Management's Responsibility for Financial Reporting

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

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

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

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

C Lamoureux

Claude Lamoureux
President and
Chief Executive Officer
February 8, 2006

David McGraw

David McGraw
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, 2005 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, 2005 and the changes in its net assets available for benefits, accrued pension benefits and deficit for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Canada, February 8, 2006

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, 2005, 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, 2004;
- 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 2005;
- 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 2005/06, 2006/07 and 2007/08 school years.

The objective of the financial statements is to fairly present the financial position of the Plan on December 31, 2005 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 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 2005, 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 8, 2006

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

as at December 31, 2005 ($ millions)	*2005*	*2004*
Net assets available for benefits		
Assets		
Investments *(note 2)*	$115,619	$103,394
Receivable from the Province of Ontario *(note 3)*	1,495	1,423
Receivable from brokers	59	1,407
Cash	19	81
Fixed assets	9	8
	117,201	106,313
Liabilities		
Investment-related liabilities *(note 2)*	20,815	21,675
Due to brokers	16	106
Accounts payable and accrued liabilities	242	206
	21,073	21,987
Net assets available for benefits	96,128	84,326
Actuarial asset value adjustment *(note 4)*	(7,434)	(1,535)
Actuarial value of net assets available for benefits	$ 88,694	$ 82,791
Accrued pension benefits and deficit		
Accrued pension benefits *(note 5)*	$110,530	$ 96,728
Deficit	(21,836)	(13,937)
Accrued pension benefits and deficit	$ 88,694	$ 82,791

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, 2005 ($ millions)	*2005*	*2004*
Net assets available for benefits, beginning of year	$84,326	$75,677
Investment operations		
Investment income *(note 9)*	14,086	10,803
Investment expenses *(note 14a)*	(205)	(187)
Net investment operations	13,881	10,616
Member service operations		
Contributions *(note 12)*	1,575	1,495
Benefits paid *(note 13)*	(3,620)	(3,428)
Member service expenses *(note 14b)*	(34)	(34)
Net member service operations	(2,079)	(1,967)
Increase in net assets available for benefits	11,802	8,649
Net assets available for benefits, end of year	$96,128	$84,326

Consolidated Statement of Changes in Accrued Pension Benefits

for the year ended December 31, 2005 ($ millions)	*2005*	*2004*
Accrued pension benefits, beginning of year	$ 96,728	$ 83,123
Increase in accrued pension benefits		
Interest on accrued pension benefits	5,153	4,706
Benefits accrued	2,820	2,299
Changes in actuarial assumptions *(note 5a)*	9,509	10,132
Experience gains *(note 5c)*	(60)	(104)
	17,422	17,033
Decrease in accrued pension benefits		
Benefits paid *(note 13)*	3,620	3,428
Net increase in accrued pension benefits	13,802	13,605
Accrued pension benefits, end of year	$110,530	$ 96,728

Consolidated Statement of Changes in Deficit

for the year ended December 31, 2005 ($ millions)	*2005*	*2004*
Deficit, beginning of year	$ (13,937)	$ (3,966)
Increase in net assets available for benefits	11,802	8,649
Change in actuarial asset value adjustment *(note 4)*	(5,899)	(5,015)
Increase in actuarial value of net assets available for benefits	5,903	3,634
Net increase in accrued pension benefits	(13,802)	(13,605)
Deficit, end of year	$ (21,836)	$(13,937)

Notes to Consolidated Financial Statements

for the year ended December 31, 2005

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 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 and under the *Income Tax Act (Canada)* (registration number 0345785) as a Registered Pension Plan which is not subject to income taxes.

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

(b) Funding

Plan benefits are funded by contributions and investment earnings. Contributions are made by active members of the Plan and 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 annually for inflation at 100 percent of the Consumer Price Index, subject to a limit of 8 percent in any one year with any excess carried forward.

(g) Retirement Compensation Arrangement

Restrictions in the *Income Tax Act (Canada)* (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 $108,950 (CPP-exempt members $100,000) in 2005 and $100,460 (CPP-exempt members $91,667) in 2004; 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 (see *note 7*) are consolidated as part of the Plan's financial statements. The Plan's consolidated financial statements include its proportionate share of the fair value of assets, liabilities and operations of investments in joint ventures.

