



“Our investment staff generated \$10.8 billion in investment income for members in 2004, yet the plan’s shortfall continued to grow.”

CLAUDE LAMOUREUX,
PRESIDENT AND CHIEF EXECUTIVE OFFICER

15 YEARS OF STRONG INVESTMENT PERFORMANCE

It has been 15 years since the Ontario government created the pension board with the mandate to invest in assets other than Ontario debentures. It is an appropriate time now to ask: how well have we performed?

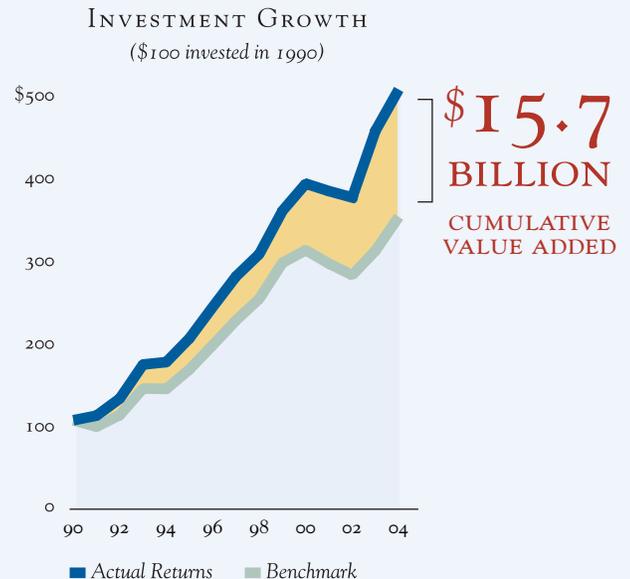
In 1990, the fund had less than \$20 billion – 15 years later, the fund has grown to \$84.3 billion, with an average investment return of 11.3%.

I am particularly pleased that our investment team has been able to generate \$15.7 billion in value over market benchmarks to boost the fund to this level. This is one of the best investment performances of any pension plan in Canada. For our performance in 2004, see page 5.

IMPROVEMENT IN SERVICE TO MEMBERS

Our other responsibility to you is to provide the best service possible when you contact us, whether by phone, mail or e-mail. You rated our service and communications 9.2 out of 10 on surveys conducted throughout 2004.

There has been a vast improvement over the service provided to plan members 15 years ago. In 1990, it could take three months to get answers to your questions. Today, with our commitment to immediate personalized service, we answer 70% immediately.



Since 1990, the fund has generated \$74.3 billion in investment income, including \$15.7 billion in value over benchmarks, and paid out \$28.9 billion in pension benefits.

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In 2004, 5,200 teachers and 700 beneficiaries began to collect pensions for the first time. There are now almost 100,000 retired teachers and their beneficiaries on our pension payroll, making it one of the largest sources of income in Canada. We paid more than \$3.4 billion to pensioners during 2004, while teachers and the government paid a total of \$1.5 billion in contributions.

GROWING FUNDING SHORTFALL

Low interest rates may be good for your mortgage or car loan, but they are hard on pension plans. Lower interest rates in 2004 caused the cost of future pensions to grow by \$18 billion, even more than the substantial growth in investments. This has resulted in a growing funding shortfall for your pension plan.

We have provided information about this shortfall to the Ontario Teachers' Federation (OTF) and the Ontario government, which are responsible for funding decisions for your pension plan. If the shortfall persists, they will need to take action by next year to bring the plan back into balance. Assets and benefits must balance for the pension plan to remain healthy over the long term.

