (2002 – $494 million), before allocating the effect of derivative contracts and investment-related receivables and liabilities, as at December 31:

($ millions)	**2003**		2002	
	Fair Value	**Cost**	Fair Value	Cost
Fixed income				
Debentures	**$12,608**	**$ 9,963**	$ 14,261	$ 11,064
Bonds	**14,053**	**14,028**	11,181	10,890
Money-market securities	**5,212**	**5,202**	9,735	9,802
Alternative investments[2]	**4,029**	**3,518**	3,961	3,072
	35,902	**32,711**	39,138	34,828
Equity				
Publicly traded				
Canadian	**10,700**	**7,537**	9,439	8,485
United States	**3,586**	**3,492**	3,469	3,996
Non-North American	**5,594**	**5,351**	5,400	6,370
Non-Publicly traded				
Canadian *(note 6)*	**2,204**	**2,104**	2,253	2,185
United States	**1,122**	**1,366**	704	949
Non-North American	**1,319**	**1,243**	990	1,189
	24,525	**21,093**	22,255	23,174
Inflation-sensitive investments				
Real estate *(note 7)*	**10,397**	**9,734**	12,054	11,056
Real-rate products				
Canadian	**6,498**	**5,035**	5,184	4,227
United States	**771**	**649**	1,149	909
Infrastructure and timber	**2,222**	**2,085**	1,000	963
	19,888	**17,503**	19,387	17,155
	80,315	**71,307**	80,780	75,157
Investment-related receivables				
Securities purchased under agreements to resell	**1,740**	**1,742**	5,726	5,701
Cash collateral deposited under securities borrowing arrangements	**–**	**–**	272	270
Derivative-related, net	**3,222**	**565**	1,893	1,231
Investments	**85,277**	**73,614**	88,671	82,359
Investment-related liabilities				
Securities sold under agreements to repurchase	**(2,211)**	**(2,214)**	(10,913)	(10,862)
Securities sold but not yet purchased				
Fixed income	**(1,520)**	**(1,532)**	(4,037)	(3,935)
Equities	**–**	**–**	(259)	(276)
Significant joint ventures *(note 6)*	**(815)**	**(815)**	(764)	(764)
Real estate *(note 7)*	**(4,202)**	**(3,926)**	(4,774)	(4,297)
Derivative-related, net	**(2,098)**	**(1,061)**	(2,487)	(369)
	(10,846)	**(9,548)**	(23,234)	(20,503)
Net investments *(note 2c)*	**$74,431**	**$64,066**	$ 65,437	$ 61,856

[1] *For additional details, refer to the schedule of Investments over $50 million on page 49.*

[2] *Comprised of hedge funds, managed futures accounts and fund-of-funds programs.*

b) Derivative contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, commodities, indices, interest rates or currency rates. Derivative contracts are transacted either in the over-the-counter (OTC) market or on regulated exchanges. The Plan utilizes derivatives to manage its asset mix and foreign currencies exposure. Derivatives are also utilized in value added programs in a manner consistent with the Plan's investment objectives.

Notional amounts of derivative contracts represent the volume of outstanding transactions and do not represent the potential gain, loss or net exposure associated with the market or credit risk of such transactions. Rather, they serve as the basis upon which the returns from, and the fair value of, the contracts are determined.