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

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

(b) Investments

Valuation of Investments

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

Fair values of investments are determined as follows:

a. Short-term money-market securities are valued using either market quoted prices or discounted cash flows based on current market yields, when market quoted prices are unavailable.
b. Bonds are valued on the basis of market quotes. Where quoted prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.
c. Public equities are valued at quoted market prices. In the event a security halts trading for an unspecified period of time, management will estimate the fair value based on discussions with external parties and independent research.
d. Real estate, private equities, infrastructure and timber are valued based on estimated fair values determined using appropriate valuation techniques and management's and/or appraisers' best estimates.
e. All derivative financial instruments are recorded at fair value using market prices. Where quoted market values are not readily available, appropriate valuation techniques are used to determine fair value.

Trade-Date Reporting

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

Investment Income

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

(c) Foreign Currency Translation

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

(d) Accrued Pension Benefits

The value of accrued pension benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made as at the 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.

(e) 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.

(f) 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.

(g) Use of Estimates

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

Note 2.
Investments

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

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

The schedule below summarizes the Plan's investments and investment-related liabilities, including net accrued interest and dividends of $395 million (2004 – $379 million), before allocating the effect of derivative contracts, as at December 31:

	2005		2004	
($ millions)	*Fair Value*	*Cost*	*Fair Value*	*Cost*
Fixed income				
Debentures	$ 9,581	$ 8,065	$ 11,361	$ 9,178
Bonds	17,563	17,067	16,555	16,500
Money-market securities	5,433	5,419	6,240	6,231
Alternative investments[2]	6,741	6,222	4,768	4,340
	39,318	36,773	38,924	36,249
Equity				
Publicly traded				
Canadian	14,653	8,706	12,788	8,101
Non-Canadian	14,710	13,628	9,808	9,001
Non-publicly traded				
Canadian	3,640	3,359	2,395	2,398
Non-Canadian	5,236	5,366	2,118	2,594
	38,239	31,059	27,109	22,094
Inflation-sensitive investments				
Real estate *(note 8)*	12,966	10,080	11,362	9,922
Real-rate products				
Canadian	8,657	5,824	8,515	6,178
Non-Canadian	1,781	1,688	2,752	2,600
Infrastructure and timber	7,742	7,672	3,277	2,953
	31,146	25,264	25,906	21,653
	108,703	93,096	91,939	79,996
Investment-related receivables				
Securities purchased under agreements to resell	4,286	4,280	8,594	8,601
Cash collateral deposited under securities borrowing arrangements	756	770	13	13
Derivative-related, net	1,874	433	2,848	960
	6,916	5,483	11,455	9,574
Investments	115,619	98,579	103,394	89,570

[1] *For additional details, refer to the schedule of Investments over $50 million on page 87.*
[2] *Comprised of hedge funds and managed futures accounts.*

	2005		2004	
($ millions)	*Fair Value*	*Cost*	*Fair Value*	*Cost*
Investment-related liabilities				
Securities sold under agreements to repurchase	$ (5,238)	$ (5,231)	$(10,439)	$(10,449)
Securities sold but not yet purchased				
Fixed income	(3,647)	(3,644)	(4,567)	(4,550)
Equities	(750)	(747)	(13)	(13)
Joint ventures *(note 6)*	(3,499)	(3,499)	(772)	(798)
Subsidiaries and VIEs *(note 7)*	(2,517)	(2,525)	–	–
Real estate *(note 8)*	(4,215)	(3,941)	(4,165)	(3,852)
Derivative-related, net	(949)	(851)	(1,719)	(740)
	(20,815)	(20,438)	(21,675)	(20,402)
Net investments *(note 2c)*	$ 94,804	$ 78,141	$ 81,719	$ 69,168