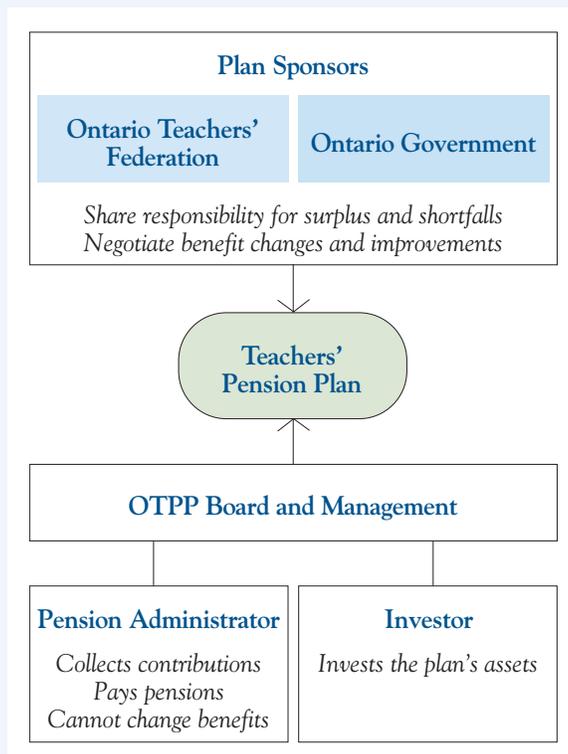
IN CLOSING

Our teams in investments and member services look forward to providing you with 'outstanding service today and retirement security tomorrow' in 2005 and for the future.



CLAUDE LAMOUREUX,
PRESIDENT AND CHIEF EXECUTIVE OFFICER

WHO IS RESPONSIBLE FOR PLAN FUNDING?



Contrary to many members beliefs, the board of the Teachers' pension plan cannot change benefits or the contribution rate – those decisions are up to the plan sponsors.

The board is responsible for investing the assets in the teachers' pension fund, administering the pension plan and paying pensions to plan members and their beneficiaries.

Listen to the presentation of the
2004 results on the live webcast at
5 p.m., Friday, April 8, 2005 at

www.otpp.com

Update on Funding Shortfall

The actuarial valuation at January 2005 showed the plan had a shortfall of assets compared to the cost of future benefits. Lower interest rates caused the cost of benefits to rise to almost \$120 billion, leaving a gap or shortfall of \$19.4 billion from the current level of actuarial assets.

The shortfall has increased from \$6.2 billion in 2004. It means that plan benefits are 84% funded, down from 94% in 2004. Benefits were fully funded in every other year since 1990 – in fact, investment returns created over \$18 billion in surplus during that period.

If the shortfall persists, the OTF and the Ontario government will have to take steps to bring assets and benefits back into balance before filing the next actuarial valuation in 2006.

The OTF and the government have been discussing the funding situation and looking at ways to deal with the shortfall. Current pensions and accumulated pension benefits are protected by law and cannot be changed.

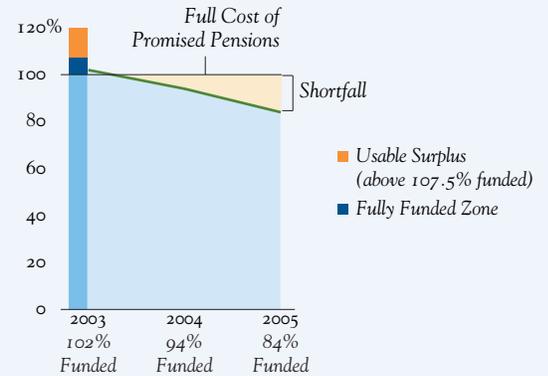
In its February 2005 *Communiqué* to plan members, the OTF said that a contribution rate increase in 2007 for both the teachers and the government “cannot be avoided.”

COST OF A TYPICAL PENSION AT RETIREMENT

Shown below is the amount the pension plan must have on hand, at different interest rates, to pay each \$40,000 pension for teachers retiring at 56. It must have almost \$300,000 more at today’s rate than it did 10 years ago when rates were 3% higher.

