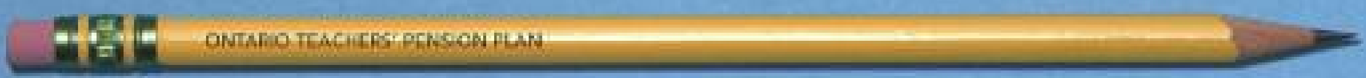
ONTARIO TEACHERS' PENSION PLAN

2007 Annual Report

Keeping the promise. Facing the challenge.



Managing a mature pension plan

Keeping the pension promise made to Ontario's teachers is the goal shared by the management of the Ontario Teachers' Pension Plan and the plan sponsors – the Ontario Teachers' Federation and the Ontario government. We each have different roles but equal commitment to this promise.

Today, we face a demographic challenge: pensioners are living longer; there are fewer contributors for each retiree drawing a pension; and benefit payments are approximately double the amount the plan receives in contributions each year.

Funding pensions is a delicate balance of sharing investment risk between all generations of teachers. The challenge is to earn the investment income necessary to pay pensions to people who are living longer, and to do so without risking the promise to working teachers.

The Promise

Members of the Ontario Teachers' Pension Plan are promised defined retirement benefits for life.

The pension plan's investment managers produced above-benchmark returns in 2007 to help keep the pension promise.

- 4.5% annual return compared to a 2.3% composite benchmark
- $4.7 billion in investment income earned, growing net assets to $108.5 billion
- $2.3 billion in value added above the fund's composite benchmark

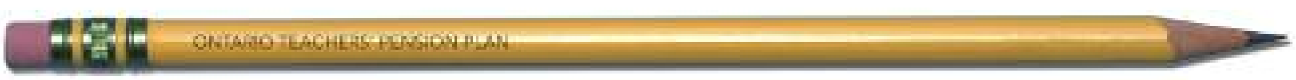
The Member Services team continued to provide the high-quality service members have come to expect.

- 9 out of 10 quality service rating
- 29% increase in usage of online services
- costs contained in 2007

The Challenge

Demographic factors are putting pressure on pension funding and constraining the amount of risk the pension fund can take to earn returns required to cover the cost of future benefits.

- only 1.6 working teachers for each retiree
- $1.9 billion more in benefits paid than contributions received in 2007 ($4.0 billion paid, $2.1 billion received)
- a typical new retiree in 2007 will have worked for 26 years, and is expected to collect a pension for 36 years (including the pension paid to a survivor)
- $12.7 billion preliminary funding shortfall under the current Funding Management Policy



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Report from the Chair

Eileen Mercier
Chair

On behalf of the board members, I am pleased to introduce this 2007 annual report.

The past year has been a momentous one for the Ontario Teachers' Pension Plan (Teachers') in general and for the board in particular.

With the retirement of Teachers' founding CEO, Claude Lamoureux, one of the board's key challenges was finalizing the selection of his successor. The appointment of a new CEO is the most important decision a board can make. This executive sets the tone for the organization and executes the broad policies set by the board. It is the CEO – not the board members – who oversees the day-to-day operations, motivates the staff and fosters the culture. It is the CEO on whom the board members and plan sponsors rely for the information and advice we need to make sound decisions.

Early in the year, the board began a transparent and comprehensive successor search. Working with consultants, we considered candidates from several industries in several countries.

One candidate was already well known to us. Jim Leech had done a superb job since 2001 as Senior Vice-President of Teachers' Private Capital.

Still, this appointment was not preordained. Teachers' believes in cultivating talent and promoting from within, and also strives for excellence. In technical and managerial expertise, Jim matched or beat the very best. In terms of understanding our people and culture, he was the clear winner. Jim's appointment reflects continuity in Teachers' leadership, and the board is confident that he will build successfully on the foundation laid by Claude.

Over the coming months, board members, Teachers' management and representatives of the plan sponsors will work on the triennial actuarial valuation that must be filed with the plan's regulator by September 30, 2008. The funding valuation assesses the long-term financial health of the plan and whether or not it is likely to have enough money to cover the cost of future pensions promised to all current plan members.

Key to this are the assumptions on which the plan's funding is based. These assumptions rest in part on judgment. Previously they have attracted considerable debate, especially in light of the environment of continuing low real interest rates, which affect assumptions. A small change in these rates can profoundly affect the valuation, and hence the plan's funding status. During this past year, with the importance of these assumptions and the long-term financial health of the plan in mind, the board and plan sponsors jointly commissioned a panel of outside experts to review the plan's assumptions.

I would like to highlight the cooperative spirit that went into establishing the panel's mandate and appointing its members. We now have an objective, evidence-based assessment of the assumptions and we can use this information in our critical efforts to safeguard the long-term needs of all members. Together with the Ontario Teachers' Federation (OTF) and the Ontario government, we thank the panel for their diligent, exhaustive and insightful review.

In our role as stewards, board members feel the plan has done well for current retirees and long-serving teachers. As the plan has matured, it has become increasingly more difficult to earn the investment income necessary to secure their pensions than it was for previous generations.

There are only three factors in the pension equation: contributions, investment income and benefits. There are limits to how much members and taxpayers can contribute, and how much investment income can be earned. Teachers' has commissioned a supplementary report to gauge what actions other mature plans have taken to ensure their long-term health.

Pension plan sponsors and managers do not usually ask members for advice on how to address funding shortfalls. However, we did exactly that this past year, in a project that required considerable teamwork on the part of the plan's management and sponsors. A random sample of teachers was selected by independent consultants and they were asked to prioritize options for dealing with possible future shortfalls. This gave a voice to the people who, with Ontario taxpayers, bear the cost of funding the plan. The survey results are on our website and discussed elsewhere in this report. Its findings will guide the OTF and the Ontario government in the future, should a shortfall occur, bringing with it decisions about contributions and benefits.

Among our responsibilities, board members must be satisfied that management has identified the principal risks to the organization and implemented internal controls and reporting systems to address them. For the first time, in 2007 (as noted in Management's Discussion and Analysis), the CEO and CFO have certified the design and operating effectiveness of disclosure controls and procedures, and the design of internal controls over financial reporting. Such certification is now required for Canadian public companies. It is not required for pension plans, but we voluntarily hold ourselves to the same standard of accountability that we expect from the companies in which we invest.

I would like to extend the board's appreciation to former chair of the Investment, and Audit and Actuarial Committees, Tom O'Neill, a valued board member since 2003, who resigned in April 2007. Raymond Koskie, who joined the board in 2006, also stepped down. Succeeding them are Sharon Sallows, a partner in Ryegate Capital Corp., and Bill Swirsky, a Chartered Accountant and former executive of the Canadian Institute of Chartered Accountants. The board, which experienced an unusual amount of turnover in recent years, is now at full complement and eager to tackle the challenges of providing pension security for all generations.

Finally, I cannot close this letter without recognizing the tremendous leadership and wisdom of Claude Lamoureux, who retired late last year. Claude compiled an extensive and impressive list of achievements during his 18 years of service to Ontario's teachers and taxpayers. He came to Teachers' with a vision that few others were able to see and a promise to do better in providing plan members with a secure retirement. Today, Claude's vision is a reality and the teachers of Ontario enjoy pension income that would not have been possible without his skill and leadership. As he made good on his promise to them, Claude revolutionized pension management and fathered a corporate governance movement that has created value for all Canadian investors. He deserves our thanks and admiration.

Eileen Mercier
Chair

Report from the CEO

Jim Leech
President and Chief Executive Officer

Succeeding Claude Lamoureux is a daunting task. By every measure – service delivery, asset growth and deployment, staff development, corporate conduct and international acclaim – Claude oversaw the creation of a world-renowned organization. My job is to build upon his legacy and to responsibly manage all of these assets so they continue to serve future generations.

The theme of this year's annual report – *Keeping the promise. Facing the challenge.* – reflects both Claude's primary concern in recent years and mine as I look ahead. In 2008, management plans to work closely with the plan's sponsors – the Ontario Teachers' Federation (OTF) and the provincial government – to better position the plan to meet ongoing funding challenges.

Although the past year was a trying one for Canadian investors, I am pleased to report that the Teachers' investment portfolio continued to grow, with $108.5 billion in net assets at December 31, 2007. The fund earned $4.7 billion in investment income despite the adverse impact on foreign investments of the rising Canadian dollar, negative impact on international credit markets of the subprime mortgage crisis in the U.S., and the collapse of Canada's market for non-bank asset-backed commercial paper (ABCP).

Our investment professionals had not invested directly in the types of investments that gave rise to what is now known as the subprime crisis. However, we did have some indirect exposure to subprime-based assets through debt securities, which had subprime mortgage-backed securities as collateral, as well as a limited exposure to non-bank ABCP. In addition, we made investments in bank-sponsored ABCP and commercial mortgage-backed securities whose values and returns have been materially impacted by the global credit crisis. More broadly, the resulting market instability in the fourth quarter hurt the performance of all our public equities and fixed income portfolios.

Diversification has always been a hallmark of our investment program. The fund's real estate, private equity and infrastructure assets, as well as tactical asset allocation and absolute return strategies, led the way in producing a 4.5% total fund return, beating the composite benchmark return of 2.3% for the eighth consecutive year. Despite outperforming our benchmark, poor market performance in general meant that our returns fell short of the amount required to match the growth of the plan's liabilities.

Our Member Services division has again scored top marks in plan administration. Employees continued to deploy the technology that is essential for efficient, effective information processing and which allows our pension benefit specialists to put their knowledge and expertise to more valuable use in helping members understand their benefits. As you will read in Management's Discussion and Analysis, Member Services has exciting plans to expand personal service in 2008.

Notwithstanding the fund's 2007 investment growth, the preliminary funding valuation at January 1, 2008, shows a $12.7 billion shortfall between the plan's assets and liabilities under the current Funding Management Policy. This is largely the result of the continuing challenge of managing a mature plan. The significance of being a "mature" pension plan is summed up in these three ratios:

- **Benefits paid to contributions received.** The plan now pays $1.9 billion more in benefits annually than it receives in contributions. Projections indicate this gap will widen in the future.
- **Future contributions to total assets.** In 1990, the present value of projected member and employer contributions equalled 42% of plan assets. Last year, they equalled only 26%.
- **Active members to pensioners.** In 1990, there were four working teachers for each pensioner. Now there are 1.6, and in 10 years the ratio is expected to be 1.2 to 1.

The plan pays out more than it takes in from contributions. This means investment returns are that much more important. But seeking higher returns generally means taking on greater risk. As the fund grows, so does the impact of the periodic losses that are an inherent part of investing. A 5% loss on a $50 billion fund creates a $2.5 billion gap that must be covered. A 5% loss on a $100 billion fund creates a $5 billion gap. This difference would not matter if the plan's active membership were growing at the same rate as the pension fund. But that is not the case.

As the pension fund has grown, total membership growth has flattened, and the percentage of retired members has risen steadily. Regular contributions totalled $1.3 billion in 1990, and net assets available for benefits totalled $20 billion at the end of the year. In 2007, contributions had increased only to $2.1 billion, while net assets available for benefits had grown to $108.5 billion. Pensioners do not make contributions and, by law, their benefits cannot be reduced. The same protection applies to benefits already earned by current teachers.

Put simply, a declining proportion of the plan's members bear increasing responsibility for keeping it fully funded. All defined benefit pension plans worldwide face this challenge. Just as Teachers' became an innovator in investment management and member service by necessity, we now need to help find innovative solutions to achieving intergenerational balance.

By September 30 of this year, it is expected that the sponsors will have filed a funding valuation that reflects their plans to address the issues raised by the shortfall. All of the parties involved in managing, overseeing and sponsoring the plan have worked together to address funding shortfall solutions. Each group involved deserves credit for doing what is best for all concerned – Ontario's teachers and taxpayers.

As we continue to work together on these solutions, we now have better information than ever before, as a result of last year's members' survey report and the expert panel's study on the plan's assumptions. These reports and their conclusions provide excellent information for the plan sponsors to consider, as they offer an objective assessment of the strengths and weaknesses of the current Funding Management Policy and the views of those most affected by any potential change.

The outside experts suggested that more prudence be incorporated into the plan's approach to setting demographic assumptions, especially in regard to mortality. There were a number of recommendations regarding how to deal with the maturity of the plan. A supplementary report on Risk-Sharing Arrangements (Among Members) in Eight Canadian Pension Plans is scheduled to be completed later this spring. We expect valuable insight from this report as the partners consider what options might be appropriate to allow the plan's risk to be shared fairly among members. Respondents to the member survey indicated that, generally, they are willing to pay somewhat higher contributions to maintain current benefits, but are also open to a change in benefits – specifically conditional inflation protection – should future shortfalls necessitate change.

A renewed spirit of teamwork is underway and solid, objective information is available, giving the plan's decision-makers an environment that is conducive to making changes that serve members now and in the future. Teachers' management team stands ready to work with all concerned so that, together, those responsible for the plan can ensure fair and effective funding management for every member – including the young teachers of today and those to be hired in the future.

As Teachers' and the plan sponsors arranged for an expert review of the plan's funding assumptions, the Ontario government assembled another expert panel – the Arthurs Commission – to review the legislation that governs all defined benefit pension plans registered in this province. This is the first such review in a generation. Boldly titled "It's Time to Retire the Current Pension System," our submission calls for major changes, including regulatory recognition of the vast differences between private and public sector plans. This submission is available on our website.

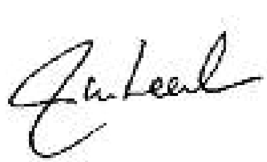
The arrival of a new CEO always prompts questions about the management team – people with whom I have worked closely for six years and whom I respect. Yes, there will be changes in the years to come. There will be normal attrition as senior managers reach retirement age. It is quite possible that their successors are already here. Teachers' has long been a learning organization offering opportunity for career development and advancement. That will continue on my watch and I trust that part of my legacy will be the development of a whole new generation of leaders.

We face another constant challenge: maintaining our edge as one of the world's most innovative investors. Teachers' had to be creative during the 1990s to quickly grow the pension fund. Now, in the 2000s, that resourcefulness must continue because conventional stock and bond markets cannot generate the returns we need at the level of risk we can prudently assume. While each innovation offers attractive gains at the outset, the rewards dwindle as other investors compete for similar investments. The search for the next investment frontier is constant.

The same pursuit also continues to find value from existing investments and with it goes our ongoing commitment to good governance at the corporations in which we invest. As before, we will use our influence as a significant investor to seek fair and proper alignment of management's interests with those of shareholders.

I have assumed my new role at Teachers' during a period of dynamic and positive change. We have an opportunity to work with our partners to adopt industry-leading changes that will benefit our members for generations to come. This will all be driven by a talented and dedicated group of professionals whose first priority is always our members. You can understand why my guiding principle as CEO of this great, one-of-a-kind organization is: People. Execution. Results.

I look forward to reporting to you next year on our progress in keeping the pension promise and facing the challenges of a mature plan.



Jim Leech
President and Chief Executive Officer

Management's Discussion and Analysis

Our objective is to present readers with a view of the pension plan through the eyes of management by interpreting the material trends and uncertainties affecting the results and financial condition of the plan.

As well as historical information, this MD&A contains forward-looking statements regarding management's objectives, outlook and expectations. These statements involve risks and uncertainties and the plan's actual results will likely differ from those anticipated. Key elements of the plan's consolidated financial statements are explained and should be read in conjunction with these forward-looking statements.

State of the plan

The Ontario Teachers' Pension Plan is maturing – shown by its low ratio of working teachers to retirees – and will continue to mature. At the same time, pensioners are living longer than expected.

The result: the cost of future pensions is increasing and there are fewer contributing members for each retiree. Combined with low interest rates, these demographic changes are putting pressure on the investment program and creating pension funding challenges… and they are here to stay.

1970

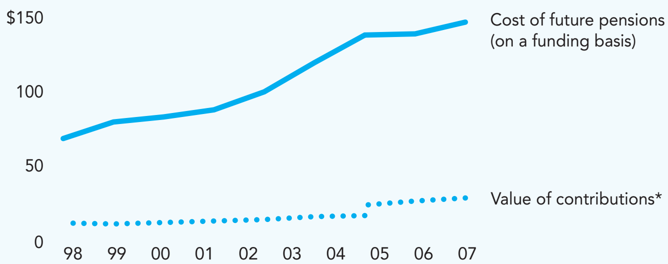
Ratio of working to retired members: **10:1**

Average retirement age: **62**

Expected years on pension: **20**

Number of pensioners: **11,000**

PENSION COSTS VS. CONTRIBUTIONS
(for the year ended December 31, 2007) ($ billions)



* Includes contribution increases to 2021 resulting from the 2005 valuation filing

Contributions comprise a smaller percentage of the plan's assets today. That means a 5% funding gap, for example, would have a larger impact on contributions now, than it did in the past.

2007

Ratio of working to retired members: **1.6:1**

The low ratio of contributing teachers to retirees makes it more difficult to overcome any future funding shortfalls with contribution increases alone.

Average retirement age: **58**

Expected years on pension: **31**

Number of pensioners: **108,000**

A typical new retiree in 2007 will have worked for 26 years and is expected to collect a pension for 31 years, plus five additional years will be paid to a survivor. In total, the plan expects to pay pensions for 10 years longer than members contributed.

The challenge of managing a mature plan continues on **page 22**

Overview

The Ontario Teachers' Pension Plan (Teachers') is Canada's largest single-profession pension plan. It was created for Ontario's teachers in 1917 and until 1990 was administered by the Teachers' Superannuation Commission of Ontario, with the pension fund invested in non-marketable Ontario debentures.

The Ontario government created the Ontario Teachers' Pension Plan Board as an independent corporation in 1990. Together, the board members and management have three key responsibilities: 1) investing the plan's assets in financial markets; 2) administering the pension plan and paying benefits promised to members and their survivors; and 3) reporting on the plan's funding status.

At the end of 2007, we managed $108.5 billion in assets, compared to $106.0 billion a year earlier. We administer the pension benefits of Ontario's 170,000 elementary and secondary school teachers and 108,000 pensioners. Teachers' has one of the largest payrolls in Canada, paying out a total of $4.0 billion in benefits in 2007. We employ 700 people at our office in Toronto, Ontario, six in our London, England office, and another 1,550 at our real estate subsidiary, Cadillac Fairview.

Plan description

The Ontario Teachers' Pension Plan is a defined benefit arrangement with full inflation protection. It promises pensions based on a pre-set formula, not according to the amount of money contributed or the returns earned by the plan's investment program. The plan pays 2% per year of service multiplied by the average salary of the member's best five years, partially integrated with the Canada Pension Plan (CPP). Members and their survivors are promised retirement income for life.