(b) Derivative Contracts

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

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

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

	2005		2004	
($ millions)	*Notional*	*Fair Value*	*Notional*	*Fair Value*
Equity and Commodity Derivatives				
Swaps	$ 18,347	$ 775	$ 20,746	$ 633
Futures	3,299	13	3,894	1
Options: Listed – purchased	61	–	63	1
– written	106	(1)	59	–
OTC – purchased	664	43	594	4
– written	422	(10)	846	(14)
	22,899	820	26,202	625
Interest Rate Derivatives				
Swaps	43,430	126	35,131	(332)
Futures	23,050	(1)	58,583	(10)
Options: Listed – purchased	3,158	1	3,637	2
– written	2,346	(1)	1,802	(3)
OTC – purchased	13,673	126	13,920	133
– written	12,347	(92)	13,627	(122)
	98,004	159	126,700	(332)
Currency Derivatives				
Swaps	1,037	86	666	102
Forwards[3]	68,224	174	52,913	417
Futures	4	–	62	–
Options: OTC – purchased	3,957	33	14,478	187
– written	2,344	(35)	2,096	(24)
	75,566	258	70,215	682
Credit Derivatives				
Credit default swaps – purchased	1,323	69	494	145
– written	803	(10)	306	(1)
Total return swaps	464	2	564	(2)
	2,590	61	1,364	142
Other Derivatives				
Volatility/variance swaps	6,465	27	3,690	13
Dividend swaps	115	37	124	37
	6,580	64	3,814	50
	205,639	1,362	228,295	1,167
Less: Net cash collateral received under derivative contracts	–	(437)	–	(38)
Notional and net fair value of derivative contracts	$205,639	$ 925	$228,295	$1,129

[3] *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)	2005	2004
Derivative-related receivables	$2,326	$ 2,988
Cash collateral paid under derivative contracts	116	302
Derivative-related liabilities	(964)	(1,821)
Cash collateral received under derivative contracts	(553)	(340)
	$ 925	$ 1,129

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

	2005		2004	
	Notional ($ millions)	*Weighted Average Maturity (years)*	*Notional ($ millions)*	*Weighted Average Maturity (years)*
Equity and Commodity Derivatives				
Swaps	$ 1,387	2.9	$ 1,878	2.6
OTC options	3	1.1	–	–
Interest Rate Derivatives				
Swaps	34,673	4.7	33,056	5.0
OTC options	9,913	5.3	10,478	3.6
Currency Derivatives				
Swaps	987	6.8	569	4.0
Forwards	595	1.2	541	1.0
Credit Derivatives				
Credit default swaps	2,072	6.4	693	4.2
Total return swaps	440	5.0	549	5.2
Other Derivatives				
Volatility/variance swaps	4,287	2.4	54	2.5
Dividend swaps	76	4.4	1	2.8

(c) Investment Asset Mix

The Plan has a policy asset mix of approximately 45% equities, 22% fixed income and 33% inflation-sensitive investments at December 31, 2005. At December 31, 2004, the Plan's policy asset mix was approximately 45% equities, 23% fixed income and 32% inflation-sensitive investments.

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

	2005		*2004*	
	Effective Net Investments at Fair Value ($ millions)	*Asset Mix %*	*Effective Net Investments at Fair Value ($ millions)*	*Asset Mix %*
Equity				
Canadian	$20,205	22%	$16,797	21%
Non-Canadian	25,782	27	23,087	28
	45,987	49	39,884	49
Fixed income				
Bonds	4,334	5	8,956	11
Alternative investments	6,199	6	4,481	5
Absolute return strategies	3,291	3	6,705	8
Money market	8,264	9	(2,530)	(3)
Debt on real estate properties *(note 8)*	(3,705)	(4)	(3,706)	(4)
	18,383	19	13,906	17
Inflation-sensitive				
Real estate, net *(note 8)*	12,456	13	10,903	13
Real-rate products	10,559	11	11,902	14
Infrastructure and timber	4,769	5	2,994	4
Commodities	2,650	3	2,130	3
	30,434	32	27,929	34
Total net investments	$94,804	100%	$81,719	100%

(d) Interest Rate Risk

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

As at December 31, 2005, 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 17% (2004 – 16%).

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 7.0% (2004 – 6.5%). Similarly, a 1% increase in real interest rates would result in a decline in the value of the real-rate products of 17% (2004 – 17%).

(e) Credit Risk

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

As at December 31, 2005, the Plan's most significant concentration of credit risk is with the Government of Canada and the Province of Ontario. This concentration relates primarily to the holding of $14.8 billion of Government of Canada issued securities, $9.6 billion of non-marketable Province of Ontario Debentures, $0.2 billion in Province of Ontario bonds, a receivable from the Province of Ontario of $1.5 billion (see *note 3*), and future provincial funding requirements of the Plan.

