ONTARIO TEACHERS' PENSION PLAN

2004 Annual Report


#1 Pension Plan award for managing risk by *Risk* magazine
$3.0 billion of value created over benchmarks
11.3% average long-term return since 1990

$10.8 billion
in investment income

9.2/10 rating from
plan members for service
and communications

Corporate Profile

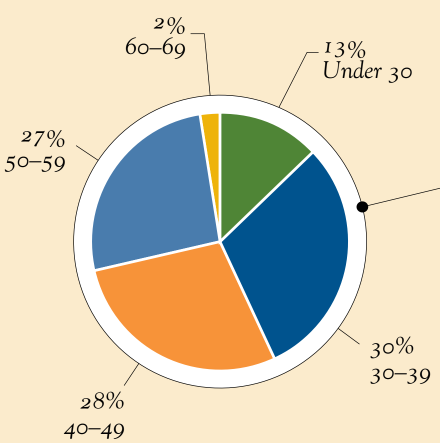
There has been a pension plan for Ontario's teachers since 1917. In 1990, the Ontario government established an independent corporation to invest the plan's assets and administer the pensions of the province's 255,000 current and retired teachers. Today, the Ontario Teachers' Pension Plan is one of the largest plans in Canada with net assets of over $84 billion at the end of 2004.

The Government of Ontario and the Ontario Teachers' Federation, the plan's co-sponsors, are responsible for ensuring the pension plan is fully funded and for setting plan benefit and contribution levels. The plan sponsors also appoint Teachers' board of directors, with equal representation from the two sponsors.

Teachers' 500 employees are responsible for setting and implementing investment strategies for the plan's assets and for delivering immediate, personalized services to members in keeping with the corporation's vision:

Outstanding Service Today, Retirement Security Tomorrow

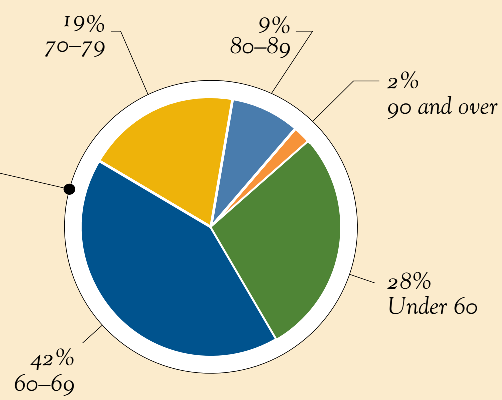
Teachers by Age



THE NUMBER OF PENSIONERS HAS DOUBLED IN THE LAST 10 YEARS. THERE IS NOW ONE PENSIONER FOR EVERY 1.6 CONTRIBUTING TEACHERS.

(More on page 18)

Pensioners by Age



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For more information see:
www.otpp.com

All financial results in this report include the net effects of derivatives unless stated otherwise.

Financial Highlights

Investment Performance

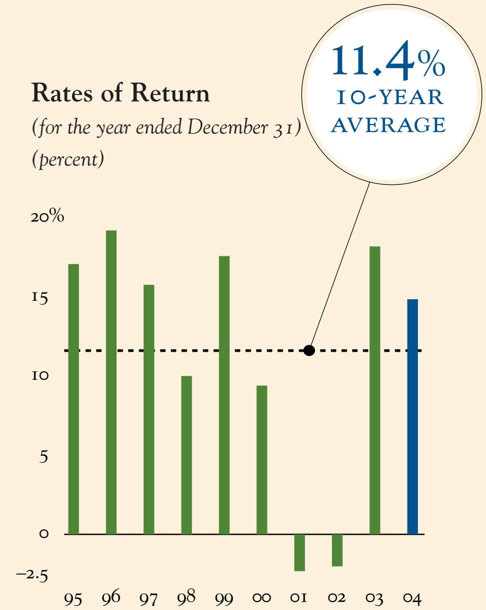
(for the year ended December 31)

RATE OF RETURN ON INVESTMENTS *(percent)*	2004	2003
Annual	**14.7**	18.0
Composite benchmark	**10.6**	13.5

AVERAGE ANNUAL COMPOUND RATES OF RETURN *(percent)*	4 Yr	5 Yr	10 Yr	15 Yr
Our return	6.7	7.2	11.4	11.3
Benchmark	3.2	3.6	9.6	8.6

Rates of Return

(for the year ended December 31)
(percent)



Financial Overview

(as at December 31) ($ billions)

NET ASSETS	2004	2003
Net investments	**$ 81.7**	$74.4
Contributions receivable from Province of Ontario	**1.4**	1.4
Other net assets (liabilities)	**1.2**	(0.1)
Net assets	**$ 84.3**	$75.7

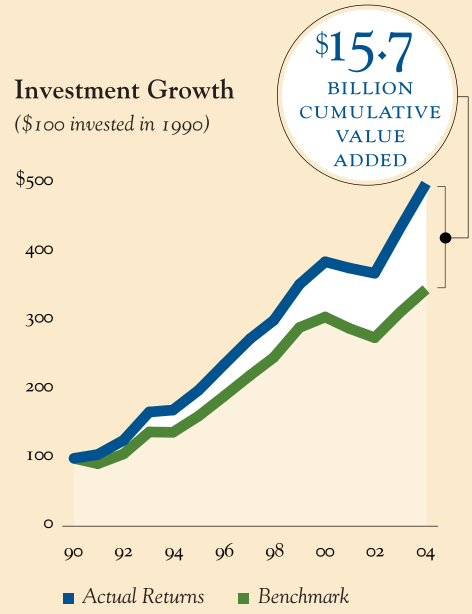
FINANCIAL STATUS	2004	2003
Net assets	**$ 84.3**	$75.7
Smoothing adjustment[1]	**(1.5)**	3.5
Actuarially adjusted net assets	**82.8**	79.2
Cost of future pensions	**96.7**	83.2
Deficit[2]	**$(13.9)**	$ (4.0)

1 *All investment returns except fixed income are smoothed over five years to reduce the impact of market volatility on the plan's net assets (see* Note 4*). In accordance with accepted actuarial practices, the $1.5 billion smoothing adjustment (actuarial asset value adjustment) consists of net gains to be recognized in future years.*

2 *The deficit, shown on a financial statement basis, is different from the funding shortfall (see* ***Funding Report*** *for estimated shortfall).*

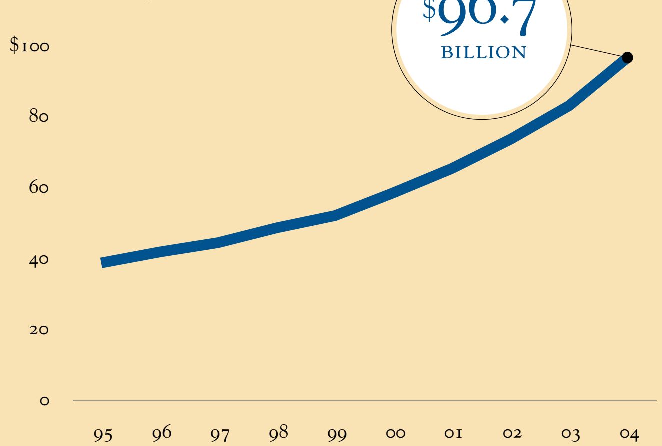
Investment Growth

($100 invested in 1990)



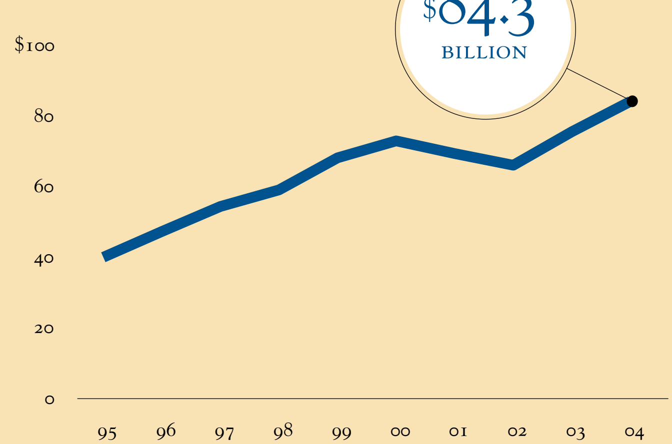
Cost of Future Pensions

(as at December 31) ($ billions)

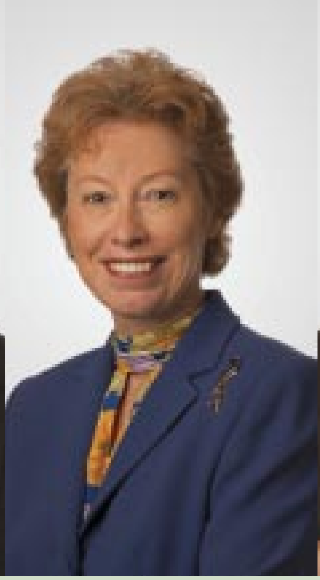


Net Assets

(as at December 31) ($ billions)



Board of Directors



All board members serve on the Investment Committee. Board and committee attendance was 89% in 2004.

Thomas C. O'Neill

Former Chair of PwC Consulting and a Fellow of the Institute of Chartered Accountants of Ontario
Chair of the Audit & Actuarial Committee and member of the Governance and Human Resources & Compensation Committees

Eileen Mercier

Former Senior Vice-President and CFO of Abitibi-Price Inc., and a Fellow of the Institute of Canadian Bankers
Member of the Audit & Actuarial and Governance Committees

J. Douglas Grant

Former CEO of Sceptre Investment Counsel Ltd., a Fellow of the Institute of Chartered Accountants of Ontario, and a Chartered Financial Analyst
Chair of the Governance Committee and member of the Human Resources & Compensation Committee

Plan Governance

Mandate

- Teachers' is an independent corporation, established under Ontario law, to administer the pension plan, manage the pension fund and pay members and their survivors the benefits promised to them.
- The plan's co-sponsors, the Ontario government and the Ontario Teachers' Federation, are responsible for plan design, including contribution and benefit levels.

Accountability

- Teachers' reports to the co-sponsors on a regular basis and issues this annual report including audited consolidated financial statements and an actuarial opinion.

Board of Directors

- Each co-sponsor appoints four members to the plan's board of directors for staggered two-year terms and the co-sponsors jointly appoint the chair as the ninth member of the board.
- The board is required to act independently of both the co-sponsors and the plan's managers and to make decisions in the best interests of all beneficiaries of the plan.
- The board requires the plan's managers to establish corporate objectives and a financial plan annually and to review progress against these and other objectives.
- Teachers' expresses its investment strategy in its *Statement of Investment Policy and Procedures*. Part of the strategy is to vote proxies for all investee companies according to its *Proxy Voting Guidelines*. See: www.OTPP.com
Governance
Guidelines

Ralph E. Lean, Q.C.

Senior partner with the law firm Cassels Brock & Blackwell in Toronto

Chair of the Benefits Adjudication Committee and member of the Governance and Audit & Actuarial Committees

Robert W. Korthals

Former President of The Toronto-Dominion Bank

Chair of the Board and Chair of the Human Resources & Compensation Committee

Guy Matte

Former Executive Director of l'Association des enseignantes et des enseignants franco-ontariens

Vice-Chair of the Benefits Adjudication Committee and member of the Audit & Actuarial and Human Resources & Compensation Committees

Carol Stephenson

Dean of the Richard Ivey School of Business and the former President of both Stentor and Lucent Technologies Canada

Member of the Governance and Human Resources & Compensation Committees

Gary Porter

Chartered accountant and founding partner of the accounting firm Porter Hétu International, and a Past President of the Certified General Accountants Association of Ontario

Chair of the Investment Committee and member of the Audit & Actuarial Committee

Plan Governance at a Glance

Chair's Report

Our responsibilities as directors on the board are important to us because they are so critical to our constituents – the 255,000 working and retired teachers who have an investment in the plan and who rely on how it performs.