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

($ millions)		2003		2002	
		Notional	Fair Value	Notional	Fair Value
Equity and Commodity Derivatives					
Swaps		$20,993	$1,514	$15,261	$ (736)
Futures		5,870	(50)	2,535	24
Options:					
Listed	– purchased	63	–	8	1
	– written	102	(1)	1	(2)
OTC	– purchased	1,883	41	548	58
	– written	2,129	(46)	908	(61)
			1,458		(716)
Interest Rate Derivatives					
Swaps		32,694	(182)	22,828	(506)
Futures		35,663	(9)	21,977	(6)
Options:					
Listed	– purchased	5,302	4	2,918	7
	– written	2,461	(5)	3,733	(6)
OTC	– purchased	11,077	132	5,867	119
	– written	11,500	(106)	4,022	(113)
			(166)		(505)
Currency Derivatives					
Swaps		529	53	510	(43)
Forwards		36,692	259	52,246	(119)
Options:					
OTC	– purchased	4,234	59	7,569	37
	– written	568	(18)	588	(19)
			353		(144)
Credit Derivatives					
Credit default swaps	– purchased	380	85	338	51
	– written	403	1	405	(4)
Total return swaps		583	(5)	644	(35)
			81		12
Other Derivatives					
Volatility/variance swaps		951	3	1,920	(136)
Dividend swaps		107	19	78	1
			22		(135)
			1,748		(1,488)
Less: Net cash collateral (received)/paid under derivative contracts			(624)		894
Net fair value of derivative contracts			$1,124		$ (594)

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

($ millions)	**2003**	2002
Derivative-related receivables	**$ 3,941**	$ 1,882
Cash collateral paid under derivative contracts	**157**	968
Derivative-related liabilities	**(2,193)**	(3,370)
Cash collateral received under derivative contracts	**(781)**	(74)
	$ 1,124	$ (594)

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

	2003		2002	
	Notional *($ millions)*	**Weighted Average Maturity** *(years)*	Notional *($ millions)*	Weighted Average Maturity *(years)*
Equity and Commodity Derivatives				
Swaps	**$ 3,260**	**2.6**	$ 824	1.5
Interest Rate Derivatives				
Swaps	**30,064**	**7.3**	19,122	8.2
OTC options	**5,900**	**3.8**	3,873	5.0
Currency Derivatives				
Swaps	**530**	**4.2**	434	5.0
Forwards	**681**	**1.1**	2,560	1.2
Credit Derivatives				
Credit default swaps	**630**	**3.9**	661	3.3
Total return swaps	**572**	**4.6**	643	4.6
Other Derivatives				
Volatility/variance swaps	**220**	**2.3**	649	1.8
Dividend swaps	**80**	**3.3**	78	2.9

c) *Investment asset mix*

The Plan has a policy asset mix of approximately 50% equities, 20% fixed income and 30% inflation-sensitive investments at December 31, 2003 and December 31, 2002.

After allocating direct investments, derivative contracts, and investment-related receivables and liabilities to asset mix categories, the Plan's assets as at December 31 are summarized below:

	2003		2002	
	Effective Net Investments at Fair Value *($ millions)*	Asset Mix *(%)*	Effective Net Investments at Fair Value *($ millions)*	Asset Mix *(%)*
Fixed income				
Bonds	$10,303	14%	$ 9,855	15%
Alternative investments	4,088	5	3,948	6
Absolute return strategies	6,599	9	2,513	4
Money market	2,056	3	1,853	3
Debt on real estate properties *(note 7)*	(3,670)	(5)	(4,214)	(7)
	19,376	26	13,955	21
Equity				
Canadian	15,193	20	13,430	21
United States	6,752	9	6,657	10
Non-North American	12,386	17	11,529	18
	34,331	46	31,616	49
Inflation-sensitive investments				
Real estate, net *(note 7)*	9,865	13	11,494	18
Real-rate products	7,069	9	5,918	9
Commodities	1,890	3	1,483	2
Infrastructure and timber	1,900	3	971	1
	20,724	28	19,866	30
Total net investments	$74,431	100%	$ 65,437	100%

d) *Interest rate risk*

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets. Pension liabilities are exposed to long-term market interest rates as well as expectations for salary escalation.

The Plan's primary exposure is to a decline in the long-term real rate of return which may result in higher contribution rates required to meet pension obligations. As at December 31, 2003, 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 15% (2002 – 14%).