The plan is co-sponsored by the Ontario government through the Ministry of Education and by the Ontario Teachers' Federation (OTF). They jointly decide:

- what benefits the plan will provide;
- the contribution rate paid by working teachers and matched by government and other employers; and
- how any funding shortfall is addressed and any surplus used.

These decisions are largely governed by two Ontario statutes, the Teachers' Pension Act and the Pension Benefits Act, and by the federal Income Tax Act.

Pensions are financed by contributions from working teachers, the government and other employers (comprising in 2007 approximately $1.0 billion from working teachers, $1.1 billion from the Ontario government and $38 million from other employers and transfers) and investment income generated by the pension fund.

Funding approach

The plan's funding approach is aimed at providing pension security for all generations. The goal is to be able to pay promised benefits in full as they come due while keeping contribution rates affordable and stable. This requires ongoing effort and a spirit of cooperation and consensus among the two sponsors – the Ontario government and the OTF, who are responsible for all funding decisions – and management of the pension plan.

When assets exceed future benefits by more than 10%, the surplus can be used to lower contribution rates below the regular rate of 8%, improve benefits, or a combination of both. When assets fall below the plan's fully-funded zone, the plan must be rebalanced by increasing contributions and/or reducing future benefits for working teachers. (Under Ontario law, benefits already earned by working teachers and retirees cannot be reduced.) Results of the preliminary 2008 funding valuation are detailed on page 16.

Ongoing challenges

Teachers' fundamental challenge is that the plan is continuing to mature. Within this challenge, the cost of future benefits is increasing as pensioners live longer than expected, and the current low interest rate environment limits prospects for investment returns, thereby driving up projected pension liabilities. Nearly all defined benefit pension plans worldwide face these concerns and are having to make the difficult decisions needed to balance assets and pension liabilities.

Plan maturity

There are currently 1.6 working teachers for each retiree. This ratio is projected to fall to as low as 1.2:1 in 10 years. As a result, a declining proportion of the membership carries increased responsibility for meeting the plan's funding requirements. Meanwhile, new life expectancy data shows that retirees will receive payments for a longer period of time than before (see page 21). With the ability to retire as early as age 50, plus increased longevity, the average teacher who retired in 2007 will have worked 26 years and is expected to receive a pension for 31 years, with five additional years of pension expected to be paid to a survivor. We expect the average pension entitlement will run nearly 10 years longer than the average contribution period.

DECLINING RATIO OF WORKING-TO-RETIRED MEMBERS

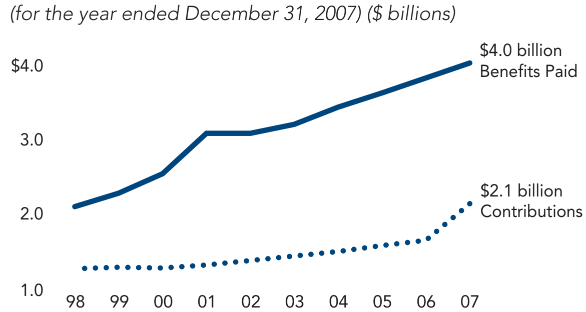
	1970	*1990*	*2008*
Active members per retiree	10:1	4:1	1.6:1
Expected years on pension	20	25	31
Value of contributions as a percentage of assets[1]	93%	42%	26%
Increase in contribution rate for 10% decline in asset values	0.56%	1.9%	4.4%

[1]Assuming the plan is fully funded.

Today, contributions comprise a much smaller percentage of the plan's assets. Consequently, the required contribution rate increase to cover a 10% decline in asset values would be more than double what it was in 1990. For example, a 10% decline would result in a contribution rate increase to 15.5% from 11.1%.

In addition to the retirement period exceeding a teacher's working life, the plan is also experiencing negative cash flow as benefits exceed contributions on an annual basis. In 2007, benefits paid out exceeded contributions coming in by $1.9 billion. This has been the trend for many years and is expected to continue in the future. As a result, investment returns play an increasingly critical role in enabling the plan to meet its obligations.

CONTRIBUTIONS RECEIVED VS. PENSIONS PAID
(for the year ended December 31, 2007) ($ billions)



Benefits paid exceeded contributions from members and the government by $1.9 billion in 2007.

Another key measure of the plan's maturity is the ability of contributions to absorb funding shortfalls and keep the plan fully funded. This capacity has changed dramatically over the past 17 years. In 1990, future contributions represented 42% of the plan's assets. If the plan had experienced a shortfall, contributions could have been increased to close the gap. Future contributions represent only 26% of total assets. This percentage is expected to continue to fall in coming years. Consequently, the low ratio of working teachers to pensioners and the small percentage of contributions to total assets make it increasingly difficult to overcome funding deficiencies using contribution rate increases alone.

Low interest rate environment

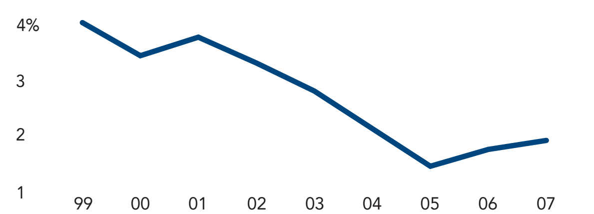
Real interest rates – the return above inflation – substantially affect the amount of money required now to fund future pensions. Securing a typical $40,000 pension requires 30% more money when real interest rates are at 2% – approximately the current level – than at 4%. Though rising slightly since 2005, real interest rates remain low compared to the 1990s, but close to the historical average.

ASSETS REQUIRED FOR A TYPICAL $40,000 PENSION

Real Interest Rates	*Amount Required*[1]
2.0%	$855,000
3.0%	$745,000
4.0%	$660,000
5.0%	$585,000

[1]For retirement at age 58.

REAL INTEREST RATES



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

Declining interest rates do benefit the fund by increasing the value of bonds, real estate and other income-oriented assets already owned. Over the long run, however, these gains are offset as any future investments must be made at the lower prevailing yields and consequently are likely to generate lower income.

Impact on investment program

Teachers' investment program faces a formidable two-fold challenge in managing plan assets in relation to the liabilities. The portfolio must generate relatively high returns to support the inflation-indexed pensions that have been promised. The desire for stable contribution rates and the low ratio of working teachers to pensioners restrict the ability of plan managers to increase returns by taking on more risk. If financial markets were to fall significantly, it would be difficult, if not impossible, for higher contributions to make up any investment loss that might arise.

Teachers' investment managers address these competing concerns by operating within an asset mix that is more conservative than other large pension funds, while skillfully exploiting opportunities and using innovation to maximize returns within that mix.

Measuring the state of the plan

Achieving balance between plan assets and the cost of future benefits is an ongoing job for the Ontario government and the OTF, the plan's sponsors. Teachers' management assesses the funding position of the plan each January, and offers them technical advice and analytical support.

Teachers' uses two methods to value the plan annually:

- **Financial statement valuation:** Prepared by an independent actuary, this valuation takes into account only the benefits already earned by current retirees, inactive and active members, and contributions already received by the plan.

  The discount rate used in the financial statement valuation was 4.65%, based on long-term Canada bonds plus 0.5%.

- **Actuarial valuation for funding purposes:** The funding valuation, also prepared by an independent actuary, determines the long-term financial health of the plan at current contribution rates. In preparing the funding valuation, the actuary projects the plan's benefit costs and compares them to plan assets, then adds in future contributions from teachers and the government. Key economic assumptions used in the valuation are set out in the Funding Management Policy adopted by the plan sponsors. The projection includes the cost of pensions for current members, but does not include the cost of benefits for teachers who are expected to be hired in the future.

  The discount rate used in the preliminary funding valuation as at January 1, 2008, was 5.15% (nominal) based on long-term Canada bonds plus 1%. The assumption takes into account the expected rates of return for this fund's asset mix, as well as the required risk balance in order to achieve intergenerational equity.

	FINANCIAL STATEMENT VALUATION	ACTUARIAL VALUATION FOR FUNDING PURPOSES
CONDUCTED	Annually	Annually. Filed with the pension regulator at least every three years as required by law
BY	Independent actuary hired by Teachers' board	Independent actuary hired by Teachers' board
COVERS	Benefits earned to date	Benefits earned to date plus projected future benefits and contributions for current members

Financial position of the plan

Use of estimates

Canadian Generally Accepted Accounting Principles (GAAP) require us to make estimates when we account for and report assets, liabilities, investment income and expenses, and to disclose contingent assets and liabilities in the plan's financial statements. We are also required to continually re-evaluate the estimates that we use. We have reviewed the development and selection of critical accounting estimates with the Audit and Actuarial Committee of the board.

Actuarial assumptions used in determining accrued pension benefits reflect management's best estimates of future economic and non-economic factors. The primary economic assumptions include the discount rate, salary escalation rate and inflation rate. The non-economic assumptions include mortality, withdrawal and retirement rates of the members of the plan. The plan's actual experience will differ from these estimates and the differences are recognized as experience gains or losses in future years.

The fair value of investments and investment-related liabilities 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. Management's and appraisers' best estimates are used in selecting the valuation assumptions to determine fair value of non-publicly traded investments.

The plan ended 2007 with a financial statement deficit of $10.5 billion. This compares to a deficit of $15.6 billion for 2006. The financial position of the plan is summarized in three accompanying tables:

- **Table 1:** year-end financial position
- **Table 2:** changes in net assets available for benefits
- **Table 3:** accrued pension benefits

As **Table 1** shows, net assets available for pensions totalled $108.5 billion – up $2.5 billion from 2006. This was reduced by $3.6 billion for the actuarial smoothing adjustment that amortizes the impact of gains and losses. This adjustment defers returns on investments other than fixed income assets when those returns are above or below the rate of inflation plus 6%. There are $3.6 billion in gains to be recognized over the next four years. After the reduction, actuarially-adjusted net assets totalled $104.9 billion – up $10.0 billion from 2006.

As **Table 1** also illustrates, the cost of future pensions on a financial statement basis was $115.4 billion ($110.5 billion in 2006.) The actuarial assumptions used to determine the cost of future benefits include management's best estimates of projected teachers' salaries and demographic factors.

The $10.5 billion deficit represents the difference between the cost of future pensions and actuarially-adjusted net assets.

Table 2 notes that investment returns in 2007 were $4.7 billion compared with $12.3 billion in 2006. Contributions received totalled $2.1 billion, while $4.0 billion was paid out in benefits. This compares with contributions of $1.6 billion and benefit payments of $3.8 billion in 2006.

The member contribution rate was increased on January 1, 2007, reflecting part of the increase required to balance the January 1, 2005, actuarial funding valuation. The member rate for 2007 was 9.3% of earnings up to the Canada Pension Plan (CPP) limit of $43,700 and 10.9% of earnings above that. This 2007 contribution increase was the first of three that, together, are scheduled to increase the contribution rate by 3.1 percent of members' base earnings. The member contribution rate for 2008 is 9.6% of earnings up to the $44,900 CPP limit and 11.2% of earnings above that. The remainder of the amount required to support the 2005 funding valuation has been addressed by the OTF with a credit reserve from the 1998–2001 pension negotiations and by Ontario government and other employer contributions at 10.4% of member earnings to the $44,900 level, and 12.0% of earnings above that.

The benefits paid shown in **Table 3** include the addition of 5,200 retirement pensions and 700 survivor pensions during 2007, as well as a 2.3% cost-of-living increase effective January 1, 2007. (The annual cost-of-living adjustment effective January 1, 2008, was 1.8%.)

TABLE 1: YEAR-END FINANCIAL POSITION

(as at December 31) ($ billions)	*2007*	*2006*
Net assets available for benefits		
Net investments	**$108.0**	$105.7
Contributions receivable from Province of Ontario	**1.8**	1.6
Other net liabilities	**(1.3)**	(1.3)
Net assets	**108.5**	106.0
Financial status		
Net assets	**108.5**	106.0
Smoothing adjustment	**(3.6)**	(11.1)
Actuarially-adjusted net assets	**104.9**	94.9
Cost of future pensions	**(115.4)**	(110.5)
Deficit	**$ (10.5)**	$ (15.6)

TABLE 2: CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(for the year ended December 31) ($ billions)	*2007*	*2006*
Income		
Investment income	**$4.7**	$12.3
Contributions	**2.1**	1.6
	6.8	13.9
Expenditures		
Benefits	**4.0**	3.8
Operating expenses	**0.3**	0.2
	4.3	4.0
Increase in net assets available for benefits	**$2.5**	$ 9.9

TABLE 3: ACCRUED PENSION BENEFITS

(for the year ended December 31) ($ billions)	*2007*	*2006*
Accrued pension benefits, beginning of year	**$110.5**	$110.5
Interest on accrued pension benefits	**5.1**	5.1
Benefits accrued	**3.3**	3.4
Benefits paid	**(4.0)**	(3.8)
	114.9	115.2
Changes in actuarial assumptions	**0.5**	(5.1)
Experience losses	**–**	0.4
Accrued pension benefits, end of year	**$115.4**	$110.5

Preliminary funding position at January 1, 2008

The funding valuation is prepared by an independent actuary to determine the long-term health of the plan at current contribution rates. The actuary tests the plan's ability to meet its obligations to all current plan members and their survivors. Using an assumed rate of return, the actuary projects the plan's benefit costs and estimates today's value, compares them to current plan assets and then adds in future contributions for all current plan members as well as the present value of the contribution increases for future members over the next 14 years.

The plan began 2008 showing a preliminary funding shortfall of $12.7 billion in terms of covering benefits already earned plus those projected to be earned in the future. As shown in the table below, the cost of future benefits at January 1, 2008, is estimated at $147.6 billion, while assets (actuarial) are estimated at $134.9 billion.

PRELIMINARY FUNDING VALUATION[1]

(as at January 1) ($ billions)	*2008*	*2007*
Net assets	**$108.5**	$106.0
Smoothing adjustment	**(3.6)**	(11.1)
Value of assets	**104.9**	94.9
Future contributions		
Current members	**21.8**	20.1
Scheduled contribution increases		
Current members	**6.1**[2]	5.4[2]
Future members	**2.1**[2]	2.0[2]
Actuarial assets	**134.9**	122.4
Future benefits[3]		
Current members	**(147.6)**	(139.8)
Surplus/(shortfall)	**$ (12.7)**	$ (17.4)

[1] Valuation dates determined by the OTF and the Ontario government (plan sponsors).

[2] To 2021.

[3] Present value of future benefits for current members.

The 2008 preliminary valuation benefited from a rise in real interest rates over the past year. Small changes in real rates can cause large fluctuations in the expected cost of benefits. Low real interest rates have been one of the primary causes of the funding shortfalls the pension plan has experienced recently.

Real rate of return assumptions are based on the yield of Government of Canada Real-Return Bonds (plus 0.5% or 1.0%) and therefore mirror the significant downward trend of real interest rates experienced in recent years. These valuation assumptions change over time. While actual experience mirrors some assumptions closely, annual market returns (excluding fixed income and real-return bonds) typically fluctuate much more significantly compared to the assumption and so are smoothed over five years. The following table shows the assumptions used in this preliminary valuation. (Assumptions used for valuations filed previously with the pension regulator are found on page 20.)

FUNDING VALUATION ASSUMPTIONS

(percent)	*2008*[1]	*2007*
Rate of return	5.15	5.20
Inflation rate	2.20	2.40
Real rate of return	2.95	2.80

[1] Preliminary assumptions.

Upcoming valuation filing

Funding valuations must be filed with the provincial pension regulator at least every three years. The next filing, the plan's final funding valuation as of January 1, 2008, is required by September 30, 2008.

To address a $6.1 billion funding shortfall that was identified in the January 1, 2005 valuation, the OTF and Ontario government agreed to a schedule of contribution rate increases over three years. For the January 1, 2005 valuation, the board members and the plan's actuary agreed to a one-time increase in the real rate of return assumption. The actual rate used was 0.625% higher than the rate prescribed in the Funding Management Policy, set by the plan sponsors in the Partners' Agreement. With this one-time increase in the real rate of return assumption and in order to better prepare for the event of future shortfalls, the sponsors also agreed:

- A panel of outside experts would review the assumptions used in the funding valuation. This review was carried out in 2007 as discussed below.
- Plan members would be surveyed to gauge members' tolerance for contribution rate increases and potential benefit changes, should a future funding shortfall necessitate change. This survey was carried out in 2007 and is discussed on page 18.
- Contributions would not exceed 15% of base earnings above the Canada Pension Plan (CPP) limit. If a shortfall were to remain after contribution rates were increased to 15%, the plan sponsors would need to discuss other funding options, including reductions in future benefits. This scenario has no impact at present, but provides a prudent standard for the future. The current series of contribution increases, if fully implemented as scheduled, will rise in 2009 to 10.4% of the CPP limit and 12% of earnings above that.
- Funding Management Policy amendments stipulate the conditions under which surplus can be used to lower contribution rates below the regular rate of 8%, improve benefits, or a combination if pension plan assets exceed liabilities by 10%, based on a real rate of return assumption of the Government of Canada Real-Return Bond yield plus 0.5%. The 10% margin is one-third higher than the previous requirement. This has no impact at present, but is a prudent standard for the future. Given the current state of the plan and its near-term outlook, it may be many years before there is consideration of improving benefits and/or lowering contribution rates below 8%.

Expert review

In 2007, together with the OTF and the Ontario government, we commissioned a panel of five internationally-respected experts to conduct a one-time review and offer an opinion on the assumptions used to value the plan.

Assumptions used to value the plan are determined by an independent actuary, who conducts the valuation. Assumptions have a significant impact on funding valuations, and can mean the difference between a shortfall and a surplus. To ensure members pay the right amount into the plan for the benefits provided, the assumptions must be realistic as they form the basis for the evaluation of the plan's future health.

Panel members – jointly selected by all of the parties – delivered an extensive analysis in November 2007. Their report does not state what the assumptions should be, but rather offers guidance on how they should be set to effectively meet the plan's objectives of benefit security, contribution rate stability and intergenerational equity. The panel confirmed the maturity of the plan and the need to strengthen the plan's mortality assumptions.

With the expert panel review complete, Teachers' and the sponsors now have an objective, evidence-based opinion on the assumptions, which they can use in preparing their funding valuation filing. This information helps ensure the assumptions are as appropriate as possible in order to present a valid picture of the plan's future health.

Member survey

Teachers', the OTF and the Ontario government commissioned an independent research firm to survey a statistically valid sample of working teachers in 2007. The survey was designed to gauge members' tolerance for contribution rate increases and potential benefit changes, should a future funding shortfall necessitate change.