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

(f) Foreign Currency Risk

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

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

($ millions)	*2005*	*2004*
Currency	*Net Exposure*	*Net Exposure*
United States Dollar	$ 6,627	$ 2,574
Euro	4,399	3,176
British Pound Sterling	3,022	1,999
Japanese Yen	2,824	3,938
Korean Won	538	634
Swiss Franc	487	450
Brazilian Real	351	285
Australian Dollar	333	724
Hong Kong Dollar	297	421
Other	1,175	2,413
	$20,053	$16,614

(g) Securities Lending

The Plan lends securities as a means of generating incremental income or supporting other investment strategies. As at December 31, 2005, the Plan's investments included loaned securities with a fair value of $1,438 million (2004 – $4,809 million). The fair value of securities collateral received in respect of these loans was $1,511 million (2004 – $4,677 million).

(h) Securities Collateral

Securities with a fair value of $1,227 million (2004 – $544 million) have been deposited or pledged with various financial institutions as collateral or margin. Securities with a fair value of $53 million (2004 – $12 million) have been received from various financial institutions as collateral.

Note 3.

Receivable from the Province of Ontario

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

($ millions)	2005	2004
Contributions receivable	$1,448	$1,370
Accrued interest receivable	47	53
	$1,495	$1,423

The receivable as at December 31, 2005 from the Province consists of $740 million, which was received in January 2006, and an estimated $755 million to be received with interest in 2007. The receivable as at December 31, 2004 from the Province consists of $708 million, which was received in January 2005 and an initial estimate of $715 million to be received in January 2006.

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 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 change in actuarial asset value adjustment for the year was $(5,899) million (2004 – $(5,015) million).

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

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

($ millions)	Unamortized (Gains)/Losses 2005	Unamortized (Gains)/Losses to Be Recognized in 2006	2007	2008	2009	Unamortized (Gains)/Losses 2004
2001	$ –	$ –	$ –	$ –	$ –	$ 1,311
2002	1,651	1,651	–	–	–	3,303
2003	(2,160)	(1,080)	(1,080)	–	–	(3,240)
2004	(2,182)	(728)	(727)	(727)	–	(2,909)
2005	(4,743)	(1,185)	(1,186)	(1,186)	(1,186)	–
	$(7,434)	$(1,342)	$(2,993)	$(1,913)	$(1,186)	$(1,535)

Note 5.

Accrued pension benefits

(a) Actuarial Assumptions

The actuarial assumptions used in determining the value of accrued pension benefits of $110,530 million (2004 – $96,728 million) reflect management's best estimate of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, salary escalation rate and the inflation rate. The discount rate is based on the market rate, as at the valuation date, of long-term Government of Canada real-return bonds which have characteristics similar to the Plan's liabilities. The inflation rate is the difference between the yield on Government of Canada long-term nominal bonds and Government of Canada real-return bonds. The salary escalation rate incorporates the inflation rate assumption and long-term expectation of growth in real wages. A summary of the primary economic assumptions, as at December 31, is as follows:

	2005	2004
Discount rate	4.60%	5.35%
Salary escalation rate	3.60%	3.75%
Inflation rate	2.60%	2.75%
Real rate	2.00%	2.60%

The primary economic assumptions were changed as a result of changes in capital markets during 2005. These changes resulted in a net increase in the value of accrued pension benefits of $10,141 million (2004 – $9,952 million increase). In addition, changes in non-economic assumptions decreased the value of accrued pension benefits by $632 million (2004 – $180 million increase) resulting in a net increase in the value of accrued pension benefits of $9,509 million (2004 – $10,132 million).

(b) Plan Provisions

No material amendments were made to the Plan provisions in 2005 or in 2004.

(c) Experience Gains and Losses

Experience gains of $60 million (2004 – $104 million gain) 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 at December 31, 2005 is $5,446 million (2004 – $1,520 million) and $3,499 million (2004 – $772 million), respectively.

Note 7.
Consolidation of subsidiaries and variable interest entities

Subsidiaries
In addition to the real estate subsidiary included in *note 8*, in 2005, the Plan acquired a controlling interest in the following companies for consideration of $926 million comprised primarily of cash:

- A 99% interest in CFM Corporation, a manufacturer of home products and accessories in North America and the United Kingdom;
- A 98% interest in GCAN Insurance Company, a property and casualty insurer operating exclusively in the commercial lines business;
- A 92% interest in Alliance Laundry Systems LLC, a North American manufacturer of commercial laundry products and provider of services for laundromats; and
- A 99% interest in Doane Pet Care Company, a manufacturer of private label pet foods in the United States and Europe.