After giving effect to the derivative contracts and investment-related receivables and liabilities discussed in note 2b, a 1% increase in nominal interest rates would result in a decline in the value of the fixed income securities of 6.2% (2002 – 5.7%). Similarly, a 1% increase in real interest rates would result in a decline in the value of the real-rate securities of 16% (2002 – 16%).

e) *Credit risk*

At December 31, 2003, the Plan's most significant concentration of credit risk is with the Government of Canada and the Province of Ontario. This concentration relates primarily to the holding of $16.5 billion of Government of Canada issued securities and $12.6 billion of non-marketable Province of Ontario Debentures, a receivable from the Province of $1.4 billion and future provincial funding requirements of the Plan.

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

f) *Foreign currency risk*

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

As a component of its asset-mix policy, the Plan uses a currency overlay program to hedge approximately 50% of its foreign currency policy allocation to certain Non-North American equities. The Plan also takes trading positions in foreign currencies with the objective of adding value. The Plan's net foreign currency exposure in Canadian dollars after giving effect to the related policy hedge and trading positions, as at December 31, is as follows:

($ millions)	2003				2002
Currency	Policy Exposure	Policy Hedge	Trading	Net Exposure	Net Exposure
United States Dollar	$10,490	$ –	$ (5,344)	$ 5,146	$ 2,739
Euro	4,581	(2,260)	1,405	3,726	4,200
British Pound Sterling	3,033	(1,502)	110	1,641	1,697
Japanese Yen	2,926	(1,457)	798	2,267	263
Swiss Franc	995	(495)	(344)	156	615
Swedish Krona	312	(155)	84	241	295
Other	1,528	–	1,943	3,471	1,337
	$23,865	$ (5,869)	$ (1,348)	$16,648	$11,146

g) *Securities lending*

The Plan lends securities as a means of generating incremental income or supporting other investment strategies. As at December 31, 2003, the Plan's investments included loaned securities with a fair value of $6,108 million (2002 – $4,399 million). The fair value of securities collateral received in respect of these loans was $6,015 million (2002 – $4,584 million).

h) *Securities collateral*

Securities with a fair value of $706 million (2002 – $644 million) have been deposited or pledged with various financial institutions as collateral or margin.

3. Receivable from the Province of Ontario

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

($ millions)	2003	2002
Contributions receivable	$1,303	$ 1,255
Accrued interest receivable	57	69
	$1,360	$ 1,324

The receivable from the Province consists of $683 million, which was received in January 2004, and $677 million to be received in 2005.

4. Actuarial Asset Value Adjustment

The actuarial value of net assets available for benefits is determined by reference to market trends consistent with assumptions underlying the valuation of accrued pension benefits. The adjustment represents an accumulated deferred net loss, being the unamortized difference between the actual, and management's best estimate of, return on the Plan's equity investments (including real estate, commodities, alternative investments, infrastructure, and timber). Annual returns that are in excess of (gains) or below (losses) management's best estimate of returns are amortized over five years. The change in actuarial asset value adjustment for the year was $(6,164) million (2002 – $6,671 million).

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

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

	Unamortized (gains)/losses	Unamortized (gains)/losses to be recognized in				Unamortized (gains)/losses
($ millions)	**2003**	2004	2005	2006	2007	2002
1999	**$ –**	$ –	$ –	$ –	$ –	$(1,342)
2000	**224**	224	–	–	–	448
2001	**2,622**	1,311	1,311	–	–	3,933
2002	**4,954**	1,651	1,651	1,652	–	6,605
2003	**(4,320)**	(1,080)	(1,080)	(1,080)	(1,080)	–
	$ 3,480	$ 2,106	$ 1,882	$ 572	$(1,080)	$ 9,644

5. Accrued Pension Benefits

a) *Actuarial assumptions*

The actuarial assumptions used in determining the value of accrued pension benefits of $83,123 million (2002 – $73,665 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, withdrawal rates and retirement rates. The primary economic assumptions include the discount rate, salary escalation rate and the inflation rate. The discount rate is set at the market rate, as at the valuation date, of debt obligations with characteristics similar to the Plan's liabilities. The inflation rate is the difference between the yield on Government of Canada long-term nominal bonds and Government of Canada real-return bonds. The salary escalation rate incorporates the inflation rate assumption and long-term expectation of growth in real wages. A summary of the primary economic assumptions, as at December 31, is as follows:

	2003	2002
Discount rate	**5.70%**	5.90%
Salary escalation rate	**3.35%**	3.05%
Inflation rate	**2.35%**	2.05%

The main economic assumptions were changed as a result of changes in capital markets during 2003. These changes resulted in a net increase in the value of accrued pension benefits of $5,525 million (2002 – $5,276 million increase). In addition, changes were made to the assumed early retirement rates to reflect the Plan's experience since early retirement was made available at age 50 in 2001, and to the assumed maximum pension limit payable from registered pension plans to reflect changes from the February 2003 federal budget resulting in increasing the value of accrued pension benefits by $35 million (2002 – nil). These changes to assumptions resulted in a net increase in the value of accrued pension benefits of $5,560 million (2002 – $5,276 million).

b) *Plan provisions*

No material amendments were made to the Plan in 2003 or in 2002.

c) *Experience gains and losses*

Experience losses of $785 million (2002 – $211 million) arose from differences between the actuarial assumptions and actual results.

6. Investments in Significant Joint Ventures

Non-publicly traded Canadian equity investments include two significant joint ventures which are subject to ownership agreements providing for joint control: 58% (2002 – 49%) interest in Maple Leaf Sports & Entertainment Ltd. (MLSE), and 50% (2002 – 50%) interest in Luscar Energy Partnership (Luscar).

MLSE operates two professional sporting franchises, one in the National Hockey League and one in the National Basketball Association, and owns a sporting facility in Toronto. The Plan's proportionate share of MLSE assets and liabilities at December 31, 2003 is $807 million (2002 – $674 million) and $378 million (2002 – $245 million) respectively.

Luscar operates bituminous thermal coal mines in Western Canada. The coal production is sold for the use in the generation of electric power in Canada and elsewhere. The Plan's proportionate share of Luscar assets and liabilities at December 31 is $840 million (2002 – $771 million) and $437 million (2002 – $518 million) respectively.

7. Investment in Real Estate

a) *Investment in real estate*

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

($ millions)	**2003**		2002	
	Fair Value	**Cost**	Fair Value	Cost
Assets [1]				
Real estate properties	**$10,002**	**$9,316**	$11,183	$10,212
Investments	**246**	**265**	641	600
Other assets	**149**	**153**	230	244
Total assets	**10,397**	**9,734**	12,054	11,056
Liabilities				
Debt on real estate properties	**3,670**	**3,503**	4,214	3,876
Other liabilities	**532**	**423**	560	421
Total liabilities	**4,202**	**3,926**	4,774	4,297
Net investment in real estate	**$ 6,195**	**$5,808**	$ 7,280	$ 6,759

[1] *As at December 31, 2003, U.S. dollar assets have been hedged by way of foreign currency forward contracts for a notional amount of $900 million with a fair value of $13 million (2002 – $(18) million).*

[2] *As at December 31, 2003, there are contingent liabilities for the obligations of certain co-owners in the aggregate amount of $67.2 million (2002 – $68.2 million). However, in each case the co-owners' share of the assets was available for the purpose of satisfying such obligations.*

b) *Real estate income*

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

($ millions)	**2003**	2002
Revenue		
Rental	**$1,522**	$ 1,686
Investment	**17**	12
	1,539	1,698
Expenses [1]		
Property operating	**699**	752
General and administrative	**20**	12
Other	**18**	17
	737	781
Operating income *(note 8)*	**802**	917
Interest expense *(note 8)*	**(242)**	(289)
	560	628
Net investment gain on real estate assets	**285**	65
Net investment gain/(loss) on debt on real estate properties	**162**	(103)
Net real estate income	**$1,007**	$ 590