The 2,820 survey participants were randomly chosen from a cross-section of the active membership – those who would be directly affected by any change in contribution rates or benefits for future service. Results showed a high awareness of the plan's key benefits and rising contribution rates. Details of the survey and its results were released in 2007 and are on our website.

Key findings:

- Members, on average, are willing to increase their contributions to the plan to a maximum of 12.3% to 12.6% of earnings in order to maintain current benefits. That is an average that blends the rate for earnings to the CPP limit and the higher rate for earnings above that level. The 12.3% figure is 1.3 percentage points higher than the average rate members will pay when scheduled contribution rate increases are fully implemented in 2009. New, mid-career and older members showed similar tolerance for these rate maximums.
- Three options were put forward to survey participants for consideration: 1) making cost-of-living increases on future pension service conditional on the financial well-being of the plan; 2) increasing the 85 factor to a 90 factor; and 3) decreasing monthly pensions for future service by 10%. Of the three options offered, the preferred option was "conditional inflation protection." This option would make cost-of-living increases to future retirees' pensions flexible when the pension plan is underfunded, with the understanding that the full cost-of-living adjustment would be restored when possible (i.e., when the plan returned to being fully funded).

The mature pension plan challenge

Plan maturity is a significant concern for the sponsors and management of this pension plan. Neither the plan sponsors nor Teachers' management can control the demographic and economic factors that are putting pressure on this plan. The plan sponsors, however, are responsible for setting the contribution rate and benefit levels provided by the plan.

To achieve the plan sponsors' long-term target of an 8% contribution rate, we must take on a level of risk that will deliver the required investment performance. However, the low ratio of working teachers to pensioners restricts our ability to increase returns by taking on more risk. If financial markets were to fall significantly, it would be difficult to make up any investment loss that might arise through higher contributions. We believe that the plan needs additional policy options (in addition to contribution rate increases) that can share the absorption of investment losses. The presence of such options would make the Funding Management Policy more flexible and allow the plan to keep its existing asset mix. Without additional policy options, we must reduce the risk within the investment program over time, which will lower the plan's future investment return expectations.

We look forward to working with the plan sponsors on a clear set of measures that will guide the OTF and the Ontario government in decisions they must make in the future: when to increase and decrease contributions and when to address future benefits to keep the plan fully funded over the long term.

David McGraw
Senior Vice-President and Chief Financial Officer

Barbara Zvan
Senior Vice-President, Asset Mix & Risk

Funding valuation history

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

FILED FUNDING VALUATIONS[1]

(as at January 1) ($ billions)	*2005*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1996*	*1993*
Net assets	$ 84.3	$ 66.2	$ 69.5	$ 73.1	$ 68.3	$ 59.1	$ 54.5	$ 40.1	$ 29.4
Smoothing adjustment	(1.5)	9.7	3.0	(4.3)	(7.3)	(5.1)	(6.0)	(1.8)	–
Value of assets	82.8	75.9	72.5	68.8	61.0	54.0	48.5	38.3	29.4
Future contributions									
Current members	16.7	14.7	13.7	14.4	13.4	12.0	12.6	14.5	14.3
Scheduled contribution increases[2]									
Current members	4.3[3]	–	–	–	–	–	–	–	–
Future members	1.9[3]	–	–	–	–	–	–	–	–
Special payments[4]	–	–	–	–	–	3.7	8.5	8.4	8.4
Actuarial assets	105.7	90.6	86.2	83.2	74.4	69.7	69.6	61.2	52.1
Future benefits									
Current members	(105.6)	(89.1)	(84.3)	(76.4)	(69.8)	(66.2)	(62.8)	(60.5)	(50.6)
Surplus	$ 0.1	$ 1.5	$ 1.9	$ 6.8	$ 4.6	$ 3.5	$ 6.8	$ 0.7	$ 1.5

[1] Valuation dates determined by the plan sponsors.

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

[3] To 2021.

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

ASSUMPTIONS USED FOR FILED VALUATIONS

(as at January 1) (percent)	*2005*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1996*	*1993*
Rate of return	6.475	6.40	6.30	6.25	6.50	7.50	7.50	8.0	8.0
Inflation rate	2.750	2.05	1.90	2.20	2.25	3.50	3.50	4.0	4.0[1]
Real rate of return	3.725	4.35	4.40	4.05	4.25	4.00	4.00	4.0	4.0[2]

[1] 2.0% per year in 1993 and 1994 (select period) and 4.0% per year thereafter.

[2] After select period.

The real rate of return (i.e., after inflation) is an assumption used in the funding valuation. It estimates the real rate at which the plan's assets will grow in the future and is based on the yield on long-term Government of Canada Real-Return Bonds (RRBs) plus 0.5% when there is a surplus or 1.0% when there is a shortfall, as prescribed in the Funding Management Policy adopted in 2003. For the 2005 valuation filing, the plan sponsors and the board members of the Ontario Teachers' Pension Plan agreed to increase the rate of return assumption to RRBs plus 1.625% for this filing only, and also agreed to four additional conditions as reported on page 17.

Funding decisions

The OTF and the Ontario government have shared $18.6 billion in surpluses since 1990, and introduced the first contribution increases since 1990 to balance the plan in 2005. A history of plan funding decisions follows:

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

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

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

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

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

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

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

2003: $1.5 billion surplus; no changes to benefits or contribution levels; Funding Management Policy adopted by plan sponsors (current policy described on page 17)

2005: $0.1 billion surplus; plan sponsors introduced contribution rate increases, totalling 3.1% of base earnings by 2009, for teachers and the Ontario government to close a $6.1 billion funding gap identified in the 2005 valuation; the OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008

2008: $12.7 billion preliminary shortfall at January 1, 2008; final funding valuation must be filed with the pension regulator by September 2008

Impact of increasing life expectancy

Longer life expectancy increases the cost of future pensions. The table below shows how longevity has impacted the cost of future pensions for each filed valuation. There has been a 9% increase in the projected cost of future pensions since 1993 due to increased life expectancy.

VALUATION YEAR	AVERAGE LIFE EXPECTANCY FOR RETIRED MALES	AVERAGE LIFE EXPECTANCY FOR RETIRED FEMALES	COST OF AN INFLATION-INDEXED PENSION*
1993	24 years	28 years	$776,000
1996	24 years	29 years	$784,000
1998	24 years	29 years	$784,000
1999	24 years	29 years	$784,000
2000	24 years	29 years	$784,000
2001	25 years	29 years	$788,000
2002	28 years	30 years	$806,000
2003	28 years	30 years	$807,000
2005	28 years	30 years	$811,000
2008**	30 years	33 years	$845,000

*Costs and life expectancy reflect plan experience from 1993 to 2008 and are based on: $40,000 starting pension at age 57 (for a female pensioner with a 60-year-old spouse); 50% survivor pension; 2.2% inflation rate; and 2.95% real discount rate.

**Preliminary valuation results incorporating strengthened mortality assumptions recommended in an independent review of the plan's assumptions.

Investments

Plan maturity has a fundamental impact on our investment program, making it more difficult to take the risk necessary to earn the returns required to pay pensions.

Basic investing principles say the more risk you take, the bigger your potential for gains… but also for losses. The plan needs investment income to pay pensions; however, we have had to change our asset mix to reduce risk and avoid exposing contributors in this declining ratio to covering potential losses. This is the challenge of managing a mature plan.

We've addressed these competing concerns as much as possible by finding new ways to make the plan's money work harder. We focus on adding value above market benchmarks.

Declining ratio

A mature plan has lower risk tolerance because there are fewer contributors relative to retirees to cover any potential investment losses that could arise.

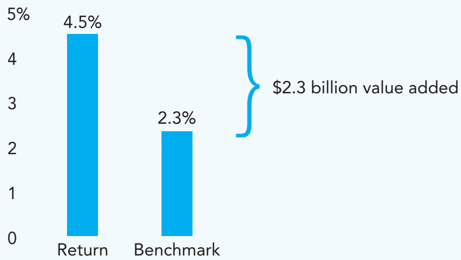
1.6 contributors per retiree

- Relatively fewer teachers putting money into the plan, while more pensioners are taking money out
- Growing need for stable investment income
- Fewer contributors to absorb any investment loss

Beating benchmarks helps pay pensions

2007

FUND RETURN COMPARED TO BENCHMARK
(as at December 31, 2007)

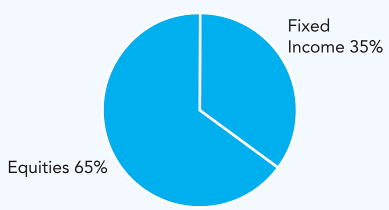


The fund earned a total of $4.7 billion in investment income, including $2.3 billion in value added above the fund's composite benchmark in 2007. Value added paid 64,000 pensions last year.

Lower risk tolerance

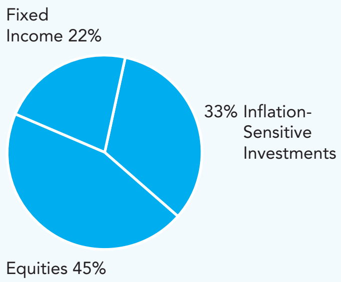
1995

ASSET-MIX POLICY
(for the year ended December 31, 1995)



2007

ASSET-MIX POLICY
(for the year ended December 31, 2007)



The plan's lower risk tolerance makes it more difficult to earn the returns required to pay future pensions. Inflation-sensitive assets act as a hedge against the cost of paying inflation-indexed pensions.

- Higher equities allocation
- Better long-term return potential but greater risk of loss
- Twice as many contributors per retiree as there are now to absorb potential investment loss

- Lower equities allocation
- Lessens the impact of large market swings but reduces long-term return potential
- 1.6 contributors for each retiree

The challenge of managing a mature plan continues on **page 40**

Goals

The investment program exists to earn returns to meet the plan's long-term funding requirements. We manage risk carefully and have built the investment expertise to increase the chance of outperforming market benchmarks. Paying close attention to the job of maximizing returns at an appropriate level of risk helps to offset challenges presented by a maturing plan membership and attempts to minimize contribution rate volatility and other plan changes.

Stable contributions can best be achieved by minimizing the difference between asset values and liability costs. The intent is to generate strong enough investment performance so that, together, plan assets and contributions equal the cost of promised benefits over the long term at an affordable contribution rate.

OUR STRATEGY HAS THREE COMPONENTS:

Determine a level of investment risk acceptable for the plan's membership profile

Select the most appropriate asset mix for providing investment income and protecting the fund from undue losses

Use active management and innovative thinking to add value above the returns available from passive investing

Managing for Value

The investment team must consider and balance a number of variables in establishing our priorities and executing our strategy. Guiding our efforts at all times is our duty to manage the investment fund in the best interest of present and future plan members and their survivors.

Understanding risk

Risk plays a critical role in our investing activities. We spend considerable resources determining the level of risk and ensuring the types of risk we take are appropriate. As part of the investment process, investment managers must be as concerned about the potential for loss from an investment as they are about how much could be earned.

With this in mind, the plan's investment managers perform an ongoing balancing act between the need to fund promised benefits and the need to control the risk of a loss that would have to be covered by increasing contribution rates, reducing benefits for future service or a combination of both. In recent years, we have added investment strategies that will help us achieve better returns in future economic downturns.

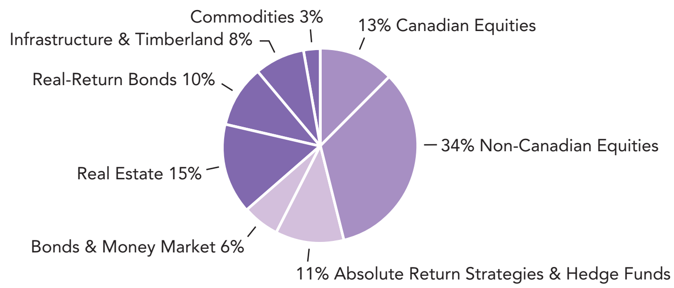
Setting asset-mix targets

This understanding of risk is used to determine our asset mix. We use an asset-liability model that incorporates long-term historical data and current economic outlooks along with decisions made by the plan sponsors on contribution and benefits levels. Using this model, we establish a weighting for each asset class that reflects its long-term risk and return trade-offs in relation to those of the other classes.

The board approves the asset-mix policy annually, making modifications as required and giving management discretion to adjust each weighting by up to 5% in either direction to take advantage of investment opportunities as they arise. The fund's overall exposure to equities has been reduced over the past 10 years, reflecting the lower risk tolerance required to avoid unduly burdening the declining proportion of working teachers, the only member group that can cover a funding shortfall.

ACTUAL ASSET MIX
(as at December 31, 2007)

- 47% Equities
- 36% Inflation-Sensitive
- 17% Fixed Income



The current asset-mix policy is 45% equities, 33% inflation-sensitive investments and 22% fixed income.

As the ratio of active to retired members has declined, the portfolio's asset mix has been adjusted to reflect a lower tolerance for risk. While protecting the fund from undue loss in equity markets, this more conservative asset mix: 1) may not achieve the level of returns needed over the long term to meet the future cost of benefits, 2) means the fund's investment returns may lag behind those of other investors capable of taking on more risk. Risk constraint cannot be avoided but is being managed as much as possible through the search for enhanced returns from the active management strategies discussed below.

At year end, equities represented 47% of the fund, inflation-sensitive investments represented 36%, and fixed income and absolute return strategies represented 17%.

NET INVESTMENTS BY ASSET CLASS

(for the year ended December 31) ($ billions)	*2007*	*2006*
Equities	**$ 50.0**	$ 48.8
Canadian	13.7	16.4
Non-Canadian	36.3	32.4
Fixed income and absolute return strategies	**18.7**	21.5
Absolute return strategies and hedge funds	12.3	15.3
Bonds and money market	6.4	6.2
Inflation-sensitive investments	**39.3**	35.4
Real estate	16.4	14.5
Real-return bonds	11.1	11.8
Infrastructure and timberland	8.8	6.8
Commodities	3.0	2.3
Net investments[1]	**$108.0**	$105.7

[1] Net investments plus contributions and other net assets (liabilities) equal net assets of $108.5 billion at year-end 2007. Net investments are defined as investments ($155.8 billion) minus investment-related liabilities ($47.8 billion) as noted on the Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Deficit (page 64).

Generating superior returns

Our portfolio management philosophy is that every dollar we invest should add value. We use several methods in the attempt to maximize returns by adding value greater than the performance of the market in which we invest. We also seek to identify new markets and opportunities.

First, we use a total fund management style that encourages the sharing of information and movement of capital among asset classes and portfolios to optimize risk-adjusted returns. We reward portfolio managers for maximizing value-added returns within the risk limit on total assets, not just their own portfolios.

Second, active management is instrumental to the ongoing success of the plan. While our asset mix and risk management processes are aimed at covering the impacts of inflation and portfolio volatility, the focus of the active management process is to earn returns above benchmarks. We strive to generate higher returns than those available from investing passively in a set of established, generally accepted benchmark indexes weighted to match our asset mix.

Active management means selecting securities we believe are undervalued, as well as under- or overweighting various asset classes relative to our asset-mix policy, as opposed to passive management, or simply "buying the index" at policy weights. Our active management goal is to outperform benchmarks and add value. Management is committed to this approach in the belief that passive investing through conventional public equity and fixed income market indexes cannot, with confidence, generate the risk-adjusted returns the plan requires.

We actively manage approximately half of the fund's investments and employ enhanced indexes for the fund's remaining index weightings, providing the fund with broad market exposure and liquidity. Although indexed investing is often passive, using no discretion, we manage the indexed investments actively to generate enhanced returns. For example, we seek to anticipate changes in the constituents of an index and capitalize on those changes before they occur.

Third, we allocate risk to asset classes that can generate superior returns. The fund's largest active risk budgets are found in private equity, public equities and real estate. These assets have consistently earned significant returns above their benchmarks. We are able to allocate risk to these illiquid assets because of our long-term investment horizon.

Fourth, we may also over- or underweight individual index components, a strategy known as overlays, which aims to exploit medium-term investment opportunities. A senior member of the investment team leads an Investment Planning Committee that meets regularly to consider over- or underweighting asset classes, sectors and foreign currency positions during the year, based on fundamental and quantitative analysis.

Fifth, over the last decade we have added absolute return strategies to enhance returns. Their main advantage is that these returns have little or no correlation with those from public equity and fixed income markets. This additional form of diversification further cushions the fund from public market volatility, reducing the risk of a loss at the total portfolio level. The biggest risk to plan assets is a decline in equity markets. Absolute return strategies, however, are expected to generate positive investment returns regardless of upward or downward broad market movements. These strategies range from long-short programs to fixed income arbitrage strategies. Long-short strategies are primarily concentrated in the equity and fixed income markets, since they are largely self-financing – the sale of securities on the short side finances the purchase on the long side.

Corporate Governance

Finally, we pursue corporate governance activities. As a long-term investor, we believe that adherence to proper corporate governance standards creates long-term shareholder value. Conversely, if corporate governance is compromised, shareholder value is compromised.

To encourage improved corporate practices, we publish our recommended corporate governance policies and proxy voting guidelines each year. As well, proxy voting decisions are posted in advance on our website and we communicate regularly with boards of directors to advance the interests of our plan members and other investors. Teachers' is active in the Canadian Coalition for Good Governance, the Global Institutional Governance Network, the International Corporate Governance Network, the U.S. Council of Institutional Investors, the Institute of Corporate Directors and the corporate governance subcommittee of the Pension Investment Association of Canada.

Teachers' acquired Glass, Lewis & Co., LLC, a San Francisco-based investment research and global proxy voting advisor in October 2007. While this US$46 million transaction was relatively small in terms of the fund, it was significant in terms of our commitment to promoting sound corporate governance. Our investment in this highly-respected proxy advisor ensures that investors will have an impartial, expert source of information on corporate governance, accounting and legal issues at public companies for years to come, while Teachers' will have an investment in a high-quality company.

We have also successfully recovered losses on behalf of Teachers' and other shareholders through the courts. In December, Teachers' announced the US$138 million cash settlement, subject to court approval, of a U.S. securities fraud class action against Biovail Corporation. This was the second-largest settlement of a securities case involving a Canadian issuer. The largest was the Nortel Networks Inc. settlement in 2006 for US$2.4 billion in cash and Nortel common stock, also to be paid to settle a U.S. class action lawsuit. Teachers' acted as co-lead plaintiff in both lawsuits.