The pension board has three responsibilities:

1. To invest and grow the money in the plan
2. To provide effective and efficient services to plan members
3. To advise the Ontario government and the Ontario Teachers' Federation (OTF), the plan sponsors, on the plan's future ability to meet its obligations

As the fund gets larger and investment markets more complex, these responsibilities become even more critical.

Strong Investment Performance

On the first responsibility, the investment team again delivered excellent performance. Our investment staff generated $10.8 billion in investment income, including $3.0 billion in additional value created by beating the fund's benchmark by 4.1 percentage points. In last year's report, I said that "the fund's investment performance over these many years shows that Teachers' strategies to maximize returns from capital markets have worked." Our performance in 2004 simply reaffirms that statement.

High Member Service Ratings

As far as our member services responsibilities are concerned, the Quality Service Index (QSI) improved further to 9.2 out of 10, compared to the 9.0 rating received from plan members last year. This measurement is collected on our behalf by a third party and incorporates our members' ratings of their experience with the plan on such things as phone inquiries, handling buybacks, providing pension estimates and overall communication. The 9.2 score is indicative of a high level of member satisfaction.

9.2/10

A Growing Funding Shortfall

Until two years ago, the plan was fully funded and enjoyed a series of surpluses which the sponsors used to improve benefits and reduce the government's special contribution payments. However, for the last two years, the plan has had a growing shortfall.

Regarding our third responsibility, we have had to communicate this unsettling news to the OTF and the government, the plan sponsors. Despite strong investment performance, the board's actuarial forecasts increasingly indicate that the present value of future plan obligations exceeds the plan's ability to pay.

Actuarial valuations can never be viewed as 100% accurate predictors of the future as they are based on many assumptions. One particular issue that always weighs on the minds of directors is whether the assumption for the future rate of return used in the actuarial valuation is too conservative, causing the shortfall to be too high.

A very small change in the expected return can cause a large difference in the estimated shortfall – just a 0.5% change in the return assumption would increase or decrease the shortfall by $9 billion. Being too conservative places the shortfall problem on today's teachers, while being too liberal could transfer the funding burden to future generations.

We have provided detailed information on the funding situation to the Ontario government and the OTF who jointly determine contribution rates and benefits. In its February 2005 *Communiqué* to plan members, the OTF said that a contribution rate increase in 2007 for both teachers and the government cannot be avoided.

Number of Pensioners
(as at December 31)
(thousands)

We paid $3.4 billion in pension benefits to 97,000 pensioners in 2004.

A Competitive Incentive Plan

The quality of the investment management staff is probably the single most critical factor in ensuring we can deliver on our financial responsibilities to plan members. To help ensure we can continue to attract and retain the best investment talent, in 2000 the board of directors revised the long-term incentive compensation formula. The changes were based on independent research and recommendations provided by Towers Perrin, a leading compensation consulting firm.

The independent review was undertaken to ensure that our incentive plans were competitive within the investment industry and that the fund would not be at risk of losing its top people, as competition for the best performers can be fierce.

The incentives are based on performance over four-year periods, so 2004 is the first year the revised formula has had an effect on long-term incentive compensation awards. The stronger the fund's performance in beating investment benchmarks, the larger the rewards for delivering this added value. In addition, the number of participants in the long-term program has increased to include more investment management employees.

As the chart on this page shows, our investment managers have delivered performance greater than composite benchmark performance, not only in the past year, but also over the longer term. Over the past four years, this outperformance has produced $9.7 billion in additional value for the fund. In fact, the additional value created by these fund managers has exceeded the contributions made by plan members and the government in each of the past four years.

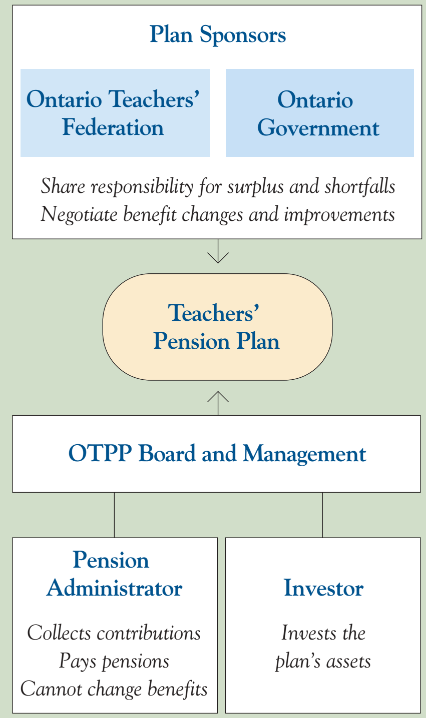
It is a much better and more consistent performance than we predicted when we designed the incentive program. I believe it highlights the value of highly qualified investment managers who have worked together for years and have developed the confidence to actively manage Teachers' assets as a team.

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

Investment income was $19.1 billion since 2001. "Value added" is the amount of income earned above market benchmarks, totalling $9.7 billion.

Under the total investment incentive compensation plans, 2% of the extra value created by the fund in 2004 was paid out in annual bonuses and long-term incentives to the investment managers who created that value. The other 98% of the value added accrued to plan members.

We have continued to review the incentive programs to ensure they are competitive with the market. As a result, the board decided in 2003 to reduce the maximum potential long-term compensation by reducing the grant levels under the long-term plan by between 25% and 33%, beginning with the 2004 to 2007 performance cycle. We will monitor compensation closely to ensure we continue to be competitive.



Board Changes

Finally, more than at any time since 1990, board membership is changing. We were saddened by the passing of John Lane, a board member since 1999 and chair of the Audit and Actuarial Committee. John was a tremendous contributor to the work of the board and a wonderful person to have as a colleague. He will be missed.

In January 2005, we welcomed two new members, as the final terms of two long-serving members expired. We thank Ann Finlayson and Lucy Greene, who have contributed with distinction during their eight years on the board.

We welcome Eileen Mercier and Carol Stephenson as new board members. Eileen was a former Senior Vice-President and Chief Financial Officer of Abitibi-Price Inc. before establishing her own management consulting firm. Carol is the Dean of the Richard Ivey School of Business at the University of Western Ontario and a former President and CEO of Lucent Technologies Canada Inc.

These appointments are further proof of the plan sponsors' resolve to attract top-level directors. This is a board comprised of highly qualified individuals, each with appropriate experience and professional qualifications. The two plan sponsors each appoint four representatives to the board, while the sponsors together select a chair. Each individual can serve no more than four consecutive two-year terms.

Board members are required to focus solely on the interests of plan members as a whole, rather than specifically representing the views and interests of either of the plan sponsors. Because of this approach, board members work well together, with a clear and straightforward understanding of their mandate. It's a credit to both plan sponsors that this is the case.

Making the Right Choices

For myself, it remains a great privilege to chair the board and to serve plan members by striving for the highest standards. As I've indicated, there remain important challenges ahead, but I am confident that we continue to make the right choices to provide the information that the plan sponsors need and the performance that plan members deserve.

On behalf of the board, thank you for your support.

Robert W. Korthals
Chair
March 7, 2005

President's Report

Already, we are at the halfway point in the first decade of the new century. It is 15 years since Teachers' was restructured and began to invest in assets other than Ontario debentures.

It's an appropriate time to evaluate our progress and look ahead from a longer-term perspective.

How has the fund performed and what is the outlook?
What is the condition of the plan and what might we expect for the future?

Five-Year Performance Strong

First, let's look at our performance. Despite more difficult investment markets over the past five years than in the 1990s, we have done well.

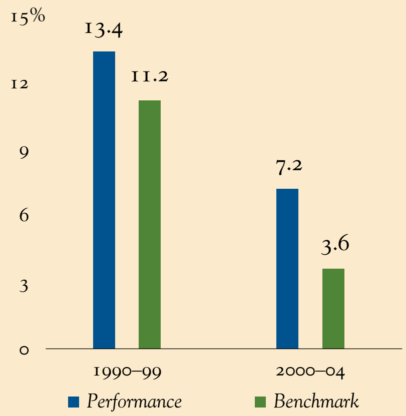
Our five-year average rate of return was 7.2%. While that's not as good as the 13.4% the fund earned in an average year in the 1990s, it is, in fact, a strong performance relative to the market.

The most telling measurement of our performance, year in year out, is the investment return we achieve against our benchmark. We are all very conscious of trying to search for value, but we are largely dependent on the vagaries of the markets when we invest.

Since 2000, there has been a marked improvement in our performance against benchmarks. Over the most recent five-year period, we have delivered a total of $12.3 billion in value added to the fund, over and above the returns that might be expected from a more passive, index-based strategy.

Why have we been able to perform so well, especially in a period when markets have been far less accommodating?

Long-term Performance vs. Benchmark
(percent)



$12.3 billion of the total $15.7 billion in value over benchmarks was created in the past five years.

Investment Strategies Show Traction

We have achieved good returns in our traditional investment programs while at the same time becoming innovators in the pension fund field, increasing our exposure to absolute return strategies, including hedge funds, and other non-traditional investments. About 40% of our investment portfolio is now dedicated to categories other than stocks and bonds, such as infrastructure and private equity. These investments have done well for the fund.

We achieved a one-year rate of return of 14.7%, compared to 10.6% for the fund's composite benchmark. The difference of 4.1 percentage points equals $3 billion, which represents the value added over market returns for 2004. All major asset classes contributed to adding value in 2004.

Member Services Delivers

Our other primary responsibility to plan members involves the delivery of services. Here too, our performance has been solid.

We completed a total of 196,000 interactions in 2004, compared to 179,000 in 2003. At the same time, the cost of service per member continued to decline to $127 in 2004 from $129 in 2003. In a worldwide benchmarking study of the delivery of services to pension plan members in relation to costs, Teachers' was one of the best.

Increasing use of technology is allowing us to be more proactive in delivering information and helping plan members get answers more quickly and easily when they want them. By the end of 2004, 50,000 members had registered for our secure website, *i*Access, so they could check on their personal pension accounts online. These members now receive an electronic version of their personal plan statements, saving time and enabling them to get regular updates of their service and pension, whenever it's convenient.

www.OTPP.com
Pension Info
Member Services
*i*Access

We also continued to emphasize training for all our customer service and support staff to ensure our employees are knowledgeable and have the skills to deliver consistently high standards of service to members.

While we will continue to make greater use of electronic communications tools, we remain committed to delivering prompt and informed service over the phone and in person. We can improve service through the smart use of technology, but it cannot replace the human touch. We are committed to delivering services in the ways members want and expect.

A Growing Funding Shortfall

While there is reason to look back on our performance with satisfaction and confidence about the future, there is growing concern about the plan's bottom line – its funding status and the potential impact on plan contributions and future benefits.

Despite strong investment returns, a growing cloud is hanging over the long-term funding of the pension plan. It's a situation that is a concern for the Ontario government and the Ontario Teachers' Federation (OTF) who are responsible for making decisions about funding the plan benefits.

The growing shortfall meant the plan's benefits were not fully funded at January 1, 2005. The plan's funding status is calculated by independent actuaries who estimate future growth in the plan's assets over the next 70 years (from contributions and investment performance) and expected growth in the plan's liabilities over the same period (all future payments to current plan members).

These calculations are the most useful guide in determining future outcomes. When a shortfall persists, remedial action by the plan sponsors is needed to ensure the funding problem will not become more acute.

We've included a special ***Funding Report*** in this annual report to explain the funding situation more fully.

Why Is There a Growing Shortfall?

There are many reasons that the plan has gone from a surplus to a shortfall, despite the strong investment performance of the fund.

By far the most important factor has been a decline in "real" (meaning after the cost of inflation) interest rates. To calculate the amount of money needed today to pay all pensions promised in the future, the actuary uses real interest rates. These rates rise and fall over time and can cause the cost of future benefits to change quite substantially. For instance, a 1% decrease in real rates produces a 20% increase in the amount required to fully fund the plan's benefits.