On the date of acquisition, the consideration paid represented the cumulative fair value of the net assets.

Variable Interest Entities
On January 1, 2005, the Plan adopted CICA Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15). AcG-15 defines a VIE as 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 (as defined in AcG-15) or is entitled to the majority of the expected residual returns (as defined in AcG-15), is required to consolidate the VIE in its financial statements.

The Plan is the primary beneficiary of certain VIEs which are consolidated in these financial statements.

The Plan's fair value of assets and liabilities of subsidiaries (excluding the real estate subsidiary included in *note 8*) and VIEs at December 31, 2005 is $3,456 million and $2,517 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:

	2005		2004	
($ millions)	*Fair Value*	*Cost*	*Fair Value*	*Cost*
Assets[1]				
Real estate properties	$12,378	$ 9,544	$10,695	$9,223
Investments	475	423	553	585
Other assets	113	113	114	114
Total assets	12,966	10,080	11,362	9,922
Liabilities[2]				
Debt on real estate properties	3,705	3,576	3,706	3,512
Other liabilities	510	365	459	340
Total liabilities	4,215	3,941	4,165	3,852
Net investment in real estate	$ 8,751	$ 6,139	$ 7,197	$6,070

[1]As at December 31, 2005, U.S. dollar and British pound sterling assets have been hedged by way of foreign currency forward contracts for a notional amount of $1,584 million (2004 – $1,556 million) with a combined fair value of $23 million (2004 – $16 million).

[2]As at December 31, 2005, there are contingent liabilities for the obligations of certain co-owners in the aggregate amount of $19.3 million (2004 – $66.1 million). However, in each case the co-owner's 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)	2005	2004
Revenue		
Rental	$ 1,504	$1,456
Investment	–	(5)
	1,504	1,451
Expenses[3]		
Property operating	698	675
General and administrative	39	55
Other	12	11
	749	741
Operating income *(note 9)*	755	710
Interest expense *(note 9)*	(230)	(237)
	525	473
Net investment gain on real estate assets[4][6]	1,459	926
Net investment gain/(loss) on debt on real estate properties[5][6]	63	(26)
Net real estate income	$ 2,047	$1,373

[3]Included in expenses are audit fees of $1.2 million (2004 – $1.1 million) incurred in connection with the audit of the real estate portfolio.

[4]Includes unrealized net gain on real estate assets, net of other liabilities, of $1,420 million (2004 – $767 million).

[5]Includes unrealized net gain on debt on real estate properties of $65 million (2004 – $27 million loss).

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

Note 9.
Investment income

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

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

($ millions)	*2005*	*2004*
Fixed income interest		
Debentures	$ 978	$ 1,072
Money-market securities	126	130
Bonds	884	756
Net repo interest expense	(108)	(10)
Net swap interest expense	(555)	(532)
Real estate interest expense *(note 8b)*	(230)	(237)
	1,095	1,179
Equity dividend income		
Canadian equity	567	379
Non-Canadian equity	818	630
	1,385	1,009
Inflation-sensitive investment income		
Real estate operating income *(note 8b)*	755	710
Real-rate products		
Canadian	227	215
Non-Canadian	43	26
Infrastructure and timber	403	142
	1,428	1,093
	3,908	3,281
Net realized and unrealized gain on investments [1][2]	10,178	7,522
Investment income	$14,086	$10,803

[1] *Includes unrealized net gains of $4,112 million (2004 – $2,186 million).*
[2] *Includes foreign currency gains of $761 million (2004 – $1,156 million).*

(b) Investment Income

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

($ millions)	*2005*	*2004*
Fixed income	$ 1,022	$ 931
Canadian equity	4,044	2,474
Non-Canadian equity	4,066	3,756
Inflation-sensitive investments	4,954	3,642
	$14,086	$10,803

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:

	2005		*2004*	
	Investment Returns	*Investment Benchmark Returns*	*Investment Returns*	*Investment Benchmark Returns*
Fixed income[1]	**15.3%**	**11.8%**	13.3%	8.6%
Canadian equity	**31.7**	**24.1**	21.1	14.5
Non-Canadian equity	**8.3**	**8.0**	9.4	8.4
Inflation-sensitive investments	**17.5**	**10.0**	15.9	10.2
Total Plan	**17.2%**	**12.7%**	14.7%	10.6%

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

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

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

Effective January 1, 2006, 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 7.3 percent of the portion of their salaries covered by the Canada Pension Plan (the CPP) and 8.9 percent of salaries above this level. Member contributions are matched by the Province and other employers. In addition, the Funding Management Policy established by the 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, 2003 by Mercer Human Resource Consulting Limited and disclosed a funding surplus of $1,540 million.