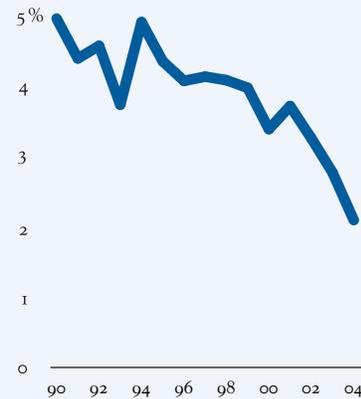
<i>Real interest rates</i>	<i>Rounded value of pension</i>
2.0%	\$860,000
3.0%	\$750,000
4.0%	\$660,000
5.0%	\$590,000

FUNDING STATUS
as at January 1 (percent)



The plan is considered fully funded if its assets are 100% to 107.5% of future benefit costs.

REAL INTEREST RATES
(percent)



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

For more information about the actuarial valuation, see the *Funding Report 2005*, available online at www.otpp.com.

Investment Highlights

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

We created \$10.8 billion in investment income, including \$3.0 billion in additional value created by beating the fund's benchmark by 4.1 percent.

INVESTMENT PERFORMANCE for the year ended December 31

Rate of return on investments (%)		2004	2003
Annual		14.7%	18.0%
Composite benchmark		10.6	13.5

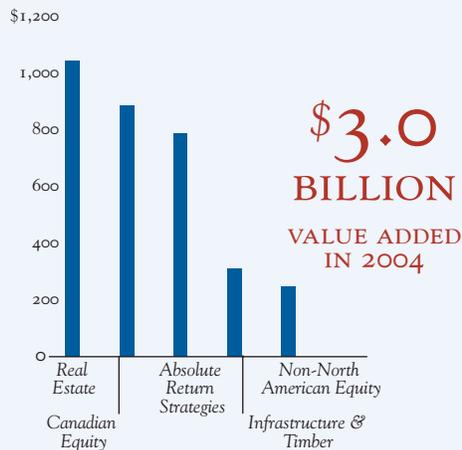
Average annual compound rates of return (%)	4 yr				5 yr				10 yr				15 yr			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Our return	6.7	7.2	11.4	11.3	6.7	7.2	11.4	11.3	6.7	7.2	11.4	11.3	6.7	7.2	11.4	11.3
Benchmark	3.2	3.6	9.6	8.6	3.2	3.6	9.6	8.6	3.2	3.6	9.6	8.6	3.2	3.6	9.6	8.6

“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

MAJOR SOURCES OF VALUE ADDED for the year ended December 31, 2004 (\$ millions)



INVESTMENT INCOME as at December 31 (\$ billions)



2004 MAJOR PRIVATE EQUITY AND INFRASTRUCTURE DEALS

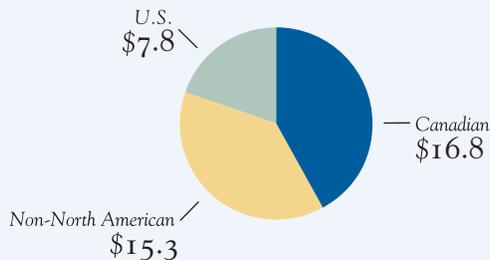
- The creation, with two other partners, of Park Square Capital Partners, a one billion euro mezzanine fund in Europe
- The \$610 million refinancing of Parmalat Dairy & Bakery Inc.
- The purchase, with European partner Rhone Capital, of Alcoa Specialty Chemicals from Alcoa Inc. for US\$340 million
- The launch of the BML International Maple Leaf Fund, for 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

2004 RATES OF RETURN COMPARED TO BENCHMARKS

	Investment returns	Benchmark	Benchmarks
Fixed income and Absolute return strategies	13.3%	8.6%	Scotia Capital Treasury Bills (91 days) Custom Canada Bond Universe Custom Net Ontario Debenture
Equities	14.2	11.1	
Canadian equity	21.1	14.5	S&P/TSX Composite
Non-North American equity	13.2	11.3	MSCI EAFE, MSCI Emerging Markets Custom NONA National Index
U.S. equity	3.0	3.3	S&P 500
Inflation-sensitive investments	15.9	10.2	
Real-return bonds	16.5	16.3	Custom U.S. TIPS, Scotia Capital Real-Return Bond
Real estate	17.3	6.1	CPI plus 4%
Infrastructure & timber	17.8	6.1	CPI plus 4%
Commodities	8.9	9.2	Goldman Sachs Commodities
Total Fund	14.7%	10.6%	Composite benchmark weighted by the policy asset mix