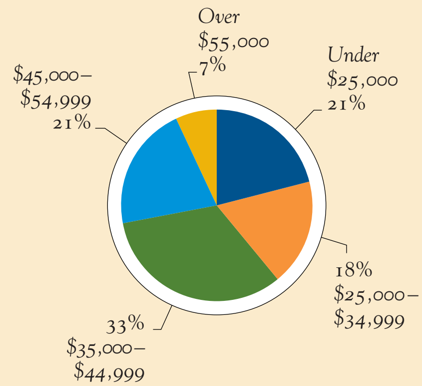
When the real interest rate falls (and it has fallen 1.6% in the past three years), the amount needed in the plan today to meet future benefits increases dramatically. For example, the cost to the plan of paying a $40,000 pension over a retired teacher's expected lifetime was about $630,000 five years ago. Today, the plan has to count on setting aside $810,000 to fund the same pension, mainly because the amount it can expect to earn on its investments over the period has been reduced by the fall in real interest rates.

COST OF A TYPICAL PENSION AT RETIREMENT AT AGE 58

Real Interest Rates	*Rounded Value of Pension*
2.0%	$810,000
3.0%	$710,000
4.0%	$630,000
5.0%	$560,000

Current Pensions

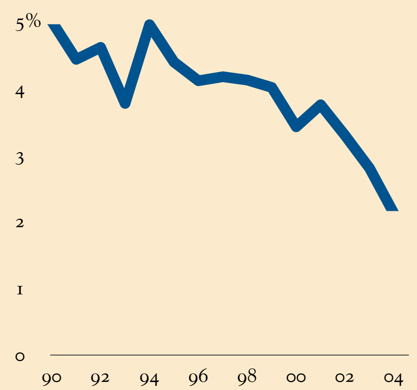
(as at December 31, 2004)
(percent of retirees)



The average annual pension for all current retirees is $36,600.

Real Interest Rates

(percent)



The actuary uses real interest rates (after inflation) to estimate the cost of future benefits. When the rate declines, the cost of future benefits goes up significantly.

Another factor contributing to the shortfall is our lower expectation for returns from the equity markets. There are other important factors, too, that are not working in favour of the plan. While pension benefits have improved, plan contribution rates have not increased since 1990. In the 1990s, as the plan built up surpluses, thanks in part to extraordinary markets, all these funds were used to eliminate funding obligations and improve benefits.

In addition, the number of pensioners has more than doubled over the past decade to 97,000 at the end of 2004. While in 1990 there were four working teachers contributing to the fund for each retired teacher on pension, this ratio was only 1.6-to-1 at the end of last year, and it will fall to about 1.3-to-1 ten years from now. Any shortfall at that time would be almost four times as onerous for active members as it would have been in 1990.

What's Ahead for Funding?

So, what happens now? Regulators require that pension plans report their funding status at least once every three years. The plan sponsors must file the next funding valuation as of January 1, 2006. If there is a shortfall at that time (and this is highly likely unless real interest rates rise substantially), the plan sponsors are required by law to implement remedies that could include higher contributions or lower prospective pension benefits for future retirees, or some combination of the two so that the plan is once again fully funded. This requirement exists to ensure the continued integrity of the plan upon which so many people depend.

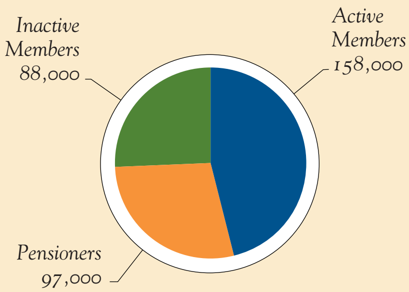
Teachers' Commitment Remains

At Teachers' we are committed to assisting the OTF and the government in any way possible to evaluate possible solutions. We understand they have difficult decisions to make. The plan sponsors are aware of the funding challenge and are exploring possible solutions. We have already provided considerable information and assessments of potential future outcomes. It goes without saying we are also committed to continuing to provide the best investment returns possible, while prudently managing risk.

Each year, what we do at Teachers' affects more people more directly. The plan's net assets now total more than $84 billion. In 2004, 5,200 teachers began to collect pensions for the first time. There are now 97,000 retired teachers and their beneficiaries on our pension payroll, making Teachers' one of the largest sources of income in the province. During the year more than $3.4 billion was paid to pensioners, while a total of $1.5 billion was paid into the fund as contributions, from teachers and the Ontario government.

We are grateful for the support we continue to receive from the board and the plan sponsors. Our teams in investment management and member services look forward to serving teachers' needs again in 2005 and beyond.

Member Profile



The number of active members in the plan has increased slightly from 155,000 to 158,000.

C Lamoureux

Claude Lamoureux
President and Chief Executive Officer
March 7, 2005

Management's Discussion and Analysis

This section provides an overview of our operations and a detailed explanation of the consolidated financial statements and should be read in conjunction with those financial statements. Our objective is to present readers with a view of the plan through the eyes of management, explaining our performance, and the material trends that affected results, liquidity and the financial condition of the plan. In addition to historical information, this section contains forward-looking statements reflecting management's objectives, outlook and expectations as of the date of this report. These forward-looking statements involve risks and uncertainties. Our actual results will likely differ from those anticipated.

Vision, Core Activities and Strategy

The Ontario Teachers' Pension Plan is an independent corporation responsible for investing the fund's assets and administering the pensions of Ontario's 158,000 elementary and secondary school teachers and 97,000 retired teachers.

A pension plan was created for Ontario teachers in 1917. Until 1990, the plan was restricted to investing in non-marketable Government of Ontario debentures. In 1990, the Ontario government created an independent board for the Ontario Teachers' Pension Plan with authority to invest all assets, administer the pension plan, and pay members and their survivors the benefits promised.

The plan is a defined benefit plan co-sponsored by the Ontario government through the Ministry of Education and the plan members, represented by the Ontario Teachers' Federation. The co-sponsors are equally responsible for setting benefits and contributions. A six-member Partners' Committee reporting to the plan sponsors is responsible for negotiating changes to the plan's benefits and contribution rate. Oversight of the administration of the plan and the fund's investment management is the responsibility of a nine-member board of directors, four directors appointed by each sponsor and a chair chosen jointly.

We strive to fulfill our responsibilities in accordance with our vision: *Outstanding service today, Retirement security tomorrow*.

We invest the plan's assets with a long-term focus, employing a variety of strategies to add value. In administering the pension plan, we strive to achieve outstanding service to members, providing accurate, timely, personal and attentive service in a cost-effective way.

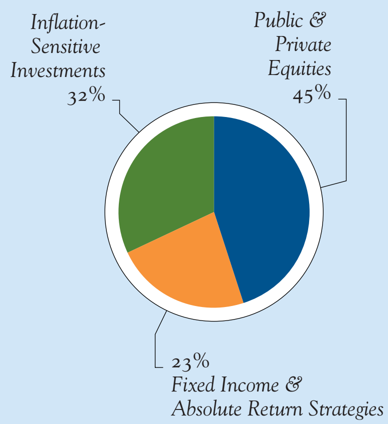
At year-end 2004, the plan managed $84.3 billion in net assets, compared with $75.7 billion a year earlier.

Investment Strategy

In setting the fund's investment strategy, we focus on two fundamental factors – matching assets and liabilities and the plan's ability to assume risk. We seek to generate the highest investment returns with a level of risk and an asset mix appropriate for funding the plan's liabilities. Our ability to assume risk is driven by the expected volatility in the assets and the cost of future pension benefits. In developing this framework we make a number of assumptions, keeping in mind that reality always unfolds in unexpected ways. For example, we have earned much better returns in each of the past two years than we were expecting.

Asset-Mix Policy

(as at December 31, 2004)



We reduced our target weighting for public and private equity to 45% at the end of 2004 from 50%.

Using an asset-liability model, we assess the long-term risk and return trade-offs of allocating different proportions of assets to real-return and nominal bonds, domestic and international equities, real estate, commodities, currencies and infrastructure. At least annually, we review expected market conditions and establish an asset-mix policy that exposes the plan to a combination of assets we believe will best meet the plan's investment needs.

Asset mix is implemented by establishing market index exposure to various asset classes. By actively managing approximately 50% of our investments, we try to improve upon these market returns. Active management means selecting securities we believe are undervalued, as well as under or overweighting various asset classes relative to our investment policy. Our goal is to outperform benchmarks and add value.

During 2004, our exposure to equities varied, ending the year at 49%. At the end of 2004 we changed the fund's policy asset mix, lowering our target weighting of public and private equity to 45% of assets from 50%, while increasing our target weighting in fixed income to 23% of assets from 20% and inflation-sensitive investments to 32% from 30%. This is the second time we have taken a policy decision to reduce our exposure to equities in the past three years. Nonetheless, equities remain the single largest component of the fund.

As we begin 2005, our working assumptions continue to include only modest market returns over the next 10 years (see Ten-Year Outlook on page 31). As a result, and considering the plan's reduced ability to take on risk due to the growing funding shortfall, we amended our investment approach in 2004.

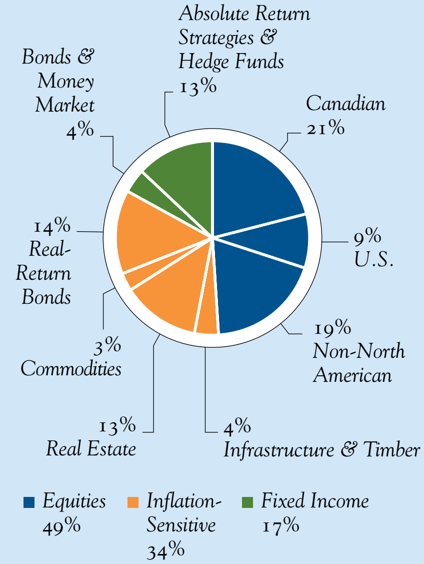
Searching for Additional Value

We also try to add value to the asset-mix policy by over- or underweighting asset classes or foreign currencies during the year based on fundamental and quantitative analysis. We do this while ensuring that the fund's investment risk is within allowable ranges set by the plan's board. We can also deviate from asset-mix policy within pre-authorized limits and control risk by ensuring that individual portfolios are managed within predetermined risk parameters.

The results of these overlay decisions are not included in the asset-class performance results (see page 24), but in the fund's total return. During 2004, this process generated $60 million by continuing to underweight the U.S. dollar versus the Canadian dollar and other currencies. This gain was offset by underweighting equities, for a net loss of $320 million.

Actual Asset Mix

(as at December 31, 2004)



We increased exposure to inflation-sensitive investments in 2004.

Investment Highlights

"We have successfully diversified into non-traditional pension investments over the past few years. It's one reason for our continued success."

Bob Bertram, *Executive Vice-President, Investments*

Real Estate Leads the Way in 2004

All major asset classes performed well in 2004 as our investment managers achieved a 14.7% return compared to 10.6% for our composite benchmark. That value over the market provided $3 billion more than would have been realized from a passive index-linked investment strategy.

In particular, real estate added $1 billion in value, primarily as a result of the decrease in interest rates. Our real estate portfolio is managed by Cadillac Fairview Corporation, our wholly owned subsidiary with 1,800 employees.

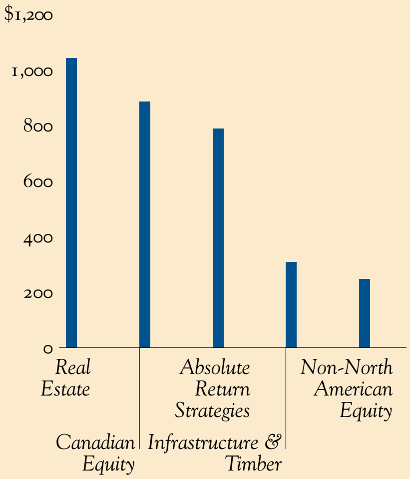
Canadian public and private equities also had a very strong year, creating $890 million over markets.

Absolute return strategies and hedge funds added $790 million in value.

Currency trading added another $260 million in value.

Major Sources of Value Added

(for the year ended December 31, 2004)
($ millions)



Over the past few years, we have increased our commitment to non-traditional pension investments such as direct ownership in real estate, infrastructure assets, hedge funds and private businesses.