Looking after members' best financial interests

The investment program exists to secure the pension income of Ontario's teachers. We base our investment decisions on an assessment of each investment's risk factors and potential return. Like other Canadian pension plans, we are required under Ontario's Pension Benefits Act to invest prudently with the members' best financial interests in mind, and cannot select or exclude investments solely on the basis of political, social, environmental or any other non-financial criteria.

We believe companies that are responsible, well governed, and compliant with social and industry standards and regulations make good long-term investments. Our analysis and due diligence process takes environmental, social and governance considerations into account. This helps us understand how a range of issues could affect a company's long-term performance and potentially impact its long-term value.

We also subscribe to information from two social investment monitoring services that cover Canadian and U.S. companies to ensure we are aware of emerging issues and how companies are responding. In addition, we are signatories to the U.K.-based Carbon Disclosure Project and the Extractive Industries Transparency Initiative. We support these initiatives because of their focus on enhanced disclosure for investors, which assists us in understanding all the risks that could impact the value of the fund's investments.

Managing risk

At all times, we ensure investment risk at both the overall fund and individual portfolio levels is maintained within the allowable ranges set by the board.

Our risk management activities concentrate on the ultimate risk facing the plan – the risk that the plan's assets will fall short of its liabilities (i.e., benefits owed to members). We recognize that funding risk can come from assets or liabilities; a 1% decline in real interest rates increases liabilities by 22% on a funding basis and by 17% on a financial statement basis. The biggest risk to plan assets is a decline in equity markets.

We have developed a robust risk system that provides the fund with the flexibility to examine and compare a wide range of strategies and different asset classes, and to calculate the benefits of diversification across strategies, asset classes, departments and portfolios.

We use risk budgeting that allocates risk, instead of capital, across the fund's asset classes, with the goal of outperforming markets. To understand the long-term dynamics of the total risk in the plan, we also review the economic conditions for the different asset classes and maintain a comprehensive asset-liability model.

We control risk at the total portfolio level by managing the various department allocations within discretionary limits set by the board. Through our risk system, we measure how much money we could lose within each portfolio, series of portfolios, across departments, across asset classes and finally at the total fund level, each to a given probability. Risk calculations are also completed relative to the plan's liabilities and benchmarks. We compare the observed risk values to those budgeted. This also enables us to calculate the benefits of diversification across strategies, asset classes, departments and portfolios.

The fund's current liquidity position is governed by the plan's liquidity policy and reported regularly to the board. Sufficient liquidity is necessary to meet short-term marked-to-market payments resulting from the plan's derivative exposure and to give us the ability to adjust the asset mix in the event of market stress. The fund's liquidity position is analyzed daily and periodically tested by simulations of major events such as significant movements in the market.

More information on our risk management activities is provided on our website.

Investment expertise is key

Managing the pension fund is a complicated task that requires exceptional skills. The most important factor in our success is our ability to attract and retain innovative and effective investment professionals.

Over the 17 years since Teachers' investment program was established, we have earned a reputation for top investment performance. Our reputation is thanks to an outstanding team of investment talent that works within a high-performing culture of disciplined management and innovation. We embraced the concept of in-house pension investment management early. Now, as one of Canada's largest pension funds, we provide the resources, expanded training and advancement opportunities for our people to seek, and meet, the highest professional standards. These are all important factors in our ongoing success and in our ability to attract and retain leading investment professionals.

Also very important to our success are the business leaders and professionals who serve as Teachers' board members. They offer a wealth of experience in finance, business management, accounting and actuarial science.

Investment Performance

GOAL
Produce value-added returns above the policy asset-mix benchmark within our total fund risk limits

MANAGING FOR VALUE
Define asset-mix policy and investment plan for 2007

PERFORMANCE
Achieved returns of 4.5%, compared to a 2.3% benchmark

The fund overcame multiple market challenges to post a 4.5% return for 2007, beating its composite benchmark for the eighth consecutive year. This outperformance is largely attributable to the real estate, private equity and infrastructure assets we acquired in recent years to diversify the total portfolio. This diversification allowed the plan to reduce its exposure to the volatility of public equity and fixed income markets.

INVESTMENT PERFORMANCE

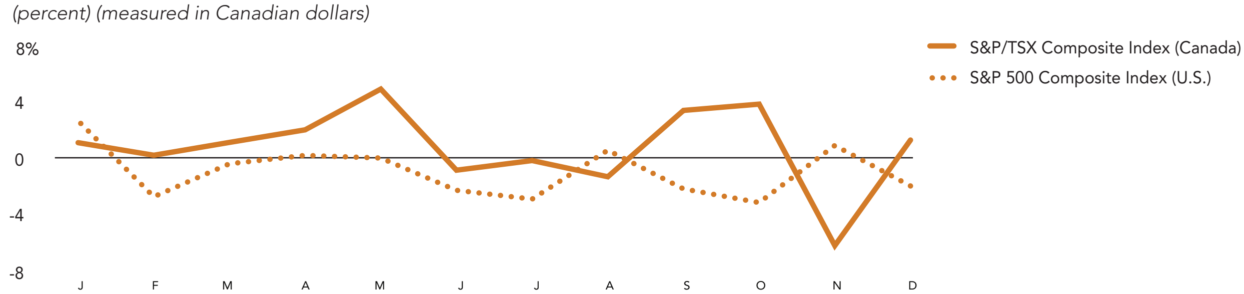
(percent)	*2007*	*2006*	*4-year*	*10-year*	*Since 1990*
Rate of return	**4.5**	13.2	12.3	9.7	11.4
Benchmark	**2.3**	9.4	8.7	7.1	8.5
Value added above benchmark *($ billions)*	**$2.3**	$3.4	$12.3	$20.5	$25.0

Market overview

North American stock markets got off to a good start in early 2007, but underwent a sea change during the summer when the U.S. subprime mortgage market collapsed. In short order, the resulting U.S. credit crunch froze Canada's market for non-bank asset-backed commercial paper (ABCP) as investors refused to roll over these short-term notes due to uncertainty over the extent, if any, to which they were backed by subprime loans in the U.S. The subprime shock wave rippled through world financial markets, prompting central banks to offer relief by injecting liquidity into the system.

Canadian and U.S. stock markets recovered smartly in September and October, but suffered sharp downturns in November as a number of major financial institutions announced substantial write downs as they approached fiscal year ends. Share prices rebounded in December as central banks injected still more liquidity into the system. Major foreign markets followed a similar pattern, except for Japan's Tokyo Exchange, which ended the year down 11.2%. Emerging markets showed very strong performance, with some posting gains of 30% or more.

CANADIAN AND U.S. MARKET PERFORMANCE
(percent) (measured in Canadian dollars)



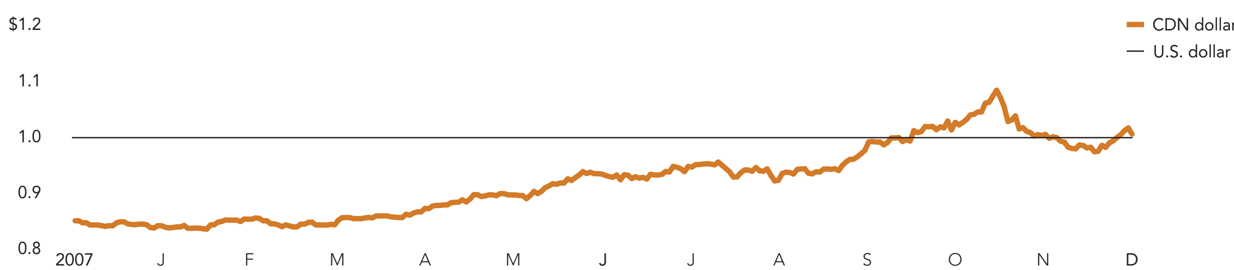
Turbulence from international credit markets spilled over into North American equity indexes, creating significant volatility throughout the year.

The Canadian dollar's rising value in 2007 further complicated the fund's annual returns. Because we report our foreign investment returns in Canadian dollars, its strength against most foreign currencies diminished our infrastructure and non-Canadian equities returns.

Overall volatility increased, validating our underlying policy of maintaining equity exposure below the level of less mature pension plans, and our decision to invest in assets with low correlation to the broad public markets. Along with short-term pain, the summer downturn did create a buying opportunity and we substantially increased our exposure to credit, including emerging markets debt. We also seized the opportunity to acquire shares of several high-quality companies, whose performance we had been tracking for up to two years.

Rising oil prices and concerns about the health of the U.S. economy fuelled a strong run up in the value of the Canadian dollar, which gained 18.1% against the U.S. dollar. The Canadian dollar also rose in relation to other major currencies, but to a lesser extent.

CANADIAN DOLLAR VS. U.S. DOLLAR
(for the year ended December 31, 2007)



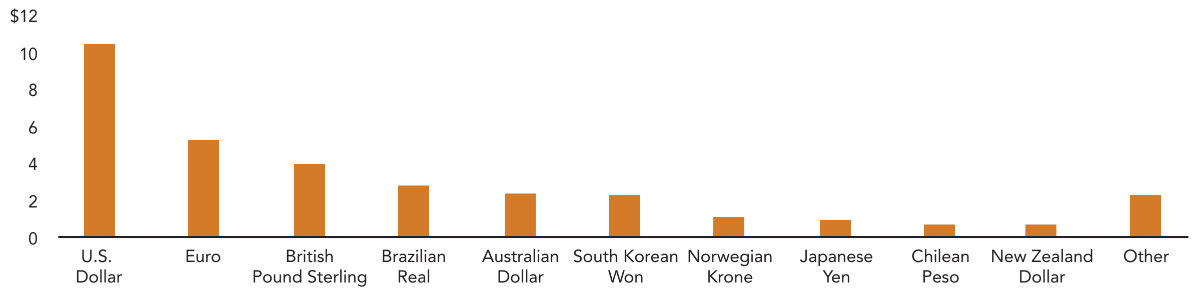
We hedged 50% of our U.S. dollar exposure for much of the year.

The Canadian dollar's rise meant that Canadian investors realized markedly lower returns on foreign assets when home country performance was expressed in Canadian dollars. For example, the S&P 500 – which reflects major U.S. companies – returned 5.5% for 2007, but -10.7% when expressed in Canadian dollars. Hedging against the U.S. dollar and other major currencies allowed us to benefit from the relative devaluation of other currencies. Approximately 50% of our U.S. dollar exposure was hedged for much of the year.

Through the year, interest rates remained low, but were consistent with economic growth as measured by gross domestic product, and with inflation growth. Low interest rates globally continued to moderate fixed income returns, but these interest rates fell more than we expected, producing returns that were slightly higher than anticipated when the year began. The Canadian bond market, as measured by the Scotia Capital Markets Universe Index, returned 4.6%. Globally, the JPMorgan Global Bond Index returned 6.0%.

In Canada, both the economy and the stock market benefited as oil neared US$100 a barrel and other resource commodities rose too. While the current bull market in commodities began in 2002, current lofty prices have good support from rapidly industrializing economies in Asia and other emerging markets. Coupled with the need for industrialized countries to renew their own long-neglected infrastructure, demand for Canadian resources should remain strong and benefit our holdings in this sector.

NET CURRENCY EXPOSURE
(for the year ended December 31, 2007) ($ billions)



We hedge our exposure to foreign currencies to reduce the impact of currency fluctuations on the value of our foreign investments.

The summer's credit crunch was the defining issue for Teachers' in terms of total portfolio return for 2007. Our public equities and bonds did well during the first half of the year, but reversed course in late June and July. We had heeded warning signals and made portfolio adjustments, but – like other market participants – were surprised by the speed and impact of the ensuing correction.

The fund was affected by a marketwide repricing, which impacted several structured investment vehicles we held. As subprime trading became difficult and even impossible and non-bank ABCP trading was frozen, investors with sizeable positions began selling other, higher-quality investments to generate the liquidity required to meet their obligations. This selling created downward pressure on all asset categories.

As we look ahead, we expect to see continuing impacts from the credit crisis in the near term. Although it started in the U.S., liquidity has become a global problem. It will take time for the financial system to recover; as this occurs, we expect to see further volatility develop in other markets.

Looking forward to the next 10 years, we are confident that major central banks will remain faithful to their inflation target of 2.0%, plus or minus one percentage point, and that actual inflation will follow suit. As inflation is a key component of estimating the plan's liabilities, the real returns of stocks and bonds must be compared to determine the impact on the plan's liabilities. The accompanying table shows Canadian equities and bond real returns – after inflation – for the past five decades.

AVERAGE RATE OF RETURN AFTER INFLATION

(percent)	*1-year*	*5-year*	*10-year*	*30-year*	***50-year***
Canadian equities real return	7.1%	15.9	7.1	7.8	**6.3**
Canadian long bond real return	0.9%	5.8	5.3	6.5	**4.2**
Canadian inflation rate	2.5%	2.1	2.2	4.0	**4.1**

Based on Standard & Poor's S&P/TSX Total Return Index, Scotia Capital Long-term Overall Bond Index (DEX Long-term Bond Index) and the CPI all-items index.

Over the last 50 years, Canadian equities after inflation have outperformed bonds by an average of 2.1%. This supports our view that real returns for stocks will outperform those of bonds by 2.0% to 2.5% in the future, which is less than recent experience.

Consolidated returns

We are a long-term investor. We measure our investment performance against one- and four-year benchmarks for each asset class and the portfolio as a whole within acceptable risk parameters.

We generated $4.7 billion in investment income in 2007. Net assets rose to $108.5 billion from $106.0 billion at the end of 2006. As detailed in the accompanying table, the fund returned 4.5% for 2007. That was 2.2 percentage points above the return for the composite benchmark for total value added of $2.3 billion.

RATES OF RETURN COMPARED TO BENCHMARKS

(percent)	*1-year Return*	*1-year Benchmark**	*4-year Return*	*4-year Benchmark**
Equities	**-0.1**	**-1.6**	**12.8**	**10.7**
Canadian equities	14.5	9.8	19.7	16.3
Non-Canadian equities	-5.4	-5.6	8.8	7.6
Fixed income and absolute return strategies	**5.4**	**9.6**	**10.0**	**7.8**
Inflation-sensitive investments	**7.0**	**2.9**	**11.8**	**6.1**
Commodities	12.8	12.4	6.1	6.1
Real estate	14.7	7.4	17.6	6.6
Real-return bonds	-0.4	0.0	6.6	6.5
Infrastructure and timberland	0.8	-4.3	12.6	3.3
Total fund**	**4.5**	**2.3**	**12.3**	**8.7**

* The return available from passive indexed investing. The total fund benchmark is weighted according to the asset-mix policy.

** Total fund return includes Investment Planning Committee returns, which are not attributable to an asset class.

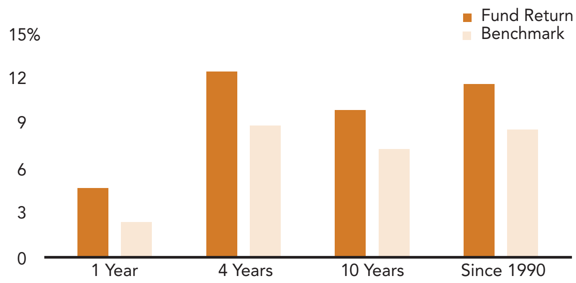
Our investment managers have delivered performance greater than composite benchmark performance, not only in the past year, but also over the longer term. We have generated $12.3 billion in value added and $41.9 billion in total investment income since the beginning of 2004. This four-year measure is significant because Teachers' incentive compensation program requires investment managers to beat the benchmark over a four-year period.

BENCHMARKS USED TO MEASURE FUND PERFORMANCE

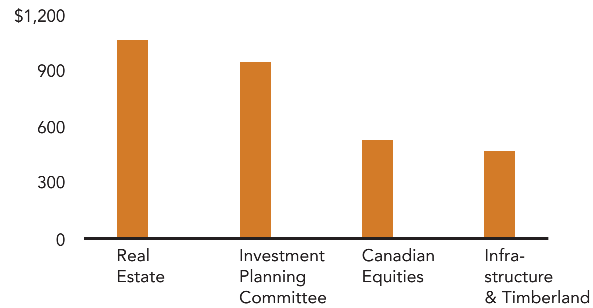
Equities	S&P/TSX Composite Total Return Index S&P 500 Total Return Index MSCI EAFE+EM Total Return Index MSCI All Country World ex Canada Total Return Index MSCI Emerging Markets Total Return Index Custom Non-Canadian National Total Return Index* Custom Global Private Capital Benchmark Total Return Index*
Inflation-sensitive investments	Real Estate: CPI plus 5% Infrastructure and Timberland: CPI plus 4% plus country risk premium Scotia Capital Real-Return Bond Total Return Index Custom U.S. Treasury Inflation Protected Securities Index* S&P Goldman Sachs Commodities Total Return Index
Fixed income	Custom Canada Bond Universe Total Return Index* Custom Currency Policy Hedge Index*

* Weighted average of published indexes and bond data.

LONG-TERM PERFORMANCE VS. BENCHMARK
(percent)



MAJOR SOURCES OF VALUE ADDED
(for the year ended December 31, 2007) ($ millions)



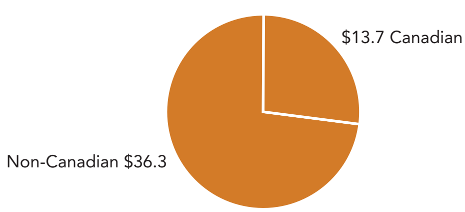
Outperforming the fund's composite benchmark has added $25.0 billion in extra value to the fund since 1990. Real estate, currency hedging decisions by the Investment Planning Committee, Canadian equities, and infrastructure assets beat their benchmarks and contributed significant value added in 2007.

Performance by asset class

Equities

Equities totalled $50.0 billion at year end compared to $48.8 billion at December 31, 2006. They returned -0.1% compared to a benchmark return of -1.6%, adding $0.5 billion in value. On a four-year basis, equities generated a 12.8% compound annual return, outperforming this category's four-year benchmark by 2.1 percentage points for $2.9 billion in total value added. This asset class includes public and private equity investments made by Teachers' Private Capital, discussed below.

EQUITIES
(as at December 31, 2007) ($ billions)



Equities is our largest asset class, although we reduced the equities allocation in our asset-mix policy in 2004 to reflect the plan's maturity and lower risk tolerance.

Canadian equities

Canadian equities totalled $13.7 billion at year end compared to $16.4 billion at December 31, 2006. They returned 14.5% compared to a benchmark return of 9.8%, adding $0.5 billion in value. On a four-year basis, these equities generated a 19.7% compound annual return, outperforming this category's four-year benchmark by 3.4 percentage points for $1.8 billion in total value added.