EQUITIES

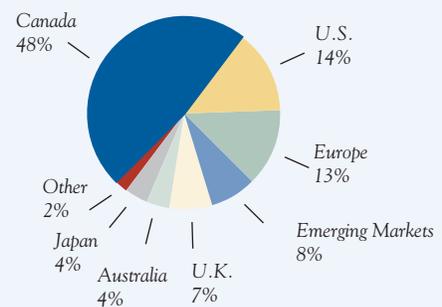
as at December 31, 2004 (\$ billions)



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

STOCKS BY GEOGRAPHIC REGION

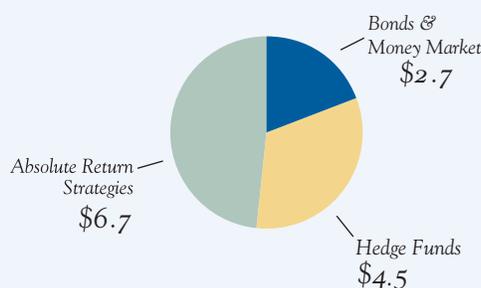
as at December 31, 2004



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

FIXED INCOME

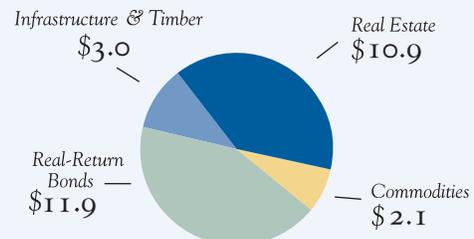
as at December 31, 2004 (\$ billions)



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

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.

Major Investments

As at December 31, 2004

BONDS AND REAL-RETURN INVESTMENTS	(\$ billions)
Province of Ontario and provincial bonds	\$11.7
Canadian inflation-sensitive bonds, notes and mortgages	9.3
Government of Canada bonds	7.4
Canadian and international corporate bonds	6.1
U.S. and international government bonds	2.1
Short-term instruments	1.0
Canadian treasury bills	0.9

REAL ESTATE MANAGED BY SUBSIDIARY	(\$ billions)
The Cadillac Fairview Corporation Limited	\$10.9

TOP 10 REAL ESTATE HOLDINGS

Chinook Centre, Calgary
Le Carrefour Laval, Montreal
Les Promenades St. Bruno, Montreal
Lime Ridge Mall, Hamilton
Markville Shopping Centre, Markham
Pacific Centre, Vancouver
Polo Park Mall, Winnipeg
Sherway Gardens, Toronto
Toronto-Dominion Centre Office Complex, Toronto
Toronto Eaton Centre, Toronto

TOP 10 PRIVATE COMPANIES AND PARTNERSHIPS

Absolute Return Fund, Limited
Baillie Gifford Emerging Market Fund
Canary Wharf Group plc
Luscar Energy Partnership
Maple Leaf Sports & Entertainment Ltd.
Macquarie Airports Group Limited
Northern Star Generation LLC
Parmalat Dairy & Bakery
Relational Investors LLC
Western Sydney Orbital Funding Trust

For public equities over \$20 million, please visit www.otpp.com under Investments.

PUBLIC SHARES AND INCOME TRUST UNITS	Shares	Fair Value
(millions)		
SECURITY NAME		
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, The	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

*Includes rights

Outstanding Service to Members

We are committed to delivering services in the ways members want and expect.

HIGH MEMBER SERVICE RATINGS

In 2004, members gave our services a 9.2 rating on a 10-point scale. This score is indicative of a high level of member satisfaction with our ability to deliver outstanding service.