For instance, since 2000 we have increased our investment in private equity and infrastructure to $7.4 billion from $3.9 billion with a number of major transactions including:

- The creation, with two other partners, of Park Square Capital Partners, a one billion euro mezzanine fund in Europe
- The $610 million refinancing of Parmalat Dairy & Bakery Inc.
- The purchase, with European partner Rhone Capital, of Alcoa Specialty Chemicals from Alcoa Inc. for US$340 million
- The launch of the BML International Maple Leaf Fund, which focuses on venture capital investments in mid-stage Canadian life science companies
- The agreement to purchase natural gas distribution networks in Scotland and the south of England for $7.5 billion with two other partners
- The acquisition, with AIG's Global Investment Group, of power generation facilities in the U.S. for US$500 million
- The investment in cutting rights on 58,000 hectares of prime timberland in New Zealand
- The purchase of Alliance Laundry Holdings, North America's leading manufacturer of commercial laundry equipment, for US$450 million in 2005

To generate positive returns independent of what happens in the market as a whole, we employ absolute return strategies and invest in hedge funds (see page 28). This enables the fund to generate investment returns that have a low correlation to the general market returns experienced by the asset class.

NET INVESTMENTS BY ASSET CLASS

(as at December 31)

($ billions)	*2004*	2003
Equities		
Canadian	**$16.8**	$15.2
Non-North American	**15.3**	12.4
U.S.	**7.8**	6.7
Fixed Income		
Absolute return strategies & hedge funds	**11.2**	10.7
Bonds & money market	**2.7**	8.6
Inflation-Sensitive		
Real-return bonds	**11.9**	7.1
Real estate	**10.9**	9.9
Infrastructure & timber	**3.0**	1.9
Commodities	**2.1**	1.9
	$81.7	$74.4

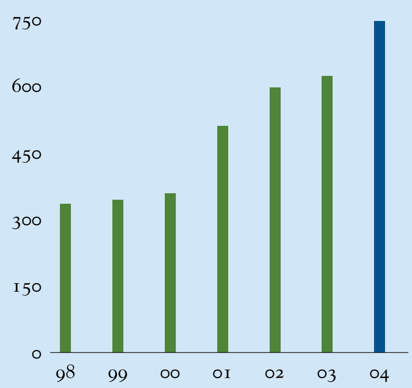
Corporate Governance

Teachers' is also proactive in supporting high standards of corporate governance, believing that strong, independent boards of directors are an intrinsic element in the creation of shareholder value. We vigorously advocate good governance by speaking out, by talking privately with management and directors of public companies, and by voting against management proposals in proxy circulars when we feel they do not serve the interests of shareholders.

2004 PROXY VOTING HIGHLIGHTS

Proposals	*For*	*Against*
Stock option plans	74	105
Shareholder rights plans	13	4

Number of Company Proxies Voted



In 2004, we voted proxies in 747 companies around the world.

Member Services Highlights

"We set a very high standard of service to members. To test our performance, we survey members constantly and benchmark ourselves against other plans."

Rosemarie McClean, *Senior Vice-President, Member Services*

More Retirees Than Ever Before

- The average age at retirement is 56 with an expected 30 years on pension.
- Average life expectancy at retirement is 86. There are 59 pensioners over 100 and 2,058 in their 90s.
- With 97,000 pensioners, Teachers' has one of the largest payrolls in the country at $3.4 billion.

Active or Retired, Teachers Like to Be Informed

- We fulfilled 196,000 member requests and provided answers to 70% of all inquiries within 48 hours.
- We dealt with 136,000 telephone inquiries with an average response time of 33 seconds.
- Our website, www.otpp.com, had 485,000 visitors, an increase of 11% from 2003.

We Process More Than $1 Billion Each Quarter

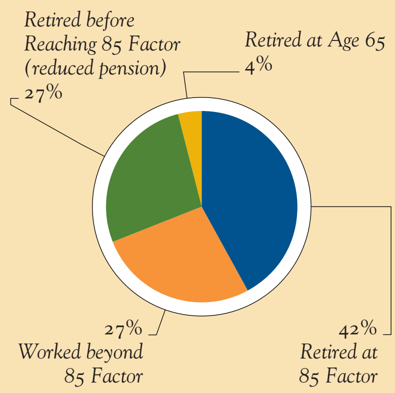
- We collected $1.5 billion in contributions from the government and 158,000 teachers working at 200 school boards or private employers.
- We paid $3.4 billion in pension and termination benefits, including first-time pensions to 5,200 newly retired teachers.

We constantly strive to improve the level of service we provide to teachers, both active and retired. At the same time, we seek to be as efficient as possible. In 2004, our services were provided at a cost of $127 per member, compared to $129 in 2003.

To determine our performance, we regularly gather feedback from members, quantifying their views on the helpfulness and responsiveness of our staff. Employees are rewarded, in part, based on these Quality Service Index (QSI) ratings.

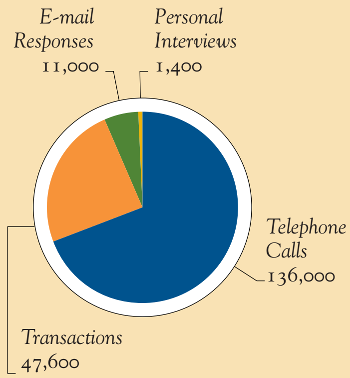
When Teachers Retire

(averaged since 1999)



In 2004, the average pension for a teacher retiring at the 85 factor was $40,100.

Services to Members



While telephone service is still most popular, a growing number of plan members contact us by e-mail.

Member Services Strategy

The plan is also committed to providing Ontario teachers with prompt, reliable pension information. We provide personal customer service in person as well as by phone, letter and e-mail and offer a range of printed materials, including newsletters and a comprehensive pension website.

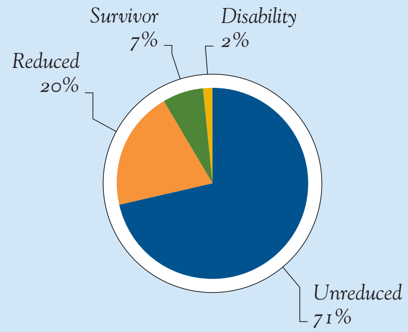
Our goal is to continually improve the level of service we offer plan members. To achieve this goal we foster a culture of openness and responsiveness. We emphasize training and use technology to deliver information more quickly, personally and cost-effectively.

Teachers have dedicated their lives to teaching and have worked hard for their pensions, so it's important that their contact with us is always friendly, informed, timely and positive.

To achieve high standards of service we:

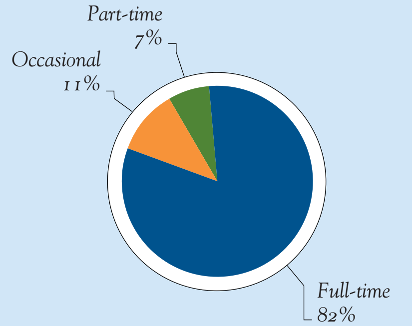
- Hire the best people, seeking those with a service orientation, empathy, friendliness and communication skills. We also provide continuous training.
- Use technology to enhance and personalize interactions with members as well as to facilitate immediate service, manage costs and improve efficiency.
- Survey members regularly and use their feedback to make improvements. We also benchmark ourselves against other plans.
- Nurture a team-based approach. We have a minimum of hierarchy and rely on agile, empowered, self-directed service teams and individuals. All staff understand every aspect of the plan and know how to use various channels to communicate.
- Link compensation and individual performance to key departmental and organizational goals.

Pensioner Profile



Over 70% of today's pensioners are receiving unreduced pensions.

Teacher Profile



The majority of contributing teachers work full time.

Number of New Pensions

(as at December 31)
(thousands)

Since the 85 factor was introduced in 1998, 52,000 people began collecting a pension.

Key Performance Drivers

The two most important drivers of Teachers' investment performance over both the short and long term are our ability to attract and retain top investment managers and analysts, and the effectiveness of our asset-mix and risk management strategies.

Each year, the board of directors reviews compensation policy, including performance-based incentive components, to ensure they are competitive and appropriate within the investment marketplace. Incentive programs use four-year performance results which help ensure investment managers are motivated and compensated in a manner that benefits the fund's long-term goals and strategies.

Asset-mix and risk management strategies are reviewed regularly. Teachers' has developed models to help determine optimum asset-mix and risk management strategies. These models are constantly being re-examined and tested. New technologies are allowing for more sophisticated modelling techniques and Teachers' continues to invest resources to ensure its strategies are effective and appropriate.

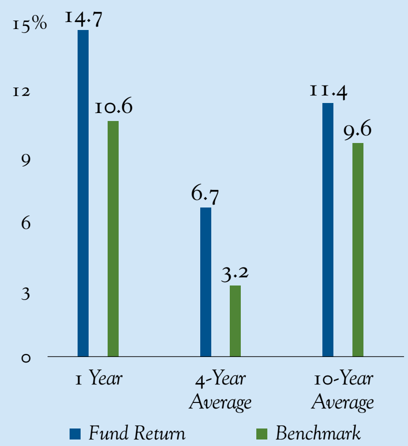
To measure our progress in adding value, we compare the fund's performance against a composite benchmark that reflects the performance of the markets in which the fund invests according to the asset-mix policy. In doing so, we determine how much value managers have added to the return of the plan compared with returns by passive investment in various bond and stock markets as specified in our asset mix.

Since 1990 when we began investing, we have delivered an annual compound rate of return of 11.3%, compared to 8.6% for the composite benchmark. The fund has outperformed its composite benchmark over ten-, four- and one-year periods. The 10-year results are a better measure of the quality of our investment program.

In Member Services, we evaluate the plan's service levels by regularly gathering input from members and using it to create our Quality Service Index (QSI). Our QSI rating takes into account the different services we offer, as well as the communications and interactions we have with members.

To calculate the QSI, we hire an independent company to survey members who have recently completed a transaction with our Member Services staff and ask them to rate their satisfaction with the service on a scale of 0 to 10. We also randomly survey a sample of all teachers and pensioners and ask them to rate their satisfaction with the quality of our electronic and printed communications. The overall QSI reflects 75% of the service rating and 25% of the communications rating. Since the early 1990s, member satisfaction has increased more than one full point to 9.2.

Fund Performance vs. Benchmark
(percent)



We measure investment performance against standard market indices, such as the S&P/TSX Composite index.

Results

Year-End Financial Position

The value of accrued pension benefits increased $13.6 billion to $96.7 billion at year end from $83.1 billion at the end of 2003, as real interest rates continued to decline. The actuarial assumptions used to determine the cost of future pension benefits for financial statement purposes reflect management's best estimates of future inflation, future investment returns, demographic factors, and projected teachers' salaries. At year end, the plan had a financial deficit of $13.9 billion compared to a deficit of $4.0 billion at December 31, 2003. (See Actuarial Valuation on page 30.)

ACCRUED PENSION BENEFITS

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

	2004	2003
Accrued pension benefits, beginning of year	**$83.1**	$73.7
Interest on accrued pension benefits	**4.7**	4.3
Benefits accrued	**2.3**	2.0
Benefits paid	**(3.4)**	(3.2)
	86.7	76.8
Changes in actuarial assumptions	**10.1**	5.5
Experience (gains)/losses	**(0.1)**	0.8
Accrued pension benefits, end of year	**$96.7**	$83.1

Net assets available for benefits increased substantially to $84.3 billion from $75.7 billion at the end of 2003. This increase was driven by investment gains made during 2004, which were much larger than the increase in benefits payments.