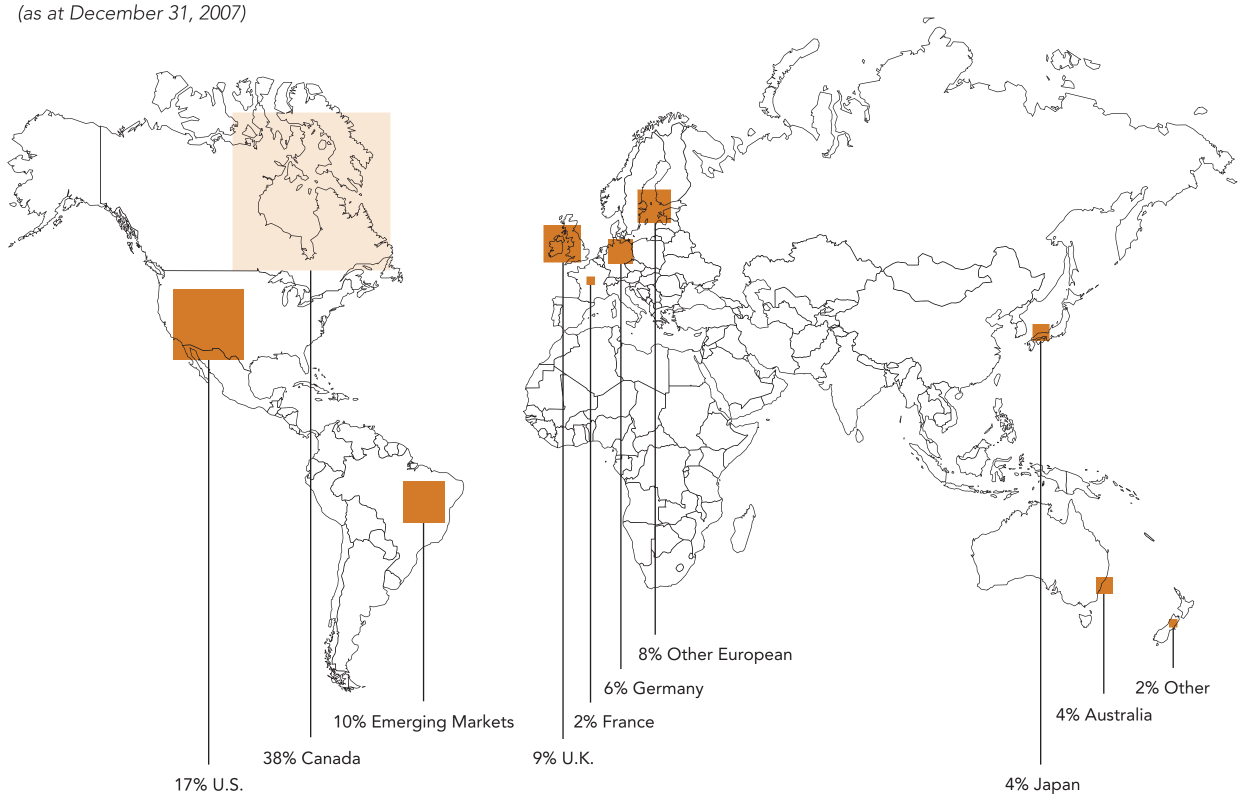
Approximately half of our Canadian equity exposure in 2007 was indexed. But historically, our most profitable public equities investments have been those in our Relationship Investing portfolio through which we acquire large stakes in public companies and work with the company to create long-term value. For example, in early 2003, we joined with Sherritt International Corp. in a venture that enabled Fording Coal Inc. to restructure as an income trust and consolidate Canada's three major producers of hard coking coal to compete more effectively with U.S. rivals. In 2007, we sold our Fording interest to Teck Cominco Ltd. at a substantial return. Fording is now the world's second-largest producer of coking coal, used in making steel.

Non-Canadian equities

Non-Canadian equities totalled $36.3 billion at year end compared to $32.4 billion at December 31, 2006. They returned -5.4% compared to a benchmark return of -5.6%, adding $20 million in value. On a four-year basis, these investments generated an 8.8% compound annual return, outperforming this category's four-year benchmark by 1.2 percentage points for $1.1 billion in total value added.

Our non-Canadian equities – in the U.S., Europe, Asia, the Far East and emerging markets – are overseen by both internal and external managers using a combination of active strategies and derivative-based index funds.

STOCKS BY GEOGRAPHIC REGION
(as at December 31, 2007)

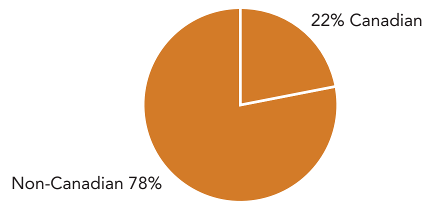


Global diversification provides us with more opportunities to manage risk and add value.

Teachers' Private Capital

Private equity investments totalled $9.0 billion at year end compared to $7.3 billion at December 31, 2006. Teachers' Private Capital returned 9.8% compared to a benchmark return of -0.9%, adding $840 million in value. On a four-year basis, these assets generated a 23.1% compound annual return, outperforming this category's four-year benchmark by 9.5 percentage points for $2.1 billion in total value added.

PRIVATE EQUITY
(as at December 31, 2007)



We invest in private equity to generate superior returns. This portfolio, valued at $9.0 billion at year end, earned 9.8% in 2007 compared to a -0.9% benchmark.

Significant transactions in 2007 included:

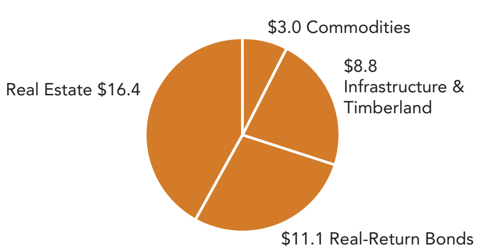
- We and our two investment partners – Ares Corporate Opportunities Fund, L.P. and Bain Capital (Europe) LLC – sold Samsonite Corp. for a total of US$1.7 billion in cash, realizing a five-fold increase on our investment. The world-famous luggage maker was financially troubled when our consortium acquired and recapitalized the company in 2003. Under the direction of a new management team, Samsonite was repositioned globally as a stylish, high-quality brand.
- We joined with Providence Equity Partners Inc. and Madison Dearborn Partners, LLC in an offer for BCE Inc., the country's largest telecommunications company. At $51.7 billion including existing corporate debt, this will be the largest takeover in Canadian history and the world's biggest leveraged buyout. The acquisition is subject to regulatory approvals and is scheduled to close in 2008.

Inflation-sensitive investments

The inflation-sensitive portfolio includes such assets as real estate, infrastructure and timberland, real-return bonds and commodities. Inflation-sensitive investments totalled $39.3 billion at year end compared to $35.4 billion at December 31, 2006. They returned 7.0% compared to a benchmark return of 2.9%, adding $1.5 billion in value. On a four-year basis, these assets generated an 11.8% compound annual return, outperforming this category's four-year benchmark by 5.7 percentage points for $6.7 billion in total value added.

Investments that tend to correlate closely with changes in inflation act as a hedge against increases in the cost of future pension benefits. Over the past few years, inflation-sensitive investments have played an increasingly important role in meeting our performance objectives and decreasing risk.

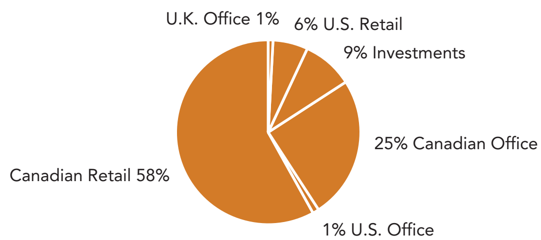
INFLATION-SENSITIVE INVESTMENTS
(as at December 31, 2007) ($ billions)



These investments provide stable cash flows linked to inflation, acting as a hedge against the cost of paying inflation-protected pensions. This asset class totalled $39.3 billion at year end, compared to $35.4 billion in 2006.

Real estate assets, the largest portion of this category, totalled $16.4 billion at year end compared to $14.5 billion at December 31, 2006. They returned 14.7% compared to a benchmark return of 7.4%, adding $1.0 billion in value. On a four-year basis, these assets generated a 17.6% compound annual return, outperforming this category's four-year benchmark by 11.0 percentage points for $5.0 billion in total value added.

REAL ESTATE PORTFOLIO
(as at December 31, 2007)



Our real estate portfolio was valued at $16.4 billion at year end. It is managed by our subsidiary company, Cadillac Fairview, one of North America's largest managers of commercial property.

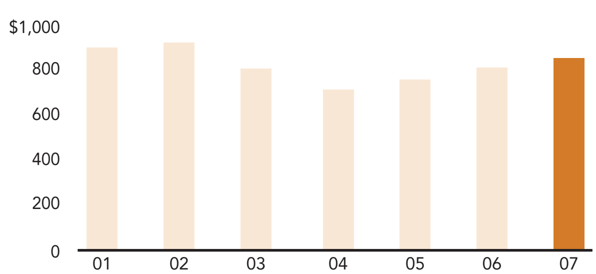
Real estate is considered a good fit for the pension plan because it provides strong, predictable income and a good hedge against inflation. These assets are managed by our wholly owned subsidiary, Cadillac Fairview. The aim is to maintain a well-balanced portfolio of retail and office properties that provides dependable cash flows. At year end, the occupancy rate of the retail space was 95%, while the office occupancy rate was 91%.

Cadillac Fairview invested $1.5 billion in development projects in 2007, with an additional $1.0 billion in new and redevelopment projects planned for the next three years.

Significant Canadian projects included the major expansion now underway at Calgary's Chinook Centre and the redevelopment of retail space for Vancouver's Pacific Centre. Construction is ongoing at four new complexes in Toronto: the 43-storey RBC Centre office tower, the 53-storey Ritz-Carlton condominium and hotel development, Maple Leaf Square incorporating 1.2 million square feet of hotel, condominium, office and retail space adjacent to the Air Canada Centre, and The Shops at Don Mills, a 450,000-square foot lifestyle centre.

Internationally, an initial public offering (IPO) was launched for Multiplan Empreendimentos Imobiliários S.A., a Brazilian shopping centre company, in which a 46% stake was purchased in 2006 (35% post IPO). Teachers' also invested approximately $270 million to acquire a 50% interest in Thomas More Square, a 562,000-square foot office complex in London.

INCOME FROM REAL ESTATE
(before debt costs) (for the year ended December 31, 2007) ($ millions)



Real estate returns were nearly double the benchmark, at 14.7% compared to 7.4% for the benchmark, reflecting the portfolio's capital appreciation in a strong property market.

Infrastructure and timberland investments totalled $8.8 billion at year end compared to $6.8 billion at December 31, 2006. They returned 0.8% compared to a benchmark return of -4.3%, adding $0.5 billion in value. On a four-year basis, these assets generated a 12.6% compound annual return, outperforming this category's four-year benchmark by 9.3 percentage points for $1.7 billion in total value added.

Infrastructure offers stable long-term cash flows that are well-suited for use in paying inflation-indexed pensions. We began building this portfolio – which includes toll roads, airports, pipelines, electrical power generation, water and natural gas distribution systems, timberlands and marine terminals – in 2001. Teachers' is regarded as a "first mover" into this sector among pension funds worldwide. Although growing competition for infrastructure assets has made it more difficult to find and negotiate transactions that meet our requirements of reasonable returns with moderate risk, the infrastructure team made several valuable additions to the portfolio in 2007:

- We closed the US$2.4 billion purchase of four marine container terminals in two major North American gateways. Two of the terminals are in the Vancouver region and two are in the New York City area. This infrastructure acquisition, noted in last year's annual report, was our largest to date.
- We partnered with Australia's Victorian Funds Management Corp. to acquire 48.25% of Britain's Birmingham International Airport, which handles more than nine million passengers a year. Birmingham is currently the sixth-largest airport in the United Kingdom, with service to Europe, North America, India and the Middle East.
- We completed the purchase of significant or controlling interests in three water utilities representing approximately one-third of Chile's regulated water and wastewater services: Empresa de Servicios Sanitarios del Bio-Bio S.A. (ESSBIO), Aguas Nuevo Sur Maule, S.A., and Esval S.A. Water utilities and rates are publicly regulated and the Chilean government is a partner in ESSBIO and Esval.

Real-return bonds (RRBs) totalled $11.1 billion at year end compared to $11.8 billion at December 31, 2006. They returned -0.4% compared to a benchmark return of 0.0%. On a four-year basis, these assets generated a 6.6% compound annual return, outperforming this category's four-year benchmark by 0.1 percentage points for $15 million in total value added.

These securities pay returns that are indexed to inflation, as measured by the consumer price index. Our holdings include RRBs issued by the Canadian and U.S. governments, the Province of Quebec and Ontario's Highway 407. We also hold inflation-linked mortgages guaranteed by Canada Mortgage and Housing Corporation.

Investments in commodities totalled $3.0 billion at year end compared to $2.3 billion at December 31, 2006. They returned 12.8% compared to a benchmark return of 12.4%, adding $10 million in value. On a four-year basis, these assets generated a 6.1% compound annual return, matching the four-year benchmark.

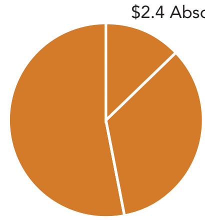
We invest in commodities through enhanced index agreements linked to the Standard & Poor's Goldman Sachs Commodity Index. Though diversified across industrial metals, precious metals, agricultural crops and livestock, this index has a weighting of more than 70% in energy and posted strong growth of 12.4% in 2007 as oil prices soared. That was in sharp contrast to 2006, when this index lost 15.1%, demonstrating that one year's winning and losing asset classes do not necessarily repeat their performance the following year. That is one reason why the Teachers' fund is kept broadly diversified.

Fixed income and absolute return strategies

Fixed income assets and absolute return strategies totalled $18.7 billion at year end compared to $21.5 billion at December 31, 2006. They returned 5.4% compared to a benchmark return of 9.6%. On a four-year basis, these assets generated a 10.0% compound annual return, outperforming this category's four-year benchmark by 2.2 percentage points for $1.8 billion in total value added.

FIXED INCOME

(as at December 31, 2007) ($ billions)



The performance of this asset class lagged its benchmark in 2007, earning 5.4% compared to the 9.6% benchmark.

In addition to traditional fixed income investments in government and corporate bonds and money-market securities, this category includes absolute return strategies such as hedge funds and currency hedges. We include absolute return strategies in this asset class because they provide steady income, similar to fixed income securities, but with an additional risk allocation aimed at adding value above the benchmark.

Our debt portfolios also seek new opportunities for diversification, often using such non-traditional investments as derivatives and securitized pools of assets. For example, indexes of credit default derivatives, which reference 100 to 125 actively-traded individual corporate credits, are now highly liquid instruments and are used extensively by banks and institutional investors for both investment and hedging purposes. With this increased liquidity, we often have better pricing information through derivatives than in traditional cash bond instruments.

Securitized pools of assets have also become important instruments in the debt markets. Some of these instruments were backed by subprime mortgage pools; however, other sectors such as bank loans, auto loans, credit cards and commercial mortgages also have been pooled and packaged as a new set of securities. To provide alternative sources of diversification, we hold these other asset-backed securities pools in our fund.

Investments in securities backed by subprime mortgages grew very quickly around the world during the last three years. A lack of investment discipline and poor due diligence allowed them to be treated as high-quality securities from a credit perspective. Because there was little information available regarding the quality of documentation and controls over loan approval processes, these securities did not meet Teachers' investment requirements. But when their inherent risks became widely known, there was a pervasive negative fallout on the credit markets in general due to the widespread use of securitized pools of mortgages to support credit rating upgrades. When the underlying value of these pools of assets dropped significantly, they could no longer support the credit ratings of these securitized vehicles.

The rise in risk premiums in the general credit markets also had a negative impact on the value of our debt holdings, other than G10 sovereign debt. In particular, holdings in sectors such as commercial mortgages, leveraged investments in investment vehicles that in turn held securitized assets (including those related to credit card debt, auto loans, bank/finance sector debt and residential and commercial mortgages) experienced mark-downs in 2007, which are reflected in the rate of return for this asset class. The marked-to-market effect of the breakdown of global liquidity had a material impact on our 2007 performance. We expect we will see further impacts as the market continues adjusting to this phenomenon.

In future, all investors can be expected to insist on full transparency by the sellers of these instruments. This will allow investors to evaluate credit impacts of all important sources of risk. We continue to use these non-traditional investments only where full information is available to allow us to evaluate the exposure, without reliance on rating agency or other external assessments.

Bond and money-market holdings

These assets totalled $6.4 billion at year end compared to $6.2 billion at the end of 2006. The debt on the plan's real estate assets, valued at $2.9 billion at year end, compared to $3.4 billion in 2006, is subtracted from the fixed income asset class. Investment income from money market and bonds totalled $1.2 billion in 2007.

In addition to Canadian and U.S. government bonds, we had $1.4 billion in credit-linked portfolios at year end compared to $0.8 billion in 2006. This includes increased emerging markets exposure that we have been accumulating over the past three years. We use these strategies to diversify our bond portfolio, adding to the tools we use to enhance returns overall in the fixed income asset class.

Absolute return strategies

Absolute return strategies and hedge funds totalled $12.3 billion at year end compared to $15.3 billion at December 31, 2006. The goal of these strategies is to generate positive returns regardless of movements in the broad markets. Some of these investments use little net capital as they employ a balanced combination of long and short positions on instruments, companies, industries or investment styles. Some aim to capture tactical opportunities to extract extra returns from under- or overweighting various asset classes.

Our investments in externally-managed hedge funds and hedge fund strategies totalled $9.9 billion at year end compared to $9.7 billion at the end of 2006, and added $70 million of value during the year. Managed both directly and in fund-of-funds structures, this portfolio is designed to earn consistent market-neutral value-added returns while diversifying risk across many managers and multiple strategies and styles.

Investment costs

Total investment management costs were $229 million, compared to $220 million in 2006. This is equivalent to 22 cents per $100 of average net assets, unchanged from 2006. These costs exclude the commissions paid when trading securities, and management and performance fees for private equity and certain other externally-managed funds. However, all such costs are deducted in determining net investment returns.