[1] *Included in expenses are audit fees of $1.1 million (2002 – $1.2 million) incurred in connection with the audit of the real estate portfolio.*

8. Investment Income/(Loss)

a) *Investment income/(loss) before allocating the effect of derivative contracts*

Investment income/(loss), before allocating the effect of derivative contracts and before allocating the realized and unrealized net losses, for the year ended December 31, is as follows:

($ millions)	**2003**	2002
Fixed income interest		
Debentures	**$ 1,220**	$ 1,301
Money-market securities	**106**	98
Bonds	**775**	706
Net repo interest expense	**(80)**	(102)
Net swap interest expense	**(515)**	(636)
Real estate interest expense *(note 7b)*	**(242)**	(289)
	1,264	1,078
Equity dividend income		
Canadian equity	**277**	249
United States equity	**113**	70
Non-North American equity	**299**	353
	689	672
Inflation-sensitive investment income		
Real estate operating income *(note 7b)*	**802**	917
Real-rate products		
Canadian	**175**	186
United States	**24**	63
Infrastructure and timber	**92**	48
	1,093	1,214
	3,046	2,964
Net gain/(loss) on investments [1]	**8,378**	(4,375)
Investment income/(loss)	**$11,424**	$(1,411)

[1] *Includes unrealized net gains of $6,676 million (2002 – $3,170 million loss).*

b) *Investment income/(loss)*

Investment income/(loss) by asset class, after allocating the effect of the derivative contracts and net gains/(losses), including foreign currency gains of $2,057 million (2002 – $111 million), for the year ended December 31, is as follows:

($ millions)	**2003**	2002
Fixed income	**$ 2,931**	$ 1,577
Canadian equity	**2,911**	(986)
United States equity	**336**	(1,970)
Non-North American equity	**3,172**	(2,533)
Inflation-sensitive investments	**2,074**	2,501
	$11,424	$(1,411)

9. Investment Returns and Related Benchmark Returns

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

	2003		2002	
	Investment Returns	**Investment Benchmark Returns**	Investment Returns	Investment Benchmark Returns
Fixed income [1]	**18.8%**	**10.8%**	8.6%	5.1%
Canadian equity	**31.5**	**26.7**	(7.7)	(12.4)
United States equity	**6.3**	**5.3**	(22.0)	(22.7)
Non-North American equity	**15.2**	**14.5**	(16.0)	(16.5)
Inflation-sensitive investments	**9.8**	**6.6**	13.2	12.0
Total Plan	**18.0%**	**13.5%**	(2.0)%	(4.8)%

[1] *Includes currency policy hedge, internal absolute return strategies and alternative investments.*

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

The Plan identifies benchmarks to evaluate the performance of the investment management process. The performance of each asset class is measured against a benchmark that simulates the results of the markets in which the managers invest, except for inflation-sensitive investments, which are generally measured against an inflation-related benchmark.

The total return of the Plan is measured against a Canadian dollar-denominated composite benchmark produced by aggregating Canadian dollar-equivalent returns from each of the policy asset class benchmarks, using the Plan's asset-mix policy weights. The total plan return incorporates the Plan's tactical asset allocation decisions and debt on real estate properties.

10. Funding Policy

Statutory actuarial valuations are prepared periodically in accordance with the *Teachers' Pension Act* to determine the funding requirements of the Plan. Active members are currently required to contribute 7.3% of the portion of their salaries covered by the Canada Pension Plan and 8.9% of salaries above this level. Aggregate member contributions are matched by the Province and other employers.

The actuarial methods used to determine statutory pension liabilities are different than those used to calculate the amounts disclosed in these financial statements. The statutory valuations use an actuarial valuation method that is prescribed in the *Teachers' Pension Act*, which takes into account benefits to be earned and contributions to be made after the valuation date for members of the Plan as at the valuation date.

The most recent statutory valuation that has been filed with regulatory authorities was performed as at January 1, 2003 and disclosed a funding surplus of $1,540 million.