Under proposed legislation, the co-sponsors have the option of filing a statutory actuarial valuation using the valuation as at January 1, 2005. If the co-sponsors do not exercise this option, a statutory actuarial valuation must be filed by September 30, 2006 using the valuation as at January 1, 2006.

Under preliminary assumptions, the estimate of the funding deficit is $31,947 million as at January 1, 2006 and $19,356 million at January 1, 2005.

Note 12.
Contributions

($ millions)	*2005*	*2004*
Members		
Current service	$ 751	$ 702
Optional credit	20	23
	771	725
Province of Ontario		
Current service	734	689
Interest	35	38
Optional credit	12	19
	781	746
Other employers	13	12
Transfers from other pension plans	10	12
	23	24
	$1,575	$1,495

Note 13.
Benefits paid

($ millions)	*2005*	*2004*
Retirement pensions	$3,356	$3,187
Death benefits	190	168
Disability pensions	33	33
Commuted value transfers	23	24
Refunds	13	10
Transfers to other plans	5	6
	$3,620	$3,428

Note 14.
Administrative expenses

(a) Investment Expenses

($ millions)	*2005*	*2004*
Salaries, incentives and benefits	$117.6	$105.2
Investment management fees	36.9	43.0
Professional and consulting services[1]	18.4	11.4
Premises and equipment	9.5	7.2
Custodial fees	9.1	7.7
Information services	6.8	7.1
Communication and travel	5.4	4.1
Statutory audit fees	0.8	0.7
Board and committee remuneration	0.3	0.3
Other	0.8	0.4
	$205.6	$187.1

[1] Included in professional and consulting services are other audit-related fees of nil (2004 – $0.1 million) and non-audit-related fees of $0.3 million (2004 – nil) that were paid to the auditors of the Plan.

(b) Member Service Expenses

($ millions)	*2005*	*2004*
Salaries, incentives and benefits	$ 21.8	$ 21.9
Premises and equipment	7.5	7.1
Professional and consulting services	2.1	2.0
Communication and travel	1.3	1.5
Statutory audit fees	0.2	0.2
Board and committee remuneration	0.1	0.1
Other	0.7	0.9
	$ 33.7	$ 33.7

(c) Remuneration of the Board and Committee Members

Each member of the Board receives an annual retainer of $10,000, plus $10,000 as a member of the Investment Committee. The Board chair receives an additional retainer of $50,000 and the chairs of the Investment, Governance, Human Resource and Compensation, and Audit & Actuarial Committees receive additional retainers of $4,000 each.

Fees for committee meetings and other eligible meetings attended are $1,000. 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 Committee meeting or hearing attended, to a maximum of six per annum.

Directors receive no additional benefits other than reimbursement for 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 2005, 2004 and 2003 by the Chief Executive Officer, Chief Financial Officer and the three 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]	*Other Compensation*	*Total Compensation*[7]
Claude Lamoureux	2005	459,262	618,700	4,451,900	10,372[3]	5,540,234
President and CEO	2004	446,673	585,300	3,500,400	15,572[4]	4,547,945
	2003	434,169	590,100	1,028,600	10,446[3]	2,063,315
David McGraw	2005	227,192	105,500	–	382[5]	333,074
VP and CFO	2004	51,923	30,000	–	95	82,018[6]
Bob Bertram	2005	365,346	697,200	4,059,900	15,708[4]	5,138,154
Executive VP,	2004	351,796	650,600	2,715,200	8,612[3]	3,726,208
Investments	2003	338,246	648,300	703,700	15,221[4]	1,705,467
Neil Petroff	2005	241,169	476,300	2,464,100	405[5]	3,181,974
Senior VP,	2004	234,181	472,400	1,768,900	407	2,475,888
TAA & Alternative Investments	2003	227,038	457,400	467,400	442	1,152,280
Brian Gibson	2005	239,769	483,200	2,308,700	403[5]	3,032,072
Senior VP,	2004	232,781	462,700[7]	1,624,100	405	2,319,986
Public Equities	2003	225,615	454,600	397,000	440	1,077,655