Robert Bertram
Executive Vice-President, Investments

Neil Petroff
Group Senior Vice-President, Investments

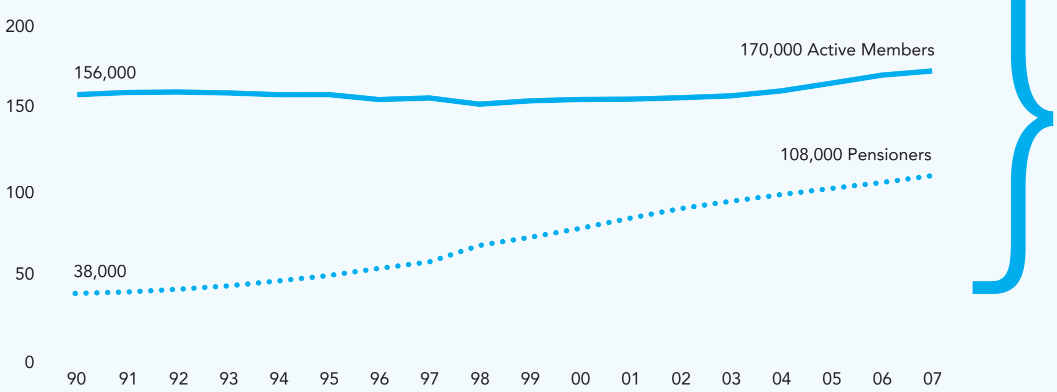
Member Services

Plan membership continues to grow as pensioners live longer. This changing demographic has a direct influence on our business goals and long-term strategy. We challenge ourselves every year to improve service levels while managing costs.

We are committed to providing Ontario's working and retired teachers with prompt, reliable pension services and information. And, in 2007, members gave us high marks for our service performance.

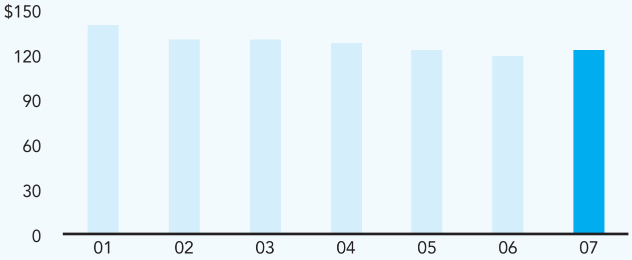
More pensioners than ever before

ACTIVE MEMBERS VS. PENSIONERS
(as at December 31) (thousands)



The number of pensioners has almost tripled since 1990. There are 2,400 pensioners age 90 or older, including 83 who are more than 100 years old.

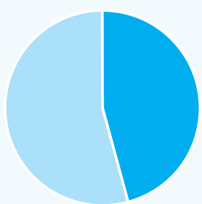
COST PER MEMBER SERVED
(for the year ended December 31, 2007)



As our membership has grown, we have continually diversified and improved our services in the most cost-effective ways possible.

More ways to serve members

198,000
Member Requests



167,000
Log-ons for Self-service Activities on *i*Access™ Web

Includes:

- 101,700 telephone calls
- 52,700 additional processes
- 13,900 service requests by e-mail

Includes:

- 75,100 pension estimates
- 34,900 personal information updates
- 32,900 e-statement viewings (real-time pension statement updated each payday)
- 3,100 pension applications

9
out of
10

The Quality Service Index is a measurement of service satisfaction. Our 9 out of 10 rating is based on surveys with members conducted by a third party using a scale of zero to 10.

Our secure member website, *i*Access™ Web, allows members to do calculations and transactions online.

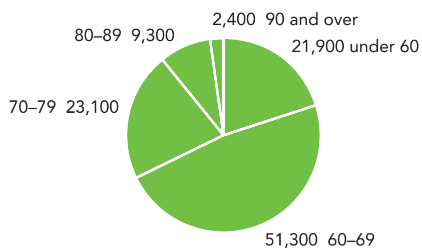
Overview

The Member Services division interacts with pensioners, working teachers, inactive members, school boards and other designated employers: our customers. To them, this team is the face of the Ontario Teachers' Pension Plan.

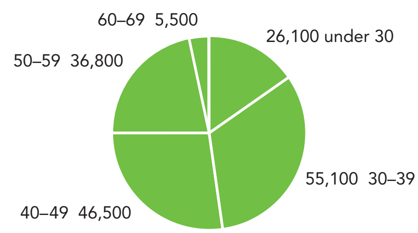
This team is also an information powerhouse, taking in and processing billions of dollars of contributions and millions of pieces of personal information every year while administering the timely payment of pensions to 108,000 retirees and survivors – one of Canada's largest payrolls.

With pensioners living longer, pensions are being paid over a longer period than before. The average age at retirement was 58 for new retirees in 2007, with an expected 31 years on pension and a survivor pension paid for an additional five years. This implies that half the teachers who retire each year will live at least into their late 80s. Currently there are approximately 9,300 pensioners in their 80s, 2,300 pensioners in their 90s, and 83 are age 100 or older.

PENSIONERS BY AGE
(as at December 31, 2007)



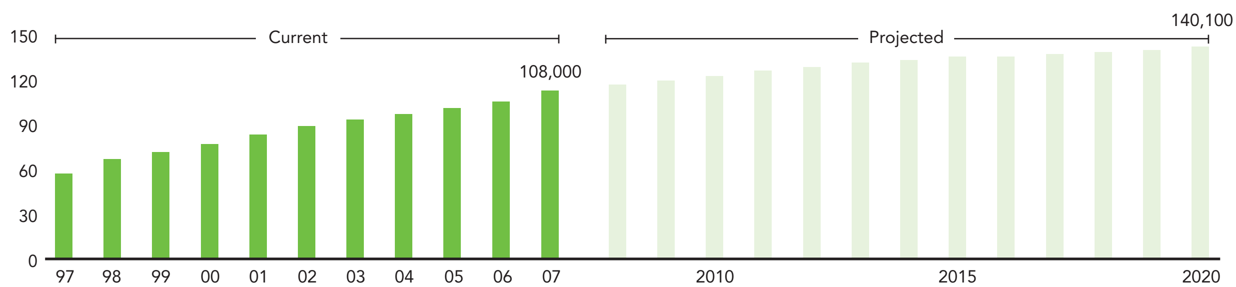
TEACHERS BY AGE
(as at December 31, 2007)



The average age for pensioners was 68 and for teachers was 42 at year end. Pensioners are living longer; currently 2,400 pensioners are 90 years of age or older, compared to 2,300 in 2006.

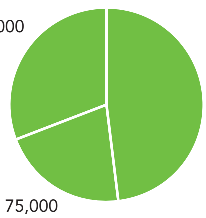
We expect 48,300 teachers to retire over the next 10 years. The number of pensioners will continue to grow, both in absolute terms and as a percentage of total plan membership. The ratio of active members to retirees could reach 1.2:1 in a decade.

NUMBER OF PENSIONERS
(for the year ended December 31, 2007) (thousands)



Plan membership totalled 353,000 at year end, comprising 170,000 working teachers, 108,000 retirees and survivors, and 75,000 inactive members. Approximately 9,700 teachers entered the profession or were re-hired during the year and 5,200 new retirees began collecting retirement or disability pensions. The number of pensioners has grown every year since 1917. The average pension for a teacher retiring at the 85 factor – years of age plus eligible service – was $41,300 in 2007.

MEMBER PROFILE
(as at December 31, 2007)



The total number of pensioners grew by 4,000 in 2007. Active members increased by 3,000. Since 2004, we have located 19,500 inactive members, who taught briefly between 1950 and 2000, and we repaid their money with interest.

We deal with about 200 school boards and designated employers, whose administrative systems vary widely in practice and sophistication. In 2004, we began asking school board finance officers to certify that contributions and information delivered to us were correct both in terms of timely remittance and application of the plan's rules – just as a public company's CEO and CFO would certify its financial statements. This proved invaluable in getting administrators to focus on what, to them, is simply one payroll deduction.

Our organizational structure has changed so that each employer deals with the same person at Teachers'. This person gains detailed understanding of the employer's payroll system and practices, and serves as a conduit for feedback. This past year we increased our programs for employers. Teachers' employees conduct workshops throughout Ontario, helping employer personnel master the pension reporting requirements and online technology we provide. Employers – particularly those under staff and funding constraints – appreciate this hands-on assistance, rather than a constant barrage of memos and information validation requests. This program, in combination with system enhancements, has increased online use and reduced the volume of fax correspondence.

Goals

Our overall objective is to provide outstanding personalized service to pension plan members, while managing our costs to the previous year's level plus inflation. Each year we set specific goals designed to move us further along that continuum of service. We gauge our success against an international peer group, and the service satisfaction ratings we receive from plan members. Details are available in the Performance section on page 46.

IN 2007, WE MEASURED OUR PERFORMANCE AGAINST FOUR MAJOR GOALS:

- Enhance member service through personalization
- Optimize business processes to reduce complexity and improve immediate service
- Improve internal controls and processes
- Enhance staff development

Managing for Value

The technology platform required to meet our four major goals was substantially expanded and upgraded in recent years. Enhanced technology has increased the automation of routine transactions and requests. Members have enthusiastically embraced our secure website, and a rapidly-growing number now answer their own questions and update personal information online. As a result, staff resources are now available to provide more value-added services.

Management decided this past year to use this capacity to deepen the level of service and tailor it more to individual needs. Teachers' service delivery strategy was redefined and – with apologies to Einstein – dubbed $e=mc^3$. The "e" stands for "excellence." The rest of the equation stands for:

- More customization
- More choice
- More counselling

Full implementation of this approach will be rolled out over the next three to five years.

Customization:
Customization seeks to provide services that are tailored to the individual needs of our clients. We know from listening to our clients that the service needs of a new teacher differ vastly from those reaching retirement. In an effort to better meet these varied needs, we are expanding the effectiveness of our database and technologies to identify segmented client requirements and adjust the content and frequency of our services accordingly. Customization also strives to provide more service proactively. We will expand the use of information reported by employers and members to increase the number of services provided proactively. For example, as soon as a school board signals a member's desire to take a leave of absence, we will automatically calculate the cost to buy back the gap in service and contact the member, before they even think to ask us.

Choice:
Choice pertains to the medium through which a member communicates with us. We have made, and continue to make, concerted efforts to create and maintain a useful Internet presence. The secure *i*Access™ Web section of our website allows members to update personal information any time of the day or night and do "what-if" calculations using their personal data. Usage trends and member comments show these efforts are valued. Plans for 2008 include the implementation of content management software that will make it very easy to update our website so it is even more timely and relevant.

We appreciate that members may also prefer to deal with us by telephone or in writing, either on a regular basis or in regard to a particular issue. Calls to our contact centre are becoming more complex in terms of their information and service needs. We are committed to ensuring that every member can be served properly through the medium of his or her choice, and intend to exploit new communications developments as they occur.

Counselling:

Counselling describes a considerable leap forward in meeting a demand that members have long expressed. The benefits and rules of the Ontario Teachers' Pension Plan are complex and the decisions made by an individual have lifetime ramifications. Members often turn to us for help. At present, our approach can be described as full disclosure. We simply cite and explain the applicable options under the plan, leaving it entirely to the member to make his or her choice.

In 2008, we expect to begin expanding our member assistance strategy from full disclosure to guidance. Pension benefit specialists will be able to delve more deeply into a member's circumstances, discuss benefit options in more detail and ultimately do more to actually help the member make the optimal choice. Our intent is to add value by offering greater access to our people's pension expertise.

We conducted an experiment in this direction during 2007 and were gratified by the results. We leveraged in-house technology and expertise to produce a Saturday morning webcast on the retirement planning process. We sent invitations by e-mail to 7,500 members; 1,500 formally accepted and more than 2,100 logged on. The webcast featured two of our pension benefit specialists, and their colleagues answered questions received during and after the webcast by e-mail and telephone.

Key performance drivers

THE FOLLOWING FOUR KEY PERFORMANCE DRIVERS ENABLE MANAGEMENT TO IMPLEMENT THE STRATEGY:

Technology	Expertise	Service	Processes

As demonstrated in the previous narrative, three of our key performance drivers are technology, expertise and the desire to provide outstanding, value-added service. The fourth driver is efficient and effective processes.

The previous explanation of $e=mc^3$ highlights our application of the first three drivers. It also impacts our processes, however, as we strive for the most effective and efficient processes to support our service efforts. A process improvement team, comprising our most experienced people, was formed initially as part of a large-scale effort by Teachers' to review and document its internal controls. This team continues to analyze the whole member experience, looking for opportunities to streamline and reduce time and effort where possible.

All four drivers are fuelled by a commitment to continuous improvement.

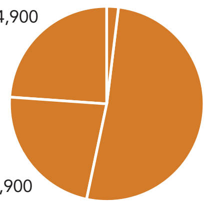
We invest in people. According to our research, we invest more in training, coaching and staff development than our peer organizations do. Technology costs are focused on improving employee effectiveness.

Performance

GOAL	MANAGING FOR VALUE	PERFORMANCE
Enhance member service through personalization	New telephone technology – replace phone switch, interactive voice recognition (IVR), call recording, metrics, etc.	New telephone technology implemented
	Capture and respect member communication preferences across business processes	Initial design complete. All systems and channels compliant with member preferences
Optimize business processes to reduce complexity and improve immediate service	Streamline member request and transactional processes	Created process improvement team of most experienced staff
	Increase employer use of online facility to reduce processing time and effort, and improve accuracy	Held employer workshops that increased online data flow and reduced fax correspondence
	Enable members to update personal information and analyze their retirement situation online. Free up staff to improve/expand service elsewhere	Use of secure website up markedly from prior year. Online retirement applications doubled during peak month. For the first time, processed all applications in time for first pension payment
Improve internal controls and processes	Reduce use of social insurance number on employer website	Employer website screens revised to address social insurance number exposure
	Ensure controls are designed effectively for key business processes	Completed evaluation to confirm design effectiveness
Enhance staff development	Develop and implement an extended Teachers' Rotation and Instruction Program (TRIP) to include management	Extended TRIP program implemented to cross train and develop employees

We fulfilled 198,000 member requests, compared to 175,000 in 2006. There were 101,700 telephone inquiries – up 6% from the previous year. Members' use of our secure *i*Access™ website increased substantially in 2007. There were 167,000 web sessions – up 29% from the year before. Approximately 80% of retiring teachers retire in June, and 65% of those retirement applications were submitted online. That is more than double the percentage of the previous year.

SELF-SERVICE ACTIVITIES ON *iAccess*™ Web
(for the year ended December 31, 2007)



A growing number of members are using the services available on the secure member website to answer their own questions and update personal information.

For the first time, 100% of all new pensions were processed in time for first payment in July. In the past, there were delays for those who did not apply until the very last minute. Thanks to increased online usage, however, we were able to assign staff to deal expeditiously with last-minute requests. Our overall processing accuracy rate was 94.3% for 2007, compared with 94.0% for 2006.

Composite Quality Service Index (QSI)

We regularly ask clients to rate our services through a third-party survey. All Member Services employees – from executive to new recruit – receive a variable component of compensation based on the levels of satisfaction expressed in our Quality Service Index (QSI) measurements. Compensation also reflects the success achieved in meeting organizational goals that are set annually to drive continuous improvement.

As in recent years, our members gave us an "A" for service in 2007. The overall QSI score for 2007 was 9.0 on a 10-point scale. This is unchanged from 2006. As shown in the accompanying table, members rate us in terms of direct service and communications, with direct service representing 85% of the overall score.

The QSI score reflects the results of a member survey protocol that Teachers' developed in the early 1990s. Administered by a third party, the survey is continually reviewed and refined to remain current. For example, questions about e-mail handling and our secure website were added in 2006.

QUALITY SERVICE INDEX

(on a scale of 0 to 10)	*2007*	*2006*
Total QSI	**9.0**	9.0
Service QSI (85%)	**9.0**	9.0
Communications QSI (15%)	**8.9**	8.8

The Quality Service Index is a measurement of service satisfaction. Our 9.0 rating is based on surveys with members conducted by a third party using a scale of zero to 10.

Cost Effective Measurement (CEM)

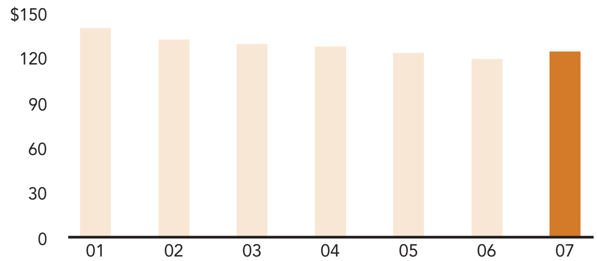
We benchmark our services against the leading pension plans around the world. To be the best, we focus on learning from the best practices and the highest standards in the global market for pension administration.

CEM provides an independent evaluation of the costs and services of 54 pension plans around the world. Our services ranked third overall internationally in CEM's latest report compared with our fourth-overall ranking the previous year. Teachers' has placed in the top five for service levels in the last five years.

Expense management

The cost per member served in 2007 was $123 versus $118 in 2006. The 2006 cost was reduced by salary disruptions during a five-week strike by unionized employees that year.

COST PER MEMBER SERVED
(for the year ended December 31)



Our goal is to manage costs so that they grow no faster than inflation.

Management intends to maintain the cost per member at the current level, adjusted for inflation. As increased use of technology creates operational savings, that money will be used to further improve service.

Our annual service cost is above the median of the pension plans in the CEM survey mentioned above. This is primarily because we provide full services directly to members. Services provided by many other plans in the study are wholly or partially administered by employers, thus reducing the cost of their plans.

Detective work

Many defined benefit pension plans have inactive members – former members who are owed money but cannot be located. Typically, they made contributions long ago, stopped teaching before vesting and then moved without filing a change of address. Pension plans are not required by law to attempt to find these people, so they often do not.

We do.

Several years ago we had 90,000 inactive accounts, many for people who taught briefly between 1950 and 1990. We decided, as resources permitted, to try to find 5,000 a year and repay their money with interest. We met this target in 2007. At year end, there were still approximately 75,000 accounts on our books. The challenge of clearing these accounts will grow more difficult with each passing year, but we will still try as part of our commitment to find each and every member, past as well as present.

Rosemarie McClean
Senior Vice-President, Member Services

Governance

As an investor, we believe good governance is good business because it helps companies deliver long-term shareholder value.

As a plan administrator, we measure ourselves by the same governance, internal control and enterprise risk management standards that reflect corporate best practices and high standards of stewardship.

The plan's governance structure assigns clear roles to the plan sponsors and to the independent board members who are appointed to oversee management's decisions and actions.