11. Contributions

($ millions)	**2003**	2002
Members		
Current service	**$ 672**	$ 643
Optional credit	**21**	21
	693	664
Province of Ontario		
Current service	**664**	626
Interest	**42**	50
Optional credit	**7**	14
	713	690
Other employers	**12**	11
Transfers from other pension plans	**17**	18
	29	29
	$1,435	$ 1,383

12. Benefits

($ millions)	**2003**	2002
Retirement pensions	**$2,969**	$ 2,770
Death benefits	**159**	152
Disability pensions	**33**	33
Commuted value transfers	**22**	104
Refunds	**10**	8
Transfers to other plans	**6**	9
	$3,199	$ 3,076

13. Administrative Expenses

a) *Investment expenses*

($ millions)	**2003**	2002
Salaries, incentives and benefits	**$ 95.2**	$ 56.3
External investment management fees	**33.6**	16.4
Premises and equipment	**9.1**	9.1
Custodial fees	**7.2**	6.9
Professional and consulting services[1]	**7.9**	9.6
Information services	**6.4**	6.0
Communication and travel	**3.8**	3.3
Statutory audit fees	**0.7**	0.5
Other	**1.0**	1.1
Recovery of Goods and Services Tax	**(2.8)**	(3.8)
	$162.1	$ 105.4

[1] *Included in professional and consulting services are other audit-related fees of $0.4 million (2002 – $0.1 million) and non-audit-related fees of nil (2002 – $0.1 million) that were paid to the auditors of the Plan.*

b) *Member service expenses*

($ millions)	**2003**	2002
Salaries, incentives and benefits	**$21.9**	$21.2
Premises and equipment	**7.1**	8.5
Professional and consulting services	**2.1**	1.7
Communication and travel	**1.6**	1.7
Board and committee remuneration	**0.2**	0.3
Statutory audit fees	**0.2**	0.2
Other	**0.8**	0.9
Recovery of Goods and Services Tax	**(0.4)**	(1.0)
	$33.5	$33.5

c) *Remuneration of the Board and committee members*

In April 2003, remuneration rates were revised for Board members. Each Board member receives an annual retainer of $7,500, plus $7,500 as a member of the Investment Committee. The Board Chair receives an additional retainer of $25,000 and the Chairs of the Investment, Governance, Human Resource & Compensation, and Audit & Actuarial Committees receive additional retainers of $4,000 each.

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

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

d) *Executive compensation*

The compensation table represents full disclosure of base salary, annual bonus, long-term incentives and other compensation earned in 2001, 2002 and 2003 by the Chief Executive Officer and the four other most highly compensated executives, excluding subsidiary companies. The Board's advisor for compensation purposes is Towers Perrin.

Name and Principal Position	Year	Base Salary	Annual Bonus[1]	Long-term Incentive Plan[2]	Group Term Life Insurance	Other Compensation
Claude Lamoureux	2003	434,169	590,100	1,028,600	846	9,600[3]
President and CEO	2002	422,000	567,600	973,400	885	9,620
	2001	410,769	543,400	957,400	1,017	9,600
Robert Bertram	2003	338,246	648,300	703,700	659	14,562[4]
Executive VP	2002	326,115	624,000	618,100	684	14,323
Investments	2001	316,538	554,600	876,200	784	14,125
Neil Petroff	2003	227,038	457,400	467,400	442	–
Senior VP, Int'l Equity	2002	220,299	434,100	364,900	462	–
Indices, Fixed Income and Foreign Exchange	2001	214,846	419,600	629,400	532	–
Brian Gibson	2003	225,615	454,600	397,000	440	–
Senior VP, Global	2002	209,708	438,200	282,300	438	–
Active Equities	2001	196,615	397,200	275,900	486	–
Morgan McCague	2003	218,892	414,200	437,800	426	–
Senior VP, Quantitative	2002	212,769	398,400	393,500	446	–
Investments	2001	206,154	391,000	565,000	510	4,000[5]