[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 notional 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 notional grant values grow with the Total Fund absolute rate of return and by the performance multipliers based on the Total Fund and Asset Class dollar value added performance over established benchmarks. Beginning with 2001–2004 performance period, the maximum multiplier for combined Total Fund and Asset Class performance increased from 5 times to 10 times. Following a competitive review conducted in 2003, initial grant levels under the Investment LTIP have been reduced between 25% and 33%, beginning with the 2004–2007 performance period.

[3]Group term life insurance and an automobile allowance.

[4]Includes group term life insurance, an automobile allowance and unused vacation cashout.

[5]Group term life insurance.

[6]Commenced employment with the Ontario Teachers' Pension Plan on October 4, 2004.

[7]Restated annual incentive for 2004.

(e) **Retirement Benefits**

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

Executives earning 2005 annual salaries in excess of $173,210 also participate in a non-registered, unfunded Supplemental Employee Retirement Plan (SERP). This plan provides non-indexed retirement benefits equal to 2% of the executive's best three-year average annual salary for each year of service, less the initial annual pension to which the executive is entitled under the PSPP and SBA, combined.

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

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

The total liability for the SERP increased by a net amount of $2.3 million in 2005 (2004 – $1.5 million) for a total accrued SERP liability of $9.4 million as at December 31, 2005 (2004 – $7.1 million).

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

Name and Principal Position	*2005 Annual Change in Present Value*	*Present Value of Total Pension*	*Estimated Total Annual Pension Benefit at Age 65*	*Projected Years of Service at Age 65*
Claude Lamoureux President and CEO	800,100	4,437,400	352,800	17
David McGraw VP and CFO	77,700[1]	77,700	116,700	17
Bob Bertram Executive VP, Investments	850,300	3,765,700	365,300	19
Neil Petroff Senior VP, TAA & Alternative Investments	322,900	1,197,400	415,500	32
Brian Gibson Senior VP, Public Equities	261,400	978,900	273,700	25

[1] *Reflects change in pension value from October 4, 2004 to December 31, 2005.*

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

Note 15.
Retirement Compensation Arrangement

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 Retirement Compensation Arrangement (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 rate determined periodically by the Plan'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 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)	*2005*	*2004*
Statement of Net Assets Available for Benefits and Accrued Benefits and Deficit		
Net assets available for benefits		
Assets	$ 10,442	$ 9,005
Liabilities	(856)	(1,077)
	$ 9,586	$ 7,928
Accrued benefits and deficit		
Accrued benefits	$ 167,649	$ 188,569
Deficit	(158,063)	(180,641)
	$ 9,586	$ 7,928
Statement of Changes in Net Assets Available for Benefits		
Contributions	$ 4,246	$ 4,802
Investment income	65	33
	4,311	4,835
Benefits paid	2,575	2,056
Expenses	78	74
	2,653	2,130
Increase in net assets	$ 1,658	$ 2,705

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

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

Note 16.
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, 2005, these potential commitments totalled $5,153 million (2004 – $5,637 million).

Note 17.
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, 2005 (2004 – US$40 million) plus interest and transaction costs. These letters of credit facilities have a term of one year and are renewable annually. As at December 31, 2005, the counterparty has issued US$17 million in letters of credit which are guaranteed by the Plan (2004 – nil).

In 2005, as part of an investment transaction, the Plan has guaranteed the repurchase amount of shares of an investee company from a counterparty including any accrued dividends. This guarantee remains in place as long as the Plan owns the investee company. The maximum exposure to the Plan is the sum of $600,000 plus $300,000 per annum and any tax consequences or transaction costs as a result of this transaction.

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-two years. As at December 31, 2005, the maximum exposure is $383 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 2b*. No payments related to written credit derivatives have been made in either 2005 or 2004.

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, 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. To date, no payments or accruals have been made by the Plan under such indemnifications other than legal expenditures for employees amounting to approximately $1,000 in 2005 (2004 – $20,000).