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

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

	2004	2003
Income		
Investment income	**$10.8**	$11.4
Contributions	**1.5**	1.4
	12.3	12.8
Expenditures		
Benefits	**3.4**	3.2
Operating expenses	**0.3**	0.1
	3.7	3.3
Increase in net assets available for benefits	**$ 8.6**	$ 9.5

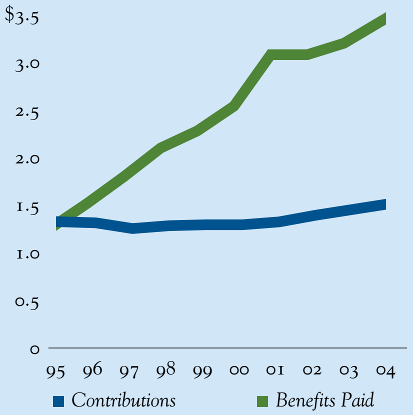
Benefit Payments and Contributions

In 2004, pension benefits were $3.4 billion and contributions were $1.5 billion. This compares with benefit payments of $3.2 billion and contributions of $1.4 billion in 2003. The increase in payments in 2004 reflected the addition of 5,200 retirees plus 700 survivor pensions to the pension payroll during the year, as well as a pension cost of living increase of 3.3% effective January 1, 2004. The cost of living adjustment effective January 1, 2005 was 1.7%.

The maximum contribution rate of 8.9% of teachers' salary has remained unchanged since 1990. The Ontario government and other employers match these contributions.

Contributions vs. Pensions

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



We paid $3.4 billion in pension benefits in 2004, more than double the amount we received in contributions.

Operating Costs

Operating costs are comprised of costs to manage the plan's assets and administer plan benefits for members. In 2004, total operating costs for member services remained stable at $33.7 million, compared with $33.5 million in 2003. The cost of administering plan benefits decreased to $127 per member, compared to $129 in 2003, partially as a result of improved efficiencies from greater use of technology and economies of scale as the number of members served continues to increase. The cost per member includes over 5,000 inactive members who received refunds in 2004.

Total investment management costs were $187 million, compared to $162 million in 2003. Expressed in relation to assets, this is the equivalent of 24 cents per $100 of average net assets, which did not change from 2003. These costs exclude the commissions paid when trading securities and management and performance fees for private equity and other externally managed funds. Both are accounted for on an after-fee basis. Costs increased for three reasons:

- Continued increases in actively managed assets
- Higher annual incentive payments to internal and external managers due to superior performance compared to benchmarks in almost all asset classes (see page 7)
- Charge of $52 million for long-term incentive payments to be paid after 2004

Market Performance

In 2004, public equity markets continued to perform strongly, buoyed in particular by a strong year-end upturn. The total return (including dividends paid and reinvested) of the Toronto Stock Exchange S&P/TSX Composite index was 14.5% during the year. The S&P 500 closed up 10.9% in U.S. dollars (but only 3.3% in Canadian dollars due to the strengthening of the dollar versus the U.S. dollar).

The average publicly traded stock in the S&P 500 index had a price-to-earnings (P/E) ratio of 21 at year end, compared to the historical norm of 17 over the last 35 years. This is much closer to the historical average than in recent years. Stock markets, particularly in Canada, have benefited from a rise in commodity prices, especially base metal and energy issues.

While the fund is a major investor in public equity markets, it has a large and increasing exposure to other markets, such as inflation-sensitive and fixed income. These sectors also performed well in 2004. The Scotia Capital Real-Return Bond Index, the benchmark we use to judge our inflation-sensitive bonds performance, increased 17.5%, while the Custom Canada Bond Universe, a proxy for fixed income performance, increased 6.9%.

Fund Performance

For 2004, the fund's rate of return was 14.7%, versus a benchmark of 10.6%. This translates into $3 billion in value added to the fund by our investment professionals. In 2003, the rate of return was 18.0% versus a benchmark of 13.5%, for value added of $2.7 billion.

The fund generated $10.8 billion in investment income in 2004, compared to $11.4 billion in 2003. Continued strong equity markets, good returns from real estate and fixed income, combined with above benchmark performance in almost every area, helped to increase net assets to $84.3 billion from $75.7 billion at year end 2003.

On a four-year basis, the plan generated a compound rate of return of 6.7%. Over the same period, the composite benchmark's return was 3.2%. This means we generated $9.7 billion in added value during this period. On a 10-year annualized basis, the fund generated a rate of return of 11.4% compared to the benchmark's return of 9.6%.

Investment Income

(as at December 31)
($ billions)

The fund generated over $22 billion in investment income over the last two years.

RATES OF RETURN COMPARED TO BENCHMARKS

(percent)	1-Year Return	1-Year Benchmark	4-Year Return	4-Year Benchmark
Fixed income and Absolute return strategies	**13.3**	**8.6**	**12.6**	**8.4**
Equities	**14.2**	**11.1**	**2.0**	**-1.1**
Canadian public and private equity	**21.1**	14.5	8.2	2.7
U.S. equity	**3.0**	3.3	-4.8	-5.8
Non-North American equity	**13.2**	11.3	-1.2	-2.9
Inflation-sensitive investments	**15.9**	**10.2**	**10.9**	**7.7**
Real-return bonds	**16.5**	16.3	12.4	12.1
Real estate	**17.3**	6.1	12.1	6.2
Infrastructure & timber	**17.8**	6.1	n/a	n/a
Commodities	**8.9**	9.2	0.0	0.5
Total Plan	**14.7**	**10.6***	**6.7**	**3.2***

** Composite benchmark weighted by the policy asset mix.*

BENCHMARKS ARE WEIGHTED TO FORM COMPOSITE BENCHMARK

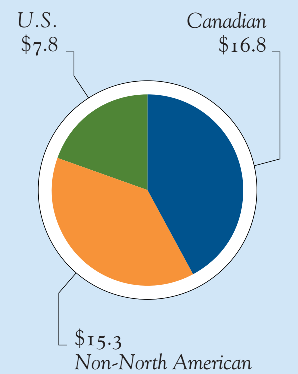
Fixed income and Absolute return strategies	Scotia Capital Treasury Bills (91 days) Custom Canada Bond Universe Custom Net Ontario Debenture
Equities	S&P/TSX Composite S&P 500 Morgan Stanley Capital International (MSCI) Europe, Asia and Far East, MSCI Emerging Markets Custom NONA National Index
Inflation-sensitive investments	Scotia Capital Real-Return Bond Custom U.S. Treasury Inflation-Protected Securities Goldman Sachs Commodities CPI plus 4%

Equities

While we continued to reduce our relative exposure to equities in 2004, they remained the largest single portion of total assets, with $39.9 billion invested at year end compared to $34.3 billion at December 31, 2003.

At the end of 2004, equities represented 49% of the fund's investments, 4% above our asset policy, which was revised at the end of 2004 to 45%. The decision to reduce our policy exposure to equities reflects the plan's reduced ability to take on risk due to the growing funding shortfall and our view of the outlook for capital markets.

Equities
(as at December 31, 2004)
($ billions)



Canadian equities include stocks and the Teachers' Private Capital portfolio.

Equities provided the fund with a rate of return of 14.2% in 2004, outperforming their benchmark by 3.1%, equalling $1.1 billion in value added. On a four-year basis, equities generated a 2% rate of return, compared to negative 1.1% for the benchmark, adding $4.8 billion in relative value over the four-year period. On a 10-year basis, the managers delivered a rate of return of 10.5% from equities, compared to 8.3% for the benchmark, for a total of $7.3 billion in value added.

Canadian Equities

Canadian equities represented 21% of the fund's total investments and 42% of the fund's total equities. The fund's Canadian equities were valued at $16.8 billion at the end of 2004, compared to $15.2 billion at the end of 2003.

Canadian equities delivered a one-year rate of return of 21.1% in 2004, 6.6% higher than the benchmark, adding $890 million in value over the benchmark.

On a four-year basis, Canadian equities produced a rate of return of 8.2% as negative returns in 2001 and 2002 have been offset by strong performance in the past two years. The four-year performance is higher than the benchmark's four-year return of 2.7%, and equates to $3.3 billion in value added for the fund.

In 2004, 50% of Canadian equities were actively managed – through enhanced index and quantitative strategies, active selection and private equity – reflecting our commitment to search for value beyond index holdings.

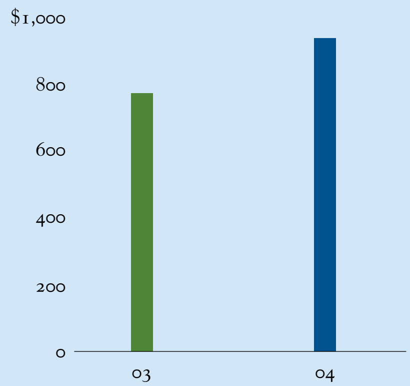
Private Equity

Teachers' Private Capital outperformed its benchmark by 13.1% in 2004 with a one-year rate of return of 27.6% to add $460 million in value. At year end, Teachers' Private Capital had $4.3 billion in investments, compared to $4.2 billion in 2003. Over the past four years, private equity delivered a rate of return of 16.0% compared to 2.8% for its benchmark.

We continue to make funds available to private capital activities as we search for value beyond public equity markets. We work independently or with partners in direct private equity, mezzanine debt transactions and venture capital. Private equity investing generates substantial value and we believe it is a strong and viable alternative to public equity markets. While Teachers' Private Capital still represents only 5.2% of the total fund, it has become one of the leading sources of private capital in Canada.

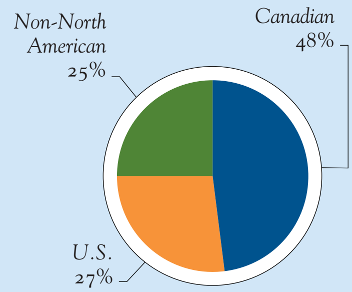
In addition to the new investments listed on page 16, the private equity portfolio also includes interests in luggage-maker Samsonite; Worldspan, which provides comprehensive electronic data services linking thousands of travel suppliers around the world to a global customer base; and Maple Leaf Sports & Entertainment Ltd., owners of the Air Canada Centre and the Toronto Maple Leafs and Toronto Raptors sports franchises.

Income from Income Trusts
(for the year ended December 31)
($ millions)



We had $2.2 billion invested in income trusts at year end, up from $1.2 billion in 2003.

Private Equity
(as at December 31, 2004)



Teachers' Private Capital had $4.3 billion in investments at year end.

Foreign Equities

Combined, U.S. and Non-North American (NONA) equities accounted for 28% of the fund's total investments and 58% of total equities in 2004, about the same as the year before. Their total value was $23.1 billion, compared to $19.1 billion in 2003.

NONA equities, which accounted for 39% of equity investments, produced a return of 13.2% in 2004, 1.9% higher than the benchmark, delivering $250 million in value added. U.S. equities produced a rate of return of 3%, 0.3% lower than the benchmark.

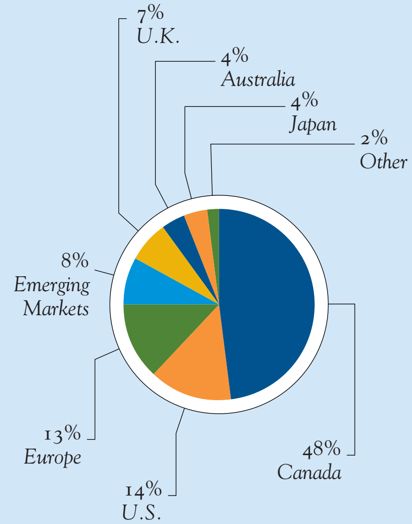
Over four years, the fund's U.S. equities produced a rate of return of negative 4.8%, reflecting the weak equity markets in the U.S. in 2001 and 2002 and the continuing decline in the value of the U.S. dollar. Nonetheless, this performance compares well to the benchmark's rate of return of negative 5.8% over the same period.

NONA equities produced a rate of return of negative 1.2% over four years, outperforming its benchmark by 1.7%.

At the end of 2004, 34% of U.S. and 55% of NONA equities were actively managed, adding $200 million in value and $1.4 billion over four years.

Stocks by Geographic Region

(as at December 31, 2004)



We have diversified holdings around the world (includes stocks held in other asset classes).