Governance structure

Plan Sponsors				Ontario Teachers' Pension Plan
Ontario Teachers' Federation	>	The Pension Plan	<	Board Members
Ontario Government	>		<	Management and Staff

- The plan sponsors are responsible for ensuring the plan remains fully funded over the long term, sharing responsibility for surplus and shortfalls.
- They determine contribution rates and benefit levels.
- Each sponsor appoints four members to the plan's board for staggered two-year terms and they mutually select the board chair.

- Teachers' is an independent corporation, established by Ontario law.
- Board members are required to act independently of both the plan sponsors and the plan's managers to make decisions in the best interests of plan members and their beneficiaries.
- Management and staff administer the pension plan, invest the pension fund and pay members and their survivors the benefits promised to them.

Board members

All board members serve on the Investment Committee. Board and committee attendance was 94% for 2007. Individual attendance is reported below. For more information on board members and board committees, please see our website, www.otpp.com > About Us > Board Members.

Eileen Mercier

Former Senior Vice-President and CFO of Abitibi-Price Inc., Fellow of the Institute of Canadian Bankers
Chair of the Board

Appointed 2005
Attendance 100%

Jill Denham

Former Vice Chair, Retail Markets, Canadian Imperial Bank of Commerce
Member of the Governance and Human Resources & Compensation Committees*

Appointed 2006
Attendance 100%

Helen Kearns

President, R.S. Bell and Associates, Former President, Nasdaq Canada, Former director, Toronto Stock Exchange
*Member of the Benefits Adjudication,** Audit & Actuarial and Governance Committees*

Appointed 2005
Attendance 97%

Hugh Mackenzie

Principal, Hugh Mackenzie and Associates economic consulting
Member of the Audit & Actuarial and Benefits Adjudication Committees*

Appointed 2007
Attendance 100%

Louis Martel

Senior Vice-President, Product Development and Client Service, Greystone Managed Investments, Inc.
Member of the Audit & Actuarial and Governance Committees

Appointed 2007
Attendance 100%

Guy Matte

Former Executive Director of l'Association des enseignantes et des enseignants franco-ontariens
Member of the Governance, Audit & Actuarial and Human Resources & Compensation Committees*

Appointed 2002
Attendance 89%

Sharon Sallows

Partner, Ryegate Capital Corp., Former executive at Bank of Montreal
Member of the Human Resources & Compensation and Governance Committees

Appointed 2007
Attendance 100%

Bill Swirsky

Fellow of the Institute of Chartered Accountants of Ontario, Former executive of Canadian Institute of Chartered Accountants
Member of the Audit & Actuarial and Human Resources & Compensation Committees*

Appointed 2007
Attendance 100%

Jean Turmel

President, Perseus Capital Inc., and Chair, Montreal Exchange
Member of the Investment, Audit & Actuarial, and Human Resources & Compensation Committees*

Appointed 2007
Attendance 91%

*Committee Chair **Committee Vice-Chair

Governance

Governance is a system of checks and balances aimed at ensuring that an organization pursues its mission in a legal, responsible and effective manner. It assigns decision-making authority with accountability, ensures that those managing the organization are capable and fairly compensated, and that the interests of management are properly aligned with the interests of those they serve. Governance also ensures that the organization has identified and addressed the myriad risks it might face.

Plan governance approach

Teachers' believes that good governance is good business – both internally and at the companies in which we invest. At Teachers', we encourage good governance on the part of the companies in which we invest because we believe it helps corporations deliver long-term shareholder value. We apply the same rigorous standards to our own operations and conduct as we seek to deliver value to our members. It is not enough to comply with the law and regulatory requirements. Rather, in every area we seek to employ the best practices and highest standards of stewardship.

Teachers' is governed by a nine-member board. Four members are appointed by each of the plan's sponsors, the Ontario government and the Ontario Teachers' Federation (OTF). The two sponsors jointly appoint the board's chair.

The board members interact with the two sponsors through the Partners' Committee. This committee was established by the sponsors to make recommendations on benefit design, the contribution rates and the handling of a surplus or shortfall. Each sponsor appoints three people to this six-member committee. The plan's governance approach is discussed in more detail on our website.

Independent and qualified board members

Together, the board members have a wide range of professional experience required to oversee a plan as vast and complex as Teachers'. They have been drawn from the fields of business management, finance and investment management, actuarial science, economics, education and accounting. No member of management serves on the board or any of its committees.

The board's mandate, committee structure and terms of reference are posted on the Teachers' website. The website also contains Teachers' Code of Business Conduct; there are three versions covering board members, investment personnel and member services personnel. Board member remuneration is discussed on page 59 along with management compensation.

Board responsibilities

The board members are responsible for overseeing the management of the pension plan. They have delegated day-to-day investment of the plan's assets to the Chief Executive Officer with the power to sub-delegate appropriately. Nevertheless, the board members remain responsible for overseeing and reviewing investment policies, risks and asset mix, benchmarks, performance and compensation. As well, they approve annual performance objectives for the investment portfolio and review all transactions that exceed the discretionary limits set for management. Their collective wisdom adds value as investment managers must crystallize and justify their thinking when seeking approval for strategic recommendations and significant investments from a group that is expert in financial matters, yet removed from the day-to-day clamour of the markets. The board members and plan management are fully responsible for investment decision-making. The plan's sponsors are not involved in investment decisions.

Board activities

Board members met 18 times in 2007 for board and Investment Committee meetings, including 10 times without management present. In addition, the Governance Committee met twice, the Human Resources and Compensation Committee met nine times, the Audit and Actuarial Committee met seven times, and the Benefits Adjudication Committee held two meetings. Board member attendance for board and committee meetings is reported on page 51.

Effective oversight and controls

Management is responsible for establishing corporate strategy, objectives and an annual financial plan. Board members review progress against management's stated objectives. Board members confirm that management's strategies and decisions are in the best interests of all pension beneficiaries. They also help ensure that management can attract and retain the best available staff – the more senior the position, the more directly involved the board members are. It is also up to the board members to ensure that the organization's standards are respected, that its policies and procedures are appropriate and are complied with. Supporting these responsibilities is an internal audit function that reports directly to the Audit and Actuarial Committee. In addition, two important risk management processes are Enterprise Risk Management (ERM) and internal controls.

Enterprise risk management

The pension plan is exposed to a number of risks. The intent of ERM is to ensure risks are managed as effectively as possible.

Teachers' has developed comprehensive ERM practices to provide assurance to the board members that we meet good governance standards vis-à-vis our internal procedures and controls. In its 2007 ratings report on the debentures issued by Ontrea Inc. (a real estate subsidiary), Standard & Poor's commented that Teachers' has "a well-established, comprehensive enterprise risk management framework in place that Standard & Poor's evaluates as excellent."

We define risk broadly as any event that can adversely affect the achievement of the pension plan's objectives and may result in the potential for loss. ERM involves identifying and assessing the risks facing the organization and the risk mitigation strategies in place to address them. This information is reported to the board annually.

In 2005, management first adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management – Integrated Framework to complete its assessment of potential risks and the measures adopted to mitigate them. This framework provides a robust and extensive focus on the broad subject of corporate risk. Consequently, our ERM practices cover the entire organization and apply to all risks identified at the strategic, tactical and operational levels. Some of the key risks are outlined below.

Strategic risk is the risk arising from an organization following inappropriate strategic or business plans, resource allocation or other strategic business decisions. In addition, it also may arise from an organization's inability to take advantage of opportunities in its operating environment.

Operational risk is the risk of loss occurring due to inadequacies or failures in internal processes, human performance and systems, or from external events.

Liquidity and funding risks refer to the risk that the plan is unable to generate sufficient cash to meet its current payment liabilities and support investment opportunities in a timely and cost-effective manner.

Market risk is the risk of loss that results from fluctuations in equity and commodity prices, interest and foreign exchange rates, and credit spreads.

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations.

Regulatory risks can result from failure to adhere to, or comply with, laws and regulations, industry codes or standards. Regulatory expectations involve the risk of a negative impact to business activities, earnings or capital, regulatory relationships or reputation as a result.

Systemic risk is the risk that extraordinary economic, political, social or financial circumstances may impact the financial system and result in a crisis.

Reputation risk is the risk of damage to the organization's image in the community which may affect public and stakeholder confidence, resulting in the loss of investment opportunities and other potential impacts.

Any of the above-mentioned risks can impact the plan's reputation, but are controlled using a variety of complementary measures, such as regular risk assessments and related monitoring procedures, crisis planning and effective IT controls, including change management and access security. For details on how we understand and manage investment risks (i.e., liquidity, market, credit risks), refer to our website. Other risks (i.e., regulatory, systemic and reputation) are addressed through a range of measures including: rigorous investment due diligence; corporate policies covering such areas as employee conduct and disclosure; clearly defined and delegated responsibilities; issue monitoring; and board representation at investee companies.

In 2007, we performed a thorough risk evaluation and reported top risks to the board along with an explanation of how management mitigates these risks. Recognizing that ERM is an emerging field, management will evaluate our current ERM practices in 2008 and will continue to strengthen them in order to be in line with evolving best practices.

Disclosure controls and procedures and internal control over financial reporting

In 2007, Teachers' conducted a comprehensive internal control evaluation to document, assess and enhance the design of its internal controls. It did so using the Integrated Framework issued by COSO.

Teachers' is not required by law to comply with Multilateral Instrument 52-109 of the Canadian Securities Administrators. Teachers' has chosen to meet the standards required by the Instrument as part of its emphasis on good governance.

The CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for Teachers'. An evaluation was carried out under the supervision of – and with the participation of – management, including the CEO and CFO. We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the plan, including Teachers' consolidated subsidiaries, is made known to us.

We evaluated the effectiveness of Teachers' disclosure controls and procedures as of the end of the period covered by the annual certification and the CEO and CFO have concluded, based on the evaluation, that the disclosure controls and procedures are effective.

We have also designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian Generally Accepted Accounting Principles. No changes were made in Teachers' internal control over financial reporting during the year ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, Teachers' internal control over financial reporting.

Transparent reporting

Teachers' board members receive from management in-depth monthly reports and quarterly summaries of the financial and funding positions of the plan, performance results, risk levels, client satisfaction ratings, key Member Services statistics, compliance, as well as annual reviews of each department, internal controls and enterprise risk, and reports on all other significant events.

As well, we strive to keep stakeholders fully informed of the state of the plan:

- Along with publishing this annual report, Teachers' provides regular newsletters to more than 278,000 members, updating them on key plan financial and non-financial information. Our website details plan governance practices and facts about our investment strategy and major portfolios, as well as service initiatives.
- Each April, Teachers' holds an annual meeting at which executives report on the state of the plan and invite questions. This meeting is open to all members of the plan and the sponsors. In 2008, it will take place in Toronto on Friday, April 11 at 5 p.m. The meeting is webcast for those who cannot attend in person and is archived for later viewing.
- Each August, the chair addresses the OTF Board of Governors. Teachers' executives meet regularly with representatives of both sponsors to discuss key issues.

Appropriate compensation

Competitive compensation helps us develop and retain high-calibre employees amid ongoing industry-wide competition for the best people – competition from global suitors as well as those in Canada. Each year, the Human Resources and Compensation Committee of the board reviews compensation policy, including incentive components linked to investment department and total fund performance. This review comprises research and recommendations from independent compensation consultants, Towers Perrin. Incentive programs based on four-year performance results reward investment managers in a manner that matches our long-term goals and strategies. In 2007, total incentive compensation for investment managers equalled 2.4% of the average annual value they created for the past four years above the returns that would have been earned by a passive portfolio.

Compensation program overview

Teachers' compensation program has been developed on a foundation of pay for performance. Base pay and incentive levels in each area of the business are based on the competitive labour market practices for specific jobs. Teachers' targets base salaries at the median of the market, with an opportunity, conditional on performance, to earn above-average total compensation, through incentive opportunities. All full-time employees participate in one or more incentive programs. Incentive plan structures are designed to enhance and reward performance delivery against pre-set objectives, benchmarks or both.

- Unionized employee incentives

  Incentive plan structures have been negotiated into the collective agreement. The current agreement runs from January 1, 2006, through December 31, 2009. All bargaining unit employees are eligible for incentives based on corporate objectives and individual performance. Bargaining unit employees working in Member Services or corporate departments are eligible for incentives based on cost control and quality service targets. Those working in investment support departments are eligible for incentives based on total fund performance above a composite benchmark.

- Management and professional employee incentives
  - *Annual Incentive Plan – Member Services and Corporate*

    Rewards are based on achievement of corporate and personal objectives.
  - *Annual Incentive Plan – Investment Support*

    Rewards are based on achievement of corporate and personal objectives and total fund performance above a composite benchmark.
  - *Annual Incentive Plan – Investments*

    Rewards are based on the achievement of total fund, investment department and investment department pool performance, in excess of benchmarks. Senior executives have an individual performance component.
  - *Long-term Incentive Plan – Member Services and Corporate*

    This program is available to executives and senior employees at the director level. Rewards are based on delivery of cost control and quality service results over three years.
  - *Long-term Incentive Plan – Investments*

    This program is available to investment employees at the assistant portfolio manager level and higher, and to corporate executives. A small number of selected employees in investment support areas are eligible to be considered for discretionary grants each year. Rewards are based on total fund and investment department performance in excess of benchmarks and the total fund rate of return, over four years.

Given the variable nature of employment opportunities at Teachers', different target markets are compared against for the various job groups and incentive programs. Our objective is to be competitive with those organizations against which we compete directly for employees. Such organizations include other major Canadian pension funds, mid-sized banks, insurance companies, investment counsels, private investment managers and for some position comparators, the financial industry in general.

Corporate performance

The Human Resources and Compensation Committee is responsible for assessing corporate performance against established benchmarks and objectives. (The committee's terms of reference are available on our website.) Performance measures for rate of return, dollars value added, service quality, and expenses are reviewed every year. Other corporate level objectives change annually, based on the organization's priorities. A corporate report card format has been developed to ensure that a consistent assessment of composite corporate performance is achieved each year.

In 2007, the following performance results were delivered:

	Actual	*Goal*
Rate of return		
Four-year vs. benchmark	12.3%	8.7%
One-year vs. benchmark	4.5%	2.3%
Service expenses and quality		
Ongoing member service costs *($000s)*	$34,270[1]	$34,950
Cost Per Member	$121.70[1]	$124.50
Quality Service Index	8.98/10.0	8.96/10.0
Dollars of value added above benchmarks		
Four-year *($ millions)*	$11,625[2]	
One-year *($ millions)*	$ 2,105[2]	
Other corporate objectives achieved in 2007:		
Investment Strategy 2020 development		
Member Contact Centre strategy		
Member communications preferences		
Internal controls review		
2007 objective still in progress at year end		
Investment buy-and-hold strategy is now integrated into Strategy 2020 development		

[1] Net of adjustments for processing inactive members and long-term incentive payments.

[2] Net of expenses.

Severance payments

Other than statutory and common law requirements, there are no severance guarantees or executive contracts in place.

Executive compensation

The compensation table represents disclosure of base salary, annual bonus, long-term incentives and other compensation earned in 2007, 2006 and 2005 by the Chief Executive Officer (outgoing and incumbent), Chief Financial Officer and the two other most highly-compensated executives, excluding subsidiary companies.

Name and Principal Position	*Year*	*Base Salary*	*Annual Bonus*[1]	*Long-term Incentive Plan*[2]	*Other Compensation*	*Total Compensation*
Claude Lamoureux[7] President and CEO	2007	$488,704	$616,500	$3,757,200	$10,480[3]	$4,872,884
	2006	472,758	569,400	5,327,000	10,438[3]	6,379,596
	2005	459,262	618,700	4,451,900	10,372[3]	5,540,234
Jim Leech President and CEO[8]	2007	274,123	850,000	2,241,900	1,212[3]	3,367,235
	2006	256,581	512,000	3,007,000	455[5]	3,776,636
	2005	249,188	502,200	1,743,800	419[5]	2,495,607
David McGraw Senior VP and CFO[9]	2007	256,827	149,200	393,000	3,828[6]	802,855
	2006	241,461	132,500	–	429[5]	374,390
	2005	227,192	105,500	–	382[5]	333,074
Bob Bertram Executive VP, Investments	2007	394,039	721,100	3,736,500	8,710[3]	4,860,349
	2006	378,619	673,300	5,114,400	8,671[3]	6,174,990
	2005	365,346	697,200	4,059,900	15,708[4]	5,138,154
Neil Petroff Group SVP, Investments[10]	2007	263,731	580,000	2,241,900	476[5]	3,086,107
	2006	248,115	500,000	2,933,800	440[5]	3,682,355
	2005	241,169	476,300	2,464,100	405[5]	3,181,974

[1]Annual bonuses for Investment executives are based on a combination of total fund, investment department, 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 zero to five times the target level for their 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. Initial notional grant values grow with the total fund absolute rate of return and by the performance multipliers based on value-added performance over established benchmarks. The maximum multiplier for combined total fund and investment department performance is 10 times. The Senior VP and CFO participates in a combination of the Investment LTIP and Member Services/Corporate LTIP.

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

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

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

[5]Group term life insurance.

[6]Group term life insurance and unused vacation cashout.

[7]Mr. Lamoureux retired from his position as President and CEO on December 1, 2007. He remained on the active payroll until February 15, 2008.

[8]Mr. Leech was appointed President and CEO as of December 1, 2007.

[9]Mr. McGraw was appointed Senior Vice-President and CFO on November 25, 2007.

[10]Mr. Petroff was appointed Group Senior Vice-President as of October 1, 2007.

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 CPP integration formula. Benefits under these combined plans are capped by the base salary reached at the maximum pension contribution permitted under ITA regulations.

Executives earning 2007 annual salaries in excess of $191,295 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%.

For executives at the Vice-President level, having attained the age of 55, average annual salary includes a percentage of annual incentive, building at 5% per year to 25%.

The total liability for the SERP increased by a net amount of $0.9 million in 2007 for a total accrued SERP liability of $12.4 million as at December 31, 2007.

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 (outgoing and incumbent), Chief Financial Officer and the two other most highly-compensated executives, excluding subsidiary companies.

Name and Principal Position	*2007 Annual Change in Pension 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	$ 655,000	$5,583,400	$371,500	17
Jim Leech President and CEO	1,248,800	1,984,700	258,700	11
David McGraw SVP and CFO	135,400	288,700	160,600	17
Bob Bertram Executive VP, Investments	889,900	5,175,100	403,600	19
Neil Petroff Group SVP, Investments	303,400	1,557,100	430,700	32

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

Board and committee member remuneration

In 2007, each board member received an annual retainer of $12,000, plus $12,000 as a member of the Investment Committee. The board chair received an additional retainer of $50,000 and the chairs of the Investment, Governance, Human Resources and Compensation, and Audit and Actuarial Committees received additional retainers of $4,000 each.