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

[2] *The Investment Long-term Incentive Plan (LTIP) provides initial cash grants to participants as a percentage of annual base salary at the beginning of a performance cycle plus annual bonus from the year preceding the performance cycle. Initial grant values grow with the Total Fund absolute rate of return and by the performance multipliers based on the Total Fund and Asset Class dollar value added performance over established benchmarks. The maximum multiplier for combined Total Fund and Asset Class performance is 5 times for all performance periods up to and including the 2000–2003 cycle. Beginning with the 2001–2004 performance period, the maximum multiplier for combined Total Fund and Asset Class performance increases to 10 times.*

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

[3] *Automobile allowance.*

[4] *Includes an automobile allowance of $8,000 per annum plus unused vacation cashout.*

[5] *Unused vacation cashout.*

e) *Retirement benefits*

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

	Years in Service			
Average Pensionable Earnings	**15**	**20**	**25**	**30**
$150,000	$40,975	$54,633	$ 68,292	$ 81,950
200,000	55,975	74,633	93,292	111,950
216,700	60,985	81,313	101,642	121,970
250,000	60,985	81,313	101,642	121,970
300,000	60,985	81,313	101,642	121,970
350,000	60,985	81,313	101,642	121,970

Executives earning 2003 annual salaries in excess of $216,700 also participate in a non-registered, unfunded Supplemental Employee Retirement Plan (SERP). This plan provides non-indexed retirement benefits equal to 2% of the executive's best three-year average annual salary for each year of service, less the initial annual pension to which the executive is entitled under the PSPP and SBA, combined.

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

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

The total cumulative future liability for the SERP plan accrued at December 31, 2003 was $5.6 million (2002 – $3.1 million).

14. Retirement Compensation Arrangement

The Retirement Compensation Arrangement (RCA) was established pursuant to an agreement between the Province of Ontario and the Ontario Teachers' Federation (the co-sponsors). It provides to the members of the Plan certain benefits that would have been provided under the Registered Pension Plan, but for amendments made to the *Income Tax Act (Canada)* and its Regulations that restrict benefits that may be provided under a registered plan for periods of service after 1991.

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

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

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

In addition, because it is difficult to predict the benefits expected to be paid over the next 12 months, it may be 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)	2003	2002
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS AND DEFICIT		
Net assets available for benefits		
Assets	$ 6,418	$ 2,695
Liabilities	(1,195)	(546)
	$ 5,223	$ 2,149
Accrued benefits and deficit		
Accrued benefits	$ 157,977	$ 474,670
Deficit	(152,754)	(472,521)
	$ 5,223	$ 2,149
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS		
Contributions	$4,868	$ 1,422
Investment income	3	5
	4,871	1,427
Benefits paid	1,729	1,238
Expenses	68	103
	1,797	1,341
Increase in net assets	$3,074	$ 86

The actuarial assumptions used in determining the value of accrued pension 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. The increase in the maximum pension that can be paid from a registered pension plan announced in the February 2003 federal budget reduced the value of accrued pension benefits in the RCA by approximately $356 million.

15. COMMITMENTS

The Plan has committed to enter into investment transactions, which may be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2003, these potential commitments totalled $4,579 million (2002 – $5,047 million).

16. GUARANTEES AND INDEMNIFICATIONS

The Plan provides that Board members, employees and certain others are to be indemnified against the expenses related to proceedings against them. In addition, in the normal course of operations, the Plan may in certain circumstances, agree to indemnify a counterparty. Under these agreements, the Plan may be required to compensate counterparties for costs incurred as a result of various contingencies such as legal claims or changes in laws and regulations. The number of such agreements, the variety of indemnifications and their contingent character prevents the Plan from making a reasonable estimate of the maximum amount that would be required to pay all such counterparties. To date, no payments have been made under such indemnifications other than legal expenditures for employees amounting to approximately twenty thousand dollars in both 2003 and 2002.