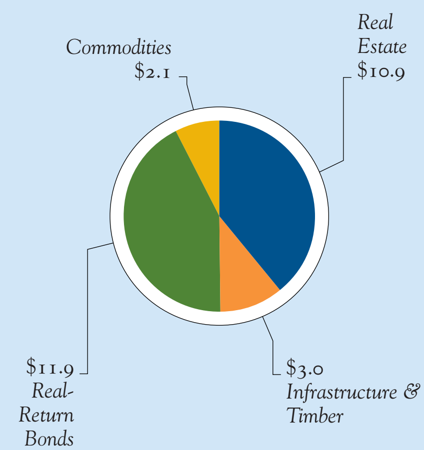
Inflation-Sensitive Investments

Investments that tend to correlate closely with changes in inflation act as a hedge against increases in the cost of future benefits. Over the past few years, inflation-sensitive investments in real estate, real-return bonds, commodities, infrastructure and timber have played a more important role in meeting our performance objectives and decreasing risk.

At the end of 2004, 34% of the fund, or $27.9 billion, was held in inflation-sensitive investments, compared to $20.8 billion or 28% in 2003. These investments produced a one-year rate of return of 15.9%, and a four-year rate of return of 10.9%. In both periods, we outperformed the benchmark, generating $1.4 billion in value added in 2004 and $2.6 billion over the four years.

Inflation-Sensitive Investments

(as at December 31, 2004)
($ billions)



Investments with a strong correlation to inflation changes are a good match for paying inflation-protected pensions.

Real-Return Bonds

Real-return bonds pay a return that is indexed to inflation, measured by the consumer price index (CPI). At year end, we owned $11.9 billion in real-return bonds, making them the largest component of our inflation-sensitive investments. These investments provided a one-year rate of return of 16.5% compared to 16.3% for the benchmark, equating to $20 million in added value.

On a four-year basis, real-return bonds delivered a 12.4% return, compared to 12.1% for the benchmark for $80 million in added value. The fund's real-return bond investments are comprised of Government of Canada real-return bonds, as well as Province of Quebec, Highway 407, U.S. Treasury bonds and inflation-linked mortgages guaranteed by Canada Mortgage and Housing Corporation. Government of Canada real-return bonds are the closest the fund has to a risk-free asset. They are the best match for the plan's CPI-indexed benefits and their yield is the basis used to value the cost of the plan's future benefits.

Real Estate

The fund owned $10.9 billion in real estate at year end, representing 13% of its net investments. Managed by our wholly owned subsidiary, The Cadillac Fairview Corporation Limited, real estate is the second largest component of our inflation-sensitive investments.

Our aim is to maintain a well-balanced portfolio of retail and office properties that provides dependable cash flows. In 2004, we invested $375 million for an 8.6% equity interest in Canary Wharf. We also continued to sell properties and investments that did not fit our long-term return objectives as we rebalanced our portfolio. During the year, we sold rental properties and land for $260 million, after sales of $1.4 billion in 2003. As of December 31, 2004, $360 million had been committed to new investments in real estate.

Real estate, exclusive of real estate debt, produced a one-year rate of return of 17.3% compared to 6.1% for the benchmark, equal to over $1 billion in added value. Over four years, the average return for real estate was 12.1% compared to 6.2% for the benchmark, representing cumulative value added of $2.3 billion.

At year end, the occupancy rate of the fund's Canadian retail space was 95%, while the office occupancy rate was 92%. Rental rates continued to be soft in the office market as vacancy rates across the country averaged more than 10%. Retail rates were more stable and increased modestly.

Infrastructure

Infrastructure and timber investments provide stable long-term returns, strongly linked to inflation. Teachers' pensions are indexed to inflation, making these investments ideal for this pension plan. These investments include toll roads, airports, pipelines, electrical generation and transmission facilities.

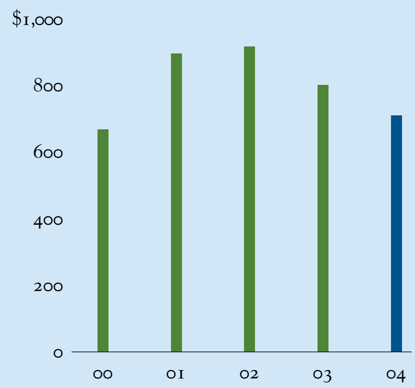
At year end, infrastructure and timber investments represented 4% of the fund at $3 billion compared to $1.9 billion in 2003. Infrastructure produced a one-year rate of return of 17.8% compared to 6.1% for the benchmark, equating to $310 million in added value.

Commodities

The fund owned $2.1 billion in commodities at the end of 2004 compared to $1.9 billion a year earlier. We invest passively in commodities through swap agreements linked to the Goldman Sachs Commodity Index. The fund's one-year return in commodities was 8.9%, as energy investments provided strong returns. This follows a negative 1.4% rate of return in 2003. On a four-year basis, commodities were flat, largely due to the decline in the U.S. dollar.

Income from Real Estate

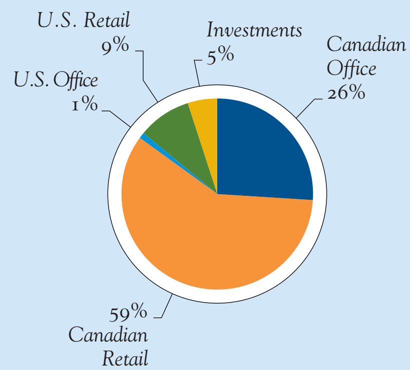
(before debt costs) (for the year ended December 31) ($ millions)



Lower income resulted from rental property sales since 2002.

Real Estate Portfolio

(as at December 31, 2004)



Cadillac Fairview continues to focus the portfolio on high-quality properties.

Fixed Income and Absolute Return Strategies

We have a number of different types of investments in this category: absolute return strategies, including hedge funds and our currency hedge, as well as the traditional fixed-income investments in bonds and money-market vehicles. Investments in this category at year end were $13.9 billion or 17% of the fund's investments, compared to $19.3 billion and 26% of investments at the end of 2003.

These investments produced a one-year rate of return of 13.3%, outperforming the benchmark of 8.6% and thereby adding $820 million in value to the fund. On a four-year basis, the 12.6% return compared favourably to the benchmark's 8.4% return, meaning its managers added $2.6 billion in value.

Absolute Return Strategies

We operate a number of absolute return strategies across the fund designed to earn a target return on allocated active management risk. In 2004, we employed $11.2 billion in absolute return strategies, compared to $10.7 billion in 2003.

Our objective is to generate positive returns regardless of the movements in the markets of the asset classes in which we invest. Many of these investments use no net capital (we use a balanced combination of long and short positions on stocks, industries or investment styles), but to the extent that they do, they are classified as fixed income.

Some absolute return strategies aim to capture tactical opportunities to extract extra returns from under or overweighting various asset classes. In 2004, these tactics resulted in $330 million of value added.

We also include investments in over 150 externally managed hedge funds valued at $4.5 billion at the end of 2004 (compared to $4.1 billion at the end of 2003). We manage these investments both directly and in a fund-of-funds structure designed to earn market-neutral value added consistently while diversifying risk across many managers and multiple strategies and styles. These hedge fund investments added $250 million in value in 2004.

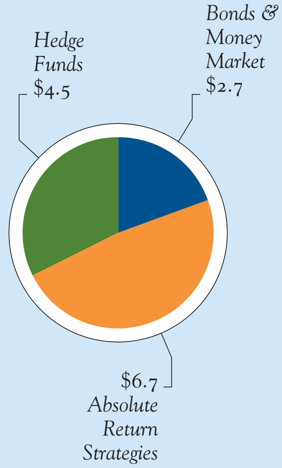
Bonds and Money Market

Canadian government securities and money-market instruments provide the plan with a regular stream of income. They also provide liquidity through the repo/reverse repo markets. Investment income from bonds and money-market investing totalled $1.4 billion in 2004, unchanged from 2003. Real estate debt, valued at $3.7 billion at year end, the same as the previous year, is subtracted from the fixed-income asset class.

At year end, the fund had $560 million in credit portfolios. This was more than a 50% increase over 2003, with the addition of new emerging market strategies and an increase in North American high-yield corporate securities. We use these strategies to diversify our bond portfolio, adding to the tools we utilize to enhance returns overall in the fixed income asset class.

Fixed Income

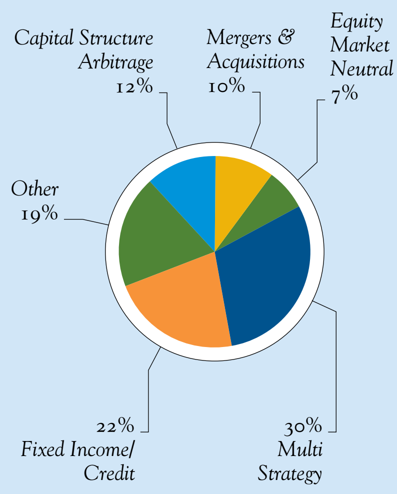
(as at December 31, 2004)
($ billions)



Investments in this category represented 17% of the fund's investments at year end.

Hedge Funds by Strategy

(as at December 31, 2004)



Investments in 150 externally managed hedge funds totalled $4.5 billion at year end.

Risks

Pension security means having enough assets to meet pension obligations. The plan's biggest risk is therefore funding risk: the possibility that assets will fall below pension liabilities for an extended period of time. Persistent funding deficiencies transfer risks from one generation of teachers and taxpayers to the next, and eventually require an increase in contributions or change in benefits.

Teachers' pensions are adjusted annually for inflation to maintain their purchasing power. The plan's ideal pension asset therefore has a high risk-free real investment return in excess of CPI inflation. For teachers starting today, contributions will finance pensions if they can be invested at a guaranteed return of at least CPI+5% from day of deposit until the last pension is paid more than half a century from now.

The only asset that guarantees inflation-protected return decades into the future is a Government of Canada 30-year Real-Return Bond (RRB). At year end, this bond yielded CPI+2%, down from CPI+2.8% in 2002. This is far short of the CPI+5% needed to match the growth of future benefits at current contribution rates.

In theory, one could still ensure that assets and liabilities grow at the same pace and eliminate all funding risk by investing in risk-free RRBs (if enough were available). However, in such a scenario, every 1% of real return below the long-run requirements of CPI+5% would increase the contribution rate required to support new teachers by about 25%.

Market Risk

The most common alternative is to take funding risk in the form of "market risk" by investing in stocks and bonds in the same proportions as representative market indices like the S&P 500 or the S&P/TSX Composite. The annual return profile of such a strategy does not match the RRB characteristics of the liabilities, but if enough market risk is taken, the expected real return can match the plan's long-term needs.

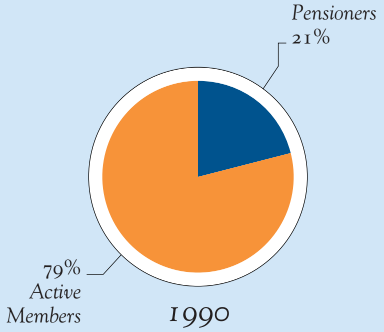
Unfortunately, these higher returns are not guaranteed, posing the very real possibility that markets may not live up to expectations and that returns may be below the growth of liabilities for an extended period. In 2004, taking market risk (investing passively in market indices) would have given the plan returns of only 10.6%, compared to pension liability growth of 17.3%, both considerably higher than CPI+5%. The above-average growth in the future pension obligations was caused by the same factor that explains a part of market returns – the 2004 decline in real interest rates.

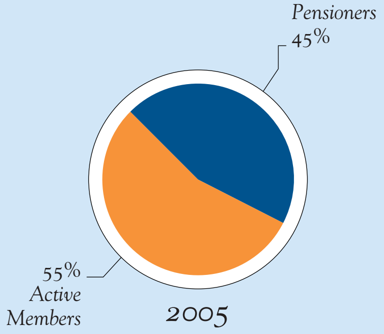
Active-Management Risk

The second way to take funding risk is to use active-management risk to improve expected returns. Success from taking active risk in 2004 makes up the difference between the plan's 14.7% return during the year and the 10.6% return from our benchmark of market indices.