Fees for committee and other eligible meetings are $1,200. Board meeting fees are combined with Investment Committee fees at $1,500 per day. The chair of the Benefits Adjudication Committee receives an additional fee of $750 for each Benefits Adjudication meeting or hearing attended, to a maximum of six per annum.

Board members are reimbursed for normal expenses for travel, meals and accommodation, as required.

Protecting audit integrity

Teachers' and others who stress the value of effective corporate governance have expressed concern over the years about relationships in which the accounting firms that audit public companies also receive substantial payments from those companies for non-audit management consulting services. Such consulting fees can, and have in a number of well-publicized cases, compromised the integrity of the audit function.

Teachers' strives to minimize our own use of such consulting services from the plan's auditors and discloses the total amount paid. In 2007, fees paid to Deloitte & Touche LLP, the plan's auditors, totalled $3.2 million ($2.7 million in 2006), of which $3.1 million were for audit activities and $0.1 million were for other, non-audit services.

Legislation update

Teachers' submission to the Arthurs Commission, which is reviewing Ontario's Pension Benefits Act, expressed a number of concerns. Given Teachers' varied mandate as a large plan administrator as well as a significant investor and shareholder, we have a multi-dimensional view of the issues facing the Ontario pension system: its administration, its regulations, its relationship with other authorities, and its overall strengths and weaknesses including its sustainability.

Our submission was based on the view that the current pension system model is unsustainable, and that the time is right for the public and private sectors to work together to revitalize the system and devise a new model designed for Ontario's evolving markets and demographics – a new model that supports realistic and affordable pension contributions and benefits through the foreseeable future, and that shares the burden of risk fairly across generations and among private and public employers. The full submission is available on our website.

There were no legislative or regulatory changes in 2007 that materially affected the plan's governance.

Regarding the administration of plan benefits, the plan's re-employment rules for retired teachers were changed by the plan sponsors to reflect the federal government's decision to give pension plan members two additional years to make contributions. As explained in detail on our website, the plan's working-after-retirement limits apply to pensioners until November 30 of the year in which they turn 71, up from age 69. No limits apply after that point.

In addition, the plan was amended to provide same-sex survivor benefits retroactive to April 1998. This expands the time period previously in place. This amendment conforms to a Supreme Court of Canada decision that involved eligibility of same-sex partners for Canada Pension Plan survivor benefits.

Investments over $100 million

(as at December 31, 2007)

Fixed income and short-term investments

Type ($ millions)	*Maturity*	*Coupon (%)*	*Fair Value*	*Cost*
Government of Canada bonds	2008–2037	3.75–9.75	$16,234	$ 15,773
Securities purchased under agreements to resell	2008–2008	0.50–5.62	7,866	7,906
Structured products	2008–2051	0.00–20.24	5,357	5,996
Commercial paper	2008–2008	0.00–5.35	4,162	4,149
Canadian corporate bonds	2008–2085	0.00–30.00	3,750	3,887
Emerging market sovereign debt	2009–2039	1.33–14.50	2,291	2,268
Canada treasury bills	2008–2008	0.00–0.00	1,573	1,552
International corporate bonds	2008–2049	0.00–14.93	1,113	1,184
Bank notes	2008–2008	4.52–6.76	650	647
United States treasury bonds	2009–2037	0.00–7.63	377	169
Provincial bonds	2008–2037	4.35–5.93	168	174
Securities sold under agreements to repurchase	2008–2008	2.00–5.45	(22,725)	(22,778)

Inflation-sensitive investments

Type ($ millions)	*Maturity*	*Coupon (%)*	*Fair Value*	*Cost*
Real-return Canada bonds	2021–2041	2.00–4.25	$5,712	$4,764
United States treasury inflation protection	2011–2032	1.88–3.88	3,278	3,420
Real-return Canada corporate bonds	2016–2039	0.00–5.33	1,493	756
Real-return provincial bonds	2026–2036	2.00–4.50	485	354
Index-linked mortgages	2022–2030	4.63–5.53	257	229

Province of Ontario debentures

Maturity Date ($ millions)	*Coupon (%)*	*Fair Value*	*Cost*
2008–2012	10.11–15.38	$5,934	$5,314

Corporate shares/units over $100 million

(as at December 31, 2007) (millions)

Security Name	Shares	Fair Value
BCE Inc.	50.8	$2,032.9
Nexen Inc.	53.7	1,724.4
Deutsche Telekom AG	46.6	1,010.1
Northumbrian Water Group plc	135.1	916.2
Macquarie Infrastructure Group	285.5	774.3
Transurban Group	115.8	714.3
Maple Leaf Foods Inc.	42.7	634.5
Royal Bank of Scotland Group, plc	66.5	579.8
Multiplan Empreendimentos Imobiliários S.A.	51.3	541.3
Eni S.p.A.	14.2	514.3
Royal Utilities Income Fund	40.3	434.0
MMX Mineracao e Metalicos SA	0.8	395.9
Microsoft Corporation	8.9	313.2
Samsung Electronics Co., Ltd.	0.5	290.5
Nippon Telegraph and Telephone Corporation	0.1	279.4
Manitoba Telecom Services Inc.	5.7	267.7
MacDonald, Dettwiler and Associates Ltd.	6.1	252.8
Hitachi, Ltd.	34.3	252.4
Intel Corporation	8.9	234.9
Sumitomo Mitsui Financial Group, Inc.	0.03	224.8
Sanofi-Aventis	2.4	217.0
Bayerische Motoren Werke AG	3.5	212.4
Pfizer Inc.	9.4	211.5
Unilever N.V.	5.8	210.0
Petroleo Brasileiro S.A.	1.9	209.8
Nestlé SA	0.5	205.7
Idea Cellular Limited	58.8	204.3
Canadian National Railway Company	4.2	195.0
Siemens AG	1.1	179.8
Total SA	2.4	172.9*
Akzo Nobel N.V.	2.1	$163.0
Manulife Financial Corporation	4.0	162.7
Royal Bank of Canada	3.2	161.4
Mitsubishi UFJ Financial Group, Inc.	17.2	158.7
Johnson & Johnson	2.4	156.1
Goldcorp Inc.	4.5	153.8
Citigroup Inc.	5.1	147.6
EnCana Corp.	2.2	145.7
HSBC Holdings plc	8.6	144.0
Portugal Telecom, SGPS, SA	10.7	138.0
Kobenhavns Lufthavne A/S	0.3	137.9
Research In Motion Limited	1.2	134.6
Vodafone Group Plc	35.9	134.0
Novartis AG	2.5	133.2
International Business Machines Corporation	1.2	130.6
Suncor Energy, Inc.	1.2	129.3
Bank of Nova Scotia	2.5	128.1
Barrick Gold Corporation	3.1	128.0
GlaxoSmithKline plc	4.9	124.8
Potash Corporation of Saskatchewan Inc.	0.9	124.5
TD Ameritrade Holding Corp.	6.3	124.0
Micron Technology, Inc.	17.2	123.2
Safeway Inc.	3.6	122.7
Verizon Communications Inc.	2.8	122.5
Toronto-Dominion Bank, The	1.7	119.1
European Aeronautic Defence and Space Company NV	3.8	119.0
Softchoice Corporation	5.1	118.8
American International Group, Inc.	2.0	113.7
ING Groep N.V.	2.9	110.9
CRH plc	3.2	108.5
Canadian Natural Resources Ltd.	1.4	103.2

*Includes fair market value of STRIP securities.

For equities greater than $50 million, please visit our website at: www.otpp.com.

Real estate assets over $100 million

(as at December 31, 2007)

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian regional shopping centres		
Champlain Place, Dieppe	813	100%
Chinook Centre, Calgary	1,195	100%
Erin Mills Town Centre, Mississauga	806	50%
Fairview Mall, Toronto	718	50%
Fairview Park Mall, Kitchener	748	100%
Fairview Pointe Claire, Montreal	1,023	50%
Georgian Mall, Barrie	625	100%
Hillcrest Mall, Richmond Hill	587	100%
Le Carrefour Laval, Montreal	1,345	100%
Les Galeries d'Anjou, Montreal	1,227	50%
Les Promenades St. Bruno, Montreal	1,139	100%
Lime Ridge Mall, Hamilton	814	100%
Market Mall, Calgary	920	50%
Markville Shopping Centre, Markham	1,016	100%
Masonville Place, London	686	100%
Pacific Centre, Vancouver	1,439	100%
Polo Park Mall, Winnipeg	1,225	100%
Regent Mall, Fredericton	487	100%
Richmond Centre, Richmond	491	100%
Rideau Centre, Ottawa	739	31%
Sherway Gardens, Toronto	984	100%
The Bay Centre, Victoria	415	100%
The Promenade, Toronto	693	100%
Toronto Eaton Centre, Toronto	1,722	100%

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian office properties		
Encor Place, Calgary	360	100%
Granville Square, Vancouver	407	100%
HSBC Building, Vancouver	395	100%
Pacific Centre Office Complex, Vancouver	1,547	100%
Shell Centre, Calgary	683	50%
Toronto-Dominion Centre Office Complex, Toronto	4,442	100%
Toronto Eaton Centre Office Complex, Toronto	1,895	100%
Waterfront Centre, Vancouver	410	100%
Yonge Corporate Centre, Toronto	674	100%
Canadian properties under development		
RBC Centre, Toronto	N/A	100%
U.S. regional shopping centres		
Lakewood Mall, Lakewood, California	2,086	49%
Los Cerritos Center, Cerritos, California	1,282	49%
Stonewood Center, Downey, California	917	49%
Washington Square, Tigard, Oregon	1,323	49%
U.K. office properties		
Thomas More Square Estate, London	562	50%

Private companies and partnerships over $100 million

AB Acquisitions Holdings Ltd.
Aguas Nuevo Sur Maule, S.A
Alexander Forbes Limited
Alliance Laundry Systems, LLC
AOT Bedding Holding Corp.
Apollo Overseas Partners (Delaware 892) VI, L.P.
AQR Offshore Multi-Strategy Fund, Ltd
Arclin Canada Ltd.
Ares Corporate Opportunities Fund II, L.P.
Arrowstreet Global Opportunities Offshore Fund Ltd.
Ashmore Local Currency Debt Portfolio
Auriel Global Macro Fund
Avaya Inc.
BC European Capital VII
BC European Capital VIII
BDC Offshore Fund II Ltd.
Bernstein Global Long/Short Equity Portfolio L.P.
Birmingham International Airport
Bridgewater Pure Alpha Fund II Ltd
Canary Wharf Group plc
Canyon Value Realization Fund (Cayman) Ltd
CFM Corporation
Crestline Offshore Fund Ltd
Crestline Offshore Opportunity Fund, Ltd.
CTVglobemedia Inc.
D.E. Shaw U.S. Large Cap Core Alpha Extension Plus Offshore Fund, L.P.
Davidson Kempner International Ltd
Empresa de Servicios Sanitarios del Bio-Bio S.A.
Esval S.A.
Express Pipeline Ltd.
GCAN Holdings Inc.
GCT Global Container Terminals Inc.
GMO Mean Reversion Fund (Offshore) L.P.
GNC Corporation, Inc.
Gottex ABL Fund
Grupo Corporativo Ono, S.A.
Hancock Timber Resource Group
Highland Crusader Fund Ltd.
Hudson Catastrophe Fund, Ltd.
Humber View Ltd.
IIG Trade Finance Partners Ltd.
InterGen N.V.
Kabel Deutschland GmbH
KKR Strategic Capital Overseas Fund, Ltd.
Macquarie Airports Group Limited
Magnitude Institutional, Ltd.
Maple Financial Group Inc.
Maple Leaf Sports & Entertainment Ltd.
Marathon Special Opportunity Fund Ltd.
MBK Partners, L.P.
MidOcean Partnership
Northern Star Generation LLC
OGX Petróleo e Gás S.A.
Orbis Institutional Africa (Rand) Fund
Orbis Sicav Global Equity Fund
Park Square Capital, LLC
Providence Equity Partners V L.P.
Providence Equity Partners VI L.P.
Prudential Timber Investments Inc.
Realogy Corporation
Relational Investors LLC
Resource Management Service Inc.
Scotia Gas Networks PLC
Silver Creek Low Vol Strategies, Ltd.
Silver Creek Low Vol Strategies II, Ltd.
Silver Creek Special Opportunities Fund Cayman III, L.P.
Southern Cross Airports Corporation Holdings Inc.
Univision Communications Inc.
Valentino Fashion Group S.p.a
van Biema Value Fund, Ltd.
Yellow Pages Group Limited
York Street Capital Partners

Eleven-year review

($ billions)	**2007**	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
CHANGE IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31											
Income											
Investment income	**$ 4.68**	$ 12.31	$ 14.09	$ 10.80	$11.42	$ (1.41)	$ (1.74)	$ 6.21	$10.12	$ 5.14	$ 7.25
Contributions											
Members/transfers	**1.06**	0.83	0.79	0.75	0.71	0.68	0.64	0.62	0.63	0.61	0.59
Province of Ontario	**1.08**	0.82	0.78	0.75	0.72	0.70	0.68	0.66	0.66	0.65	0.65
Province of Ontario – special payments	**–**	–	–	–	–	–	–	–	0.13	0.49	0.46
Total income	**6.82**	13.96	15.66	12.30	12.85	(0.03)	(0.42)	7.49	11.54	6.89	8.95
Expenditures											
Benefits paid	**4.02**	3.82	3.62	3.43	3.20	3.08	3.08	2.54	2.28	2.10	1.80
Investment expenses	**0.23**	0.22	0.21	0.19	0.16	0.10	0.12	0.10	0.09	0.07	0.06
Client service expenses	**0.04**	0.03	0.03	0.03	0.03	0.03	0.04	0.03	0.03	0.03	0.03
Total expenditures	**4.29**	4.07	3.86	3.65	3.39	3.21	3.24	2.67	2.40	2.20	1.89
Increase (decrease) in net assets	**$ 2.53**	$ 9.89	$ 11.80	$ 8.65	$ 9.46	$ (3.24)	$ (3.66)	$ 4.82	$ 9.14	$ 4.69	$ 7.06
NET ASSETS AS AT DECEMBER 31											
Investments											
Fixed income	**$ 18.68**	$ 21.44	$ 19.33	$ 13.91	$19.38	$ 13.96	$ 7.09	$ 13.32	$17.30	$11.48	$10.28
Equities											
Canadian	**13.73**	16.39	19.26	16.80	15.19	13.43	17.06	17.74	19.89	17.61	19.43
Non-Canadian	**36.31**	32.42	25.78	23.09	19.13	18.19	24.28	23.14	21.76	24.02	19.96
Inflation-sensitive investments											
Commodities	**3.02**	2.32	2.65	2.13	1.89	1.48	1.09	2.10	1.09	0.40	0.13
Real estate	**16.36**	14.53	12.45	10.90	9.87	11.49	11.59	6.20	2.82	1.58	1.56
Infrastructure & timberland	**8.84**	6.78	4.77	2.99	1.90	0.97	0.03	–	–	–	–
Real-rate products	**11.06**	11.80	10.56	11.90	7.07	5.92	6.98	9.55	4.24	3.02	1.60
Net investments	**108.00**	105.68	94.80	81.72	74.43	65.44	68.12	72.05	67.10	58.11	52.96
Receivable from Province of Ontario	**1.84**	1.58	1.50	1.42	1.36	1.32	1.28	1.25	1.25	1.23	1.26
Other assets	**48.19**	35.47	20.90	23.17	11.30	23.45	24.26	13.15	7.04	5.39	8.54
Total assets	**158.03**	142.73	117.20	106.31	87.09	90.21	93.66	86.45	75.39	64.73	62.76
Liabilities	**(49.48)**	(36.72)	(21.07)	(21.98)	(11.41)	(24.00)	(24.20)	(13.33)	(7.08)	(5.56)	(8.27)
Net assets	**108.55**	106.01	96.13	84.33	75.68	66.21	69.46	73.12	68.31	59.17	54.49
Smoothing reserve	**(3.63)**	(11.16)	(7.44)	(1.54)	3.48	9.65	2.97	(4.34)	(8.32)	(4.79)	(5.58)
Actuarial value of net assets	**104.92**	94.85	88.69	82.79	79.16	75.86	72.43	68.78	59.99	54.38	48.91
Accrued pension benefits	**115.46**	110.50	110.53	96.73	83.12	73.67	65.43	58.56	52.11	48.64	44.46
Surplus (deficit)	**$ (10.54)**	$ (15.65)	$(21.84)	$(13.94)	$ (3.96)	$ 2.19	$ 7.00	$ 10.22	$ 7.88	$ 5.74	$ 4.45
PERFORMANCE (%) FOR THE YEAR ENDED DECEMBER 31											
Rate of return	**4.5**	13.2	17.2	14.7	18.0	(2.0)	(2.3)	9.3	17.4	9.9	15.6
Benchmark	**2.3**	9.4	12.7	10.6	13.5	(4.8)	(5.3)	5.3	17.6	11.9	15.6

Corporate directory

Ontario Teachers' Pension Plan

President and Chief Executive Officer
Jim Leech

Audit Services
Peter Maher, Vice-President

Finance
David McGraw, Senior Vice-President and Chief Financial Officer

Human Resources and Public Affairs
John Brennan, Vice-President

Law
Roger Barton, Vice-President, General Counsel and Secretary

Information & Technology
Russ Bruch, Vice-President and Chief Information Officer
Dan Houle, Vice-President
Phil Nichols, Vice-President

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Rosemarie McClean, Senior Vice-President

Investments
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Neil Petroff, Group Senior Vice-President

Alternative Investments
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Andrew Spence, Vice-President and Chief Economist
Rosemary Zigrossi, Vice-President

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Stephen Dowd, Vice-President

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Bill Royan, Vice-President

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Erol Uzumeri, Senior Vice-President
Dean Metcalf, Vice-President
Lee Sienna, Vice-President

The Cadillac Fairview Corporation Limited

President and Chief Executive Officer
L. Peter Sharpe

Development
John Sullivan, Executive Vice-President

Finance
Joseph Pucci, Senior Vice-President and Controller

General Counsel and Secretary
Peter Barbetta, Executive Vice-President

Investments
Andrea Stephen, Executive Vice-President

Operations
Deane Collinson, Executive Vice-President

Annual Meeting
April 11, 2008
5:00 p.m.
The Carlu, Toronto

We welcome your comments and suggestions on this annual report.

Please contact:
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