9.2/10

DOING MORE ONLINE

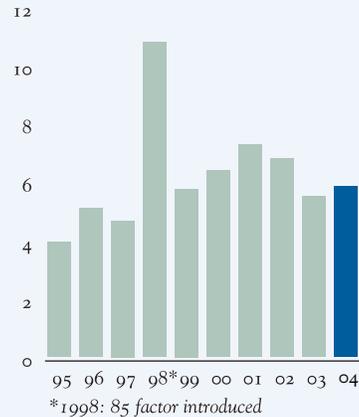
50,000 members have registered for our secure website, *iAccess*, so they can check their personal pension accounts online, at their convenience. In addition to a pension calculator, e-mail communications and educational presentations, members can now access an electronic version of their personal plan statements.

“Teachers have worked hard for their pensions. So it’s important that their contact with us is always friendly, informed and positive.”



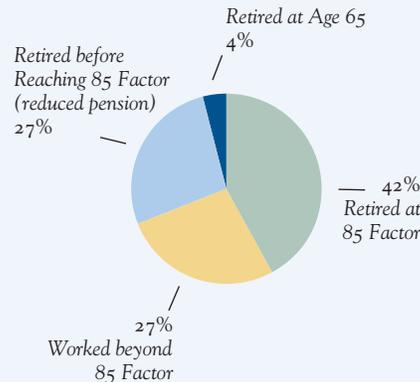
ROSEMARIE MCCLEAN
SENIOR VICE-PRESIDENT
MEMBER SERVICES

NUMBER of NEW PENSIONERS
as at December 31 (thousands)



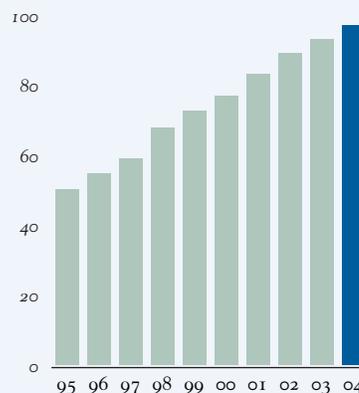
Since the 85 factor was introduced in 1998, 52,000 people began collecting a pension.

WHEN TEACHERS RETIRE
(averaged since 1999)



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

NUMBER of PENSIONERS
as at December 31 (thousands)



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

Corporate Profile

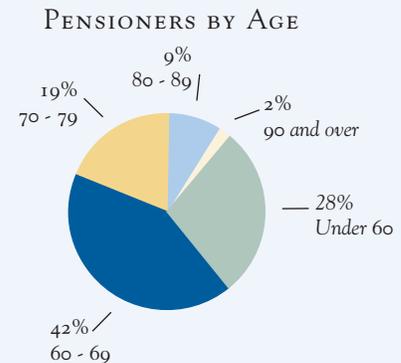
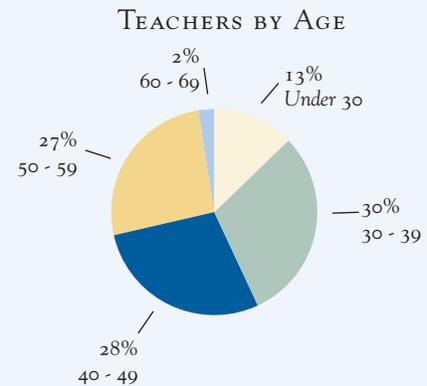
There has been a pension plan for Ontario's teachers since 1917. In 1990, the Ontario government established an independent corporation to invest the plan's assets and administer the pensions of the province's 255,000 current and retired teachers.

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 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.**



The number of pensioners has doubled in the last 10 years. There is now one pensioner for every 1.6 contributing teachers.

CONTACT US

Copies of the 2004 *Annual Report* and *Funding Report 2005* are available on our website at www.otpp.com. If you would like a copy of either, please contact us. We welcome your comments and suggestions for this *Report to Members*, as well as other aspects of our communications program.

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