Future Pension Costs

(as a percentage of the plan's total liabilities)

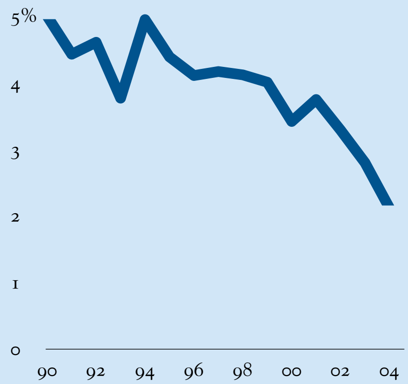




The plan has 97,000 pensioners who no longer make contributions. Future pension costs for this group now represent 45% of the plan's future liabilities.

Real Interest Rates

(percent)



When interest rates fall, plan assets increase in value but the cost of future benefits increases dramatically.

Incremental return from taking active risk relies on the ability of the fund's managers to select above-average assets and strategies compared to investing in market indices. The risk is that these efforts are unsuccessful and will detract from the weighted average of market index returns which serves as our performance benchmark. Negative results, even from good managers, can be expected in about one in four years. (The positive results in the last five years were unusual and yielded over four times the return the plan expects to generate from taking active risk.)

We devote considerable effort in allocating funding risk to the various sub-categories of market risk and active risk, a process known as risk budgeting. The principle is simple: the plan has a limited capacity to absorb funding risk. Risk is both a friend and a foe in our efforts to generate returns above the risk-free RRB rate. Using our asset-liability model, risk budgeting seeks to find the combination of active and market risk strategies that has the best chance of being successful, based on the history and prospects of stock and bond markets, and our assessment of the quality of our active programs.

The investment strategy section on our website gives more details on how we manage these and other risks such as foreign currency volatility, corporate bond default and liquidity.

At the end of 2004, *Risk* magazine gave Teachers' the award for best risk manager for pension funds worldwide. The *Risk* Awards recognize excellence and innovation in the fast-changing risk management and over-the-counter derivatives businesses.

Actuarial Valuation

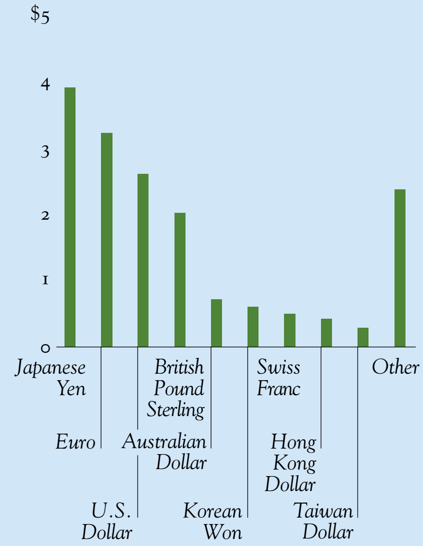
The actuarial valuation results included in this report are calculated on a financial statement basis, which is management's best estimate of the status of the pension plan at year end.

Despite our strong investment performance, the plan was in a deficit position on a financial statement basis at December 31, 2004. The deficit was $13.9 billion, compared to $4 billion a year earlier. This deficit illustrates the fact that investment performance alone does not determine the plan's financial situation. A continuing reduction in real interest rates (used to calculate the cost of plan benefits) increased the plan's estimated future costs in 2004. While the growth in liabilities was partially offset by strong investment performance, the net growth in liabilities was almost $10 billion. The burden of this additional cost as well as the normal change in the value of the liabilities increased the deficit.

The financial statement valuation does not take into account future contribution payments or future benefits earned – that information is included in the funding valuation. Please see the attached ***Funding Report*** for information about the funding valuation. The OTF and the Ontario government, the plan's co-sponsors, are responsible for ensuring the plan is fully funded over the long term.

Net Currency Exposure

(as at December 31, 2004)
($ billions)



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

www.OTPP.com
Investments
Strategy

Ten-Year Outlook

Markets and economies change over time. We often look back in history to give us information about what to expect in the future.

For example, the following chart shows Canadian equity and bond returns, after inflation, for the past five decades.

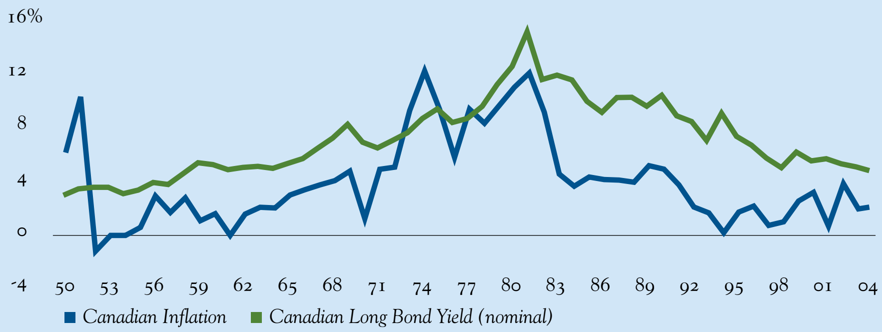
AVERAGE REAL RETURN BY DECADE

(percent)	1950s	1960s	1970s	1980s	1990s
Canadian equity	11.8	8.1	4.5	6.8	9.5
Canadian bond	(0.6)	1.1	(1.4)	6.2	7.7
Average inflation rate	2.0	2.8	8.3	5.7	1.8

During the past 50 years, investors functioned in two different market environments: rising inflation and interest rates before 1982, and falling inflation and interest rates thereafter. Falling interest rates significantly boosted capital gains not only for bonds but also for equities with higher valuations in the 1980s and 1990s.

Looking forward, we foresee an environment of low inflation and low interest rates as we are confident that the Bank of Canada will continue to maintain inflation within its target range of 1% to 3%. We expect only single digit returns, on average, for equities and bonds in the next 10 years.

Canadian Interest and Inflation Rates



Over the past 100 years, the average bond return in North America and Europe was 2% above inflation. At year-end 2004, the 10-year Government of Canada bond was trading at a return of 4.3% (or 2.3% real return after inflation), slightly above the historic average. The Bank of Canada's inflation target is close to the consensus inflation forecast of 2% to 2.5% for most of the developed countries over the next 10 years.

Historically, equities have generated returns equal to dividend yields, plus nominal GDP growth and valuation adjustments. In a low inflation and low interest rate environment, equity valuation should be stable. With current dividend yields less than 2% and nominal GDP growth of 5.5% (3.5% real plus 2% inflation), we expect equity returns to be in the single digit range.

With this modest outlook for stocks and bonds, we will search for additional value by investing more of the fund in other investments, such as private equity, infrastructure, hedge funds and real estate.

Investments over $50 Million

As at December 31, 2004

Fixed Income and Short-term Investments

Type ($ millions)	*Maturity*	*Coupon (%)*	*Fair Value*	*Cost*
Securities purchased under agreements to resell	2005–2005	0.75–2.48	$ 8,594	$ 8,601
Government of Canada bonds	2005–2037	3.00–12.00	7,359	7,212
Canadian corporate bonds	2005–2085	0.00–10.85	5,998	5,944
Commercial paper	2005–2005	2.10–2.99	1,981	1,977
Canadian treasury bills	2005–2005	0.00–0.00	939	934
Bank notes	2005–2005	2.00–7.57	834	833
Provincial bonds	2005–2016	2.67–6.50	325	315
United States treasury bonds	2009–2021	0.00–8.75	299	307
International corporate bonds	2005–2033	3.16–10.00	143	175
Emerging market sovereign debt	2006–2034	1.98–17.75	101	101
United States Government Agency bonds	2015–2035	5.00–8.63	(229)	(230)
Securities sold under agreements to repurchase	2005–2005	1.95–2.58	(10,439)	(10,449)

Inflation-Sensitive Investments

Type ($ millions)	*Maturity*	*Coupon (%)*	*Fair Value*	*Cost*
Real-return Canada bonds	2005–2036	0.00–4.25	$4,982	$3,853
Inflation indexed notes	2026–2029	3.88–4.25	2,247	1,712
Real-return Canadian corporate bonds	2016–2039	0.00–5.33	1,380	758
United States treasury inflation protection	2025–2032	2.38–3.88	1,971	1,952
Real-return provincial bonds	2026–2026	4.50–4.50	405	265
Index-linked mortgages	2018–2040	4.63–5.50	282	238

Province of Ontario Debentures

Maturity Date ($ millions)	*Coupon (%)*	*Fair Value*	*Cost*
2005–2008	10.15–15.38	$ 6,060	$5,135
2009–2012	10.11–11.40	5,023	3,766
Total debentures net of accrued interest		11,083	8,901
Accrued interest		277	277
Total		$11,360	$9,178

Investments over $50 Million

As at December 31, 2004

Corporate Shares/Units

SECURITY NAME *(millions)*	*Shares*	*Fair Value*
Fording Canadian Coal Trust	12.1	$1,134.6
Nexen Inc.	19.3	944.3
Maple Leaf Foods Inc.	42.7	639.6
Shoppers Drug Mart Corporation	15.4	573.3
Yellow Pages Income Fund	29.3	398.0
Macquarie Infrastructure Group	120.4	391.6*
Manulife Financial Corporation	6.9	379.6
BCE Inc.	11.1	324.2
Royal Bank of Canada	5.0	321.3
Bank of Nova Scotia	7.7	317.4
Transurban Group	49.5	311.1
EnCana Corporation	4.1	278.2
Toronto-Dominion Bank, The	5.2	259.3
Bank of Montreal	4.1	236.8
WestJet Airlines Ltd.	18.7	224.0
Canadian Imperial Bank of Commerce	3.1	224.0
Macdonald, Dettwiler and Associates Ltd.	8.1	216.5
Sun Life Financial Inc.	5.3	212.5
Alcan Inc.	3.1	182.0
Research In Motion Limited	1.8	175.7
Canadian Natural Resources Limited	3.2	166.6
Capital International Emerging Countries Fund	3.1	160.0
Vodafone Group Plc	45.6	150.4
Suncor Energy Inc.	3.5	146.6
Sobeys Inc.	4.2	146.1
Nestlé SA	0.5	144.1
Nortel Networks Corporation	33.8	140.8
Petro-Canada	2.2	134.8
Talisman Energy Inc.	4.1	131.6
Canadian National Railway Company	1.8	130.2
Osprey Media Income Fund	13.5	128.2
Autoroutes du Sud de la France	1.8	110.8
C&C Group plc	22.8	109.8
CRH plc	3.3	106.8
Southern Cross FLIERS Trust	1.0	106.4
Sherritt International Corporation	10.6	105.5
Pfizer Inc.	3.2	105.2
GlaxoSmithKline plc	3.6	104.2
TransCanada Corporation	3.5	103.8
Eni S.p.A.	3.4	101.3
Macquarie Airports Management Ltd	33.1	100.2

**Includes rights.*

SECURITY NAME *(millions)*	*Shares*	*Fair Value*
Magna International Inc.	1.0	$98.2
Telus Corporation	2.7	97.3
Thomson Corporation, The	2.3	95.9
Power Corporation of Canada	2.8	87.2
Telkom South Africa Limited	4.2	87.1
Telefonos de Mexico SA de CV	27.3	85.8
Barrick Gold Corporation	2.9	83.9
Placer Dome Inc.	3.7	83.9
National Bank of Canada	1.6	81.6
JPMorgan Chase & Co.	1.7	80.2
Telefonica S.A.	3.1	78.2
Royal Bank of Scotland Group, The plc	1.9	76.6
ING Groep N.V.	2.1	76.6
Sanofi-Aventis	0.8	76.2
Total SA	0.3	76.1
Samsung Electronics Co., Ltd.	0.2	75.5
Power Financial Corporation	2.3	75.3
UBS AG	0.7	74.7
Nippon Telegraph and Telephone Corporation	0.01	73.5
Akzo Nobel N.V.	1.4	73.5
Brascan Corporation	1.7	73.1
Hewlett-Packard Company	2.9	73.0
Enbridge Inc.	1.2	72.1
Rogers Communications, Inc.	2.2	70.7
Bank of America Corporation	1.2	70.6
Time Warner Inc.	3.0	69.6
BAE Systems plc	13.0	69.3
Safeway Inc.	2.9	68.7
Citigroup Inc.	1.2	68.0
Hitachi, Ltd.	8.0	66.6
Cameco Corporation	1.6	65.7
Petroleo Brasileiro S.A.	1.3	64.1
Imperial Oil Limited	0.9	61.9
ABN AMRO Holding NV	1.9	60.8
Teck Cominco Limited	1.6	59.4
Verizon Communications Inc.	1.2	59.4
Kroger Co., The	2.8	58.1
Altria Group, Inc.	0.8	57.5
Smiths Group plc	3.0	56.6
Lloyds TSB Group plc	5.2	56.6
ConocoPhillips	0.5	54.5
Great-West Lifeco Inc.	2.0	54.4
LUKOIL	0.4	53.2
Abitibi-Consolidated Inc.	6.4	52.9
HSBC Holdings plc	2.5	52.3

For equities over $20 million, please see our website at:
www.otpp.com

Investments over $50 Million

As at December 31, 2004

Real Estate Portfolio

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian Regional Shopping Centres		
Cataraqui Town Centre, Kingston	580	50%
Champlain Place, Dieppe	815	100%
Chinook Centre, Calgary	1,186	100%
Don Mills Shopping Centre, Toronto	418	100%
Erin Mills Town Centre, Mississauga	797	50%
Fairview Mall, Toronto	879	50%
Fairview Park Mall, Kitchener	744	100%
Fairview Pointe Claire, Montreal	1,033	50%
Georgian Mall, Barrie	513	100%
Hillcrest Mall, Richmond Hill	586	100%
Le Carrefour Laval, Montreal	1,312	100%
Les Galeries D'Anjou, Montreal	1,216	50%
Les Promenades St. Bruno, Montreal	1,072	100%
Lime Ridge Mall, Hamilton	815	100%
Market Mall, Calgary	880	50%
Markville Shopping Centre, Markham	1,018	100%
Masonville Place, London	686	100%
McAllister Place, St. John	469	100%
Pacific Centre, Vancouver	1,399	100%
Polo Park Mall, Winnipeg	1,209	100%
Regent Mall, Fredericton	484	100%
Richmond Centre, Richmond	487	100%
Rideau Centre, Ottawa	737	31%
Sherway Gardens, Toronto	984	100%
The Bay Centre, Victoria	411	100%
The Promenade, Toronto*	690	50%
Toronto Eaton Centre, Toronto	1,591	100%
Woodbine Centre, Toronto	685	60%

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian Office Properties		
77 Bloor Street West, Toronto	382	100%
Encor Place, Calgary	361	100%
Granville Square, Vancouver	409	100%
Pacific Centre Office Complex, Vancouver	1,552	100%
PricewaterhouseCoopers Place, Vancouver	241	100%
Shell Centre, Calgary	684	50%
Simcoe Place, Toronto	826	25%
Toronto-Dominion Centre Office Complex, Toronto	4,424	100%
Toronto Eaton Centre Office Complex, Toronto	1,896	100%
Waterfront Centre, Vancouver	410	100%
Yonge Corporate Centre, Toronto	672	100%
U.S. Regional Shopping Centres		
Kitsap Mall, Silverdale, Washington	715	49%
Lakewood Mall, Lakewood, California	1,986	49%
Los Cerritos Center, Cerritos, California	1,290	49%
Redmond Town Center, Redmond, Washington	1,253	49%
Stonewood Center, Downey, California	928	49%
Washington Square, Tigard, Oregon	1,239	49%

**Remaining 50% purchased subsequent to December 31, 2004.*

Private Companies and Partnerships

Absolute Return Fund, Limited
Active Value Capital, L.P.
Altalink L.P.
ARC Canadian Energy Venture Fund III
Arrowstreet Global Opportunities Offshore Fund Ltd.
Ashmore Local Currency Debt Portfolio
Baillie Gifford Emerging Market Fund
BC European Capital VI
BC European Capital VII
BDC Offshore Fund II Ltd.
Canary Wharf Group plc
Crestline Offshore Fund, Ltd.
Express Pipeline Ltd.
GMO Mean Reversion Fund (Offshore) L.P.
Hancock Timber Resource Group
Heartland Industrial Partners L.P.
The Third Hermes UK Focus Fund
Highland Crusader Fund Ltd.
III Fund Ltd.
International Finance Participation Trust
Lighthouse V Fund Limited
LPPI Holdings, LLC
Luscar Energy Partnership
Macquarie Airports Group Limited
Maple Leaf Sports & Entertainment Ltd.
Maple Partners Financial Group
MidOcean Partnership
Morgan Stanley Real Estate Fund III International L.P.
New Ellington Overseas Ltd.
Northern Star Generation LLC
Palmetto Fund Ltd.
Parmalat Dairy & Bakery
Providence Equity Partners Fund IV
Prudential Timber Investments Inc.
Relational Investors LLC
RIII Funding Ltd.
Samsonite Corporation
Sanitec Group
Schroder Asian Properties L.P.
Southern Cross Airports Corporation Holdings Ltd.
Tellediffusion France SA
The Hillman Group
Trimac Corporation
Western Sydney Orbital Funding Trust
Worldspan L.P.
York Street Capital Partners

Corporate Directory

Ontario Teachers' Pension Plan

President and Chief Executive Officer
Claude Lamoureux

Audit Services
Peter Maher, *Vice-President*

Finance
David McGraw, *Vice-President*

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*
Phil Nichols, *Vice-President*

Member Services
Rosemarie McClean, *Senior Vice-President*

Investments
Robert Bertram, *Executive Vice-President*

Asset Mix & Risk
Morgan McCague, *Senior Vice-President*
Barbara Zvan, *Vice-President*

Fixed Income
Sean Rogister, *Senior Vice-President*

Public Equities
Brian Gibson, *Senior Vice-President*
Zev Frishman, *Vice-President*

Tactical Asset Allocation & Alternative Investments
Neil Petroff, *Senior Vice-President*
Bruce Ford, *Vice-President*
Wayne Kozun, *Vice-President*
Ron Mock, *Vice-President*

Teachers' Private Capital
Jim Leech, *Senior Vice-President*
Ron Lepin, *Vice-President*
Mark MacDonald, *Vice-President*
Dean Metcalf, *Vice-President*
Lee Sienna, *Vice-President*
Mark Wiseman, *Vice-President*
Rosemary Zigrossi, *Vice-President*

The Cadillac Fairview Corporation Limited

L. Peter Sharpe, *President and Chief Executive Officer*

Finance and Taxation
Ian MacKellar, *Executive Vice-President and Chief Financial Officer*

Investments
Andrea M. Stephen, *Executive Vice-President*

General Counsel and Secretary
Peter Barbetta, *Executive Vice-President*

Office and Retail Development
Michael Kitt, *Executive Vice-President*

Portfolio Operations
Tony Grossi, *Executive Vice-President*

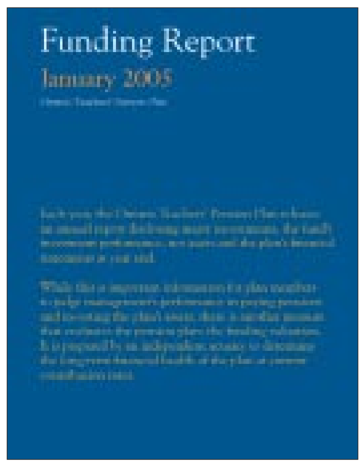
We welcome your comments and suggestions for this annual report, as well as other aspects of our communications program.

Please contact:
Lee Fullerton
Director, Communications and Media Relations
Tel: 416.730.5347
E-mail: communications@otpp.com

Eleven-Year Review

($ billions)	*2004*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1997*	*1996*	*1995*	*1994*
CHANGE IN NET ASSETS											*for the year ended December 31*
Income											
Investment income	**$ 10.80**	11.42	(1.41)	(1.74)	6.21	10.12	5.14	7.25	7.44	5.66	0.53
Contributions											
Members/transfers	**0.75**	0.71	0.68	0.64	0.62	0.63	0.61	0.59	0.62	0.64	0.73
Province of Ontario	**0.75**	0.72	0.70	0.68	0.66	0.66	0.65	0.65	0.67	0.67	0.70
– special payments	**–**	–	–	–	–	0.13	0.49	0.46	0.15	–	–
Total Income	**12.30**	12.85	(0.03)	(0.42)	7.49	11.54	6.89	8.95	8.88	6.97	1.96
Expenditures											
Benefits paid	**3.43**	3.20	3.08	3.08	2.54	2.28	2.10	1.80	1.52	1.26	1.13
Investment expenses	**0.19**	0.16	0.10	0.12	0.10	0.09	0.07	0.06	0.04	0.03	0.03
Client service expenses	**0.03**	0.03	0.03	0.04	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Total Expenditures	**3.65**	3.39	3.21	3.24	2.67	2.40	2.20	1.89	1.59	1.32	1.19
Increase (Decrease) in Net Assets	**$ 8.65**	9.46	(3.24)	(3.66)	4.82	9.14	4.69	7.06	7.29	5.65	0.77
NET ASSETS											*as at December 31*
Investments											
Fixed Income	**$ 13.91**	19.38	13.96	7.09	13.32	17.30	11.48	10.28	10.62	12.51	11.41
Equities											
– Canadian	**16.80**	15.19	13.43	17.06	17.74	19.89	17.61	19.43	17.37	12.22	9.94
– Foreign	**23.09**	19.13	18.19	24.28	23.14	21.76	24.02	19.96	16.01	12.29	10.71
Inflation-Sensitive											
– Commodities	**2.99**	1.89	1.48	1.09	2.10	1.09	0.40	0.13	–	–	–
– Real estate	**10.90**	9.87	11.49	11.59	6.20	2.82	1.58	1.56	1.27	0.93	0.69
– Infrastructure	**2.13**	1.90	0.97	0.03	–	–	–	–	–	–	–
– Real-rate products	**11.90**	7.07	5.92	6.98	9.55	4.24	3.02	1.60	1.07	1.06	0.65
Net Investments	**81.72**	74.43	65.44	68.12	72.05	67.10	58.11	52.96	46.34	39.01	33.40
Receivable from Province of Ontario	**1.42**	1.36	1.32	1.28	1.25	1.25	1.23	1.26	1.29	1.31	1.34
Other Assets	**23.17**	11.30	23.45	24.26	13.15	7.04	5.39	8.54	3.29	1.59	0.62
Total Assets	**106.31**	87.09	90.21	93.66	86.45	75.39	64.73	62.76	50.92	41.91	35.36
Liabilities	**(21.98)**	(11.41)	(24.00)	(24.20)	(13.33)	(7.08)	(5.56)	(8.27)	(3.48)	(1.76)	(0.88)
Net Assets	**84.33**	75.68	66.21	69.46	73.12	68.31	59.17	54.49	47.44	40.15	34.48
Smoothing reserve	**(1.54)**	3.48	9.65	2.97	(4.34)	(8.32)	(4.79)	(5.58)	(4.42)	(1.91)	(0.25)
Actuarial value of net assets	**82.79**	79.16	75.86	72.43	68.78	59.99	54.38	48.91	43.02	38.24	34.23
Accrued pension benefits	**96.73**	83.12	73.67	65.43	58.56	52.11	48.64	44.46	41.83	38.74	36.85
Surplus (Deficit)	**$ (13.94)**	(3.96)	2.19	7.00	10.22	7.88	5.74	4.45	1.19	(0.50)	(2.62)
PERFORMANCE (%)											*for the year ended December 31*
Rate of return	**14.7**	18.0	(2.0)	(2.3)	9.3	17.4	9.9	15.6	19.0	16.9	1.7
Benchmark	**10.6**	13.5	(4.8)	(5.3)	5.3	17.6	11.9	15.6	18.1	17.2	(0.3)

Historical average long-term goal was 6.8% since 1990 (goal is CPI+5%).



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