Management's Responsibility for Financial Reporting

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

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

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

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

Jim Leech
President and Chief Executive Officer
February 21, 2008

David McGraw
Senior Vice-President and Chief Financial Officer

Auditors' Report to the Administrator

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and deficit of the Ontario Teachers' Pension Plan as at December 31, 2007, and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in deficit for the year then ended. These consolidated financial statements are the responsibility of the Plan's Administrator. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and deficit of the Plan as at December 31, 2007, and the changes in its net assets available for benefits, accrued pension benefits and deficit for the year then ended in accordance with Canadian Generally Accepted Accounting Principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
February 21, 2008

Actuaries' Opinion

Mercer (Canada) Limited was retained by the Ontario Teachers' Pension Plan Board (the "Board") to perform an actuarial valuation of the assets and the going concern liabilities of the Ontario Teachers' Pension Plan (the "Plan") as at December 31, 2007, for inclusion in the Plan's financial statements. As part of the valuation, we examined the Plan's recent experience with respect to the non-economic assumptions and presented our findings to the Board.

The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board as at December 31, 2006;
- methods prescribed by Section 4100 of the Canadian Institute of Chartered Accountants' Handbook for pension plan financial statements;
- real and nominal interest rates on long term Canada bonds at the end of 2007;
- assumptions about future events (for example, future rates of inflation and future retirement rates) which have been communicated to us as the Board's best estimate of these events; and
- information obtained from the Ontario Ministry of Labour and other published data on negotiated wage settlements in the 2006/07 and 2007/08 school years.

The objective of the financial statements is to fairly present the financial position of the Plan on December 31, 2007, as a going concern. This is different from the statutory valuation (the actuarial valuation required by the Pension Benefits Act (Ontario)), which establishes a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements represent the Board's best estimate of future events and market conditions at the end of 2007, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

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

Lester J. Wong, F.C.I.A.
February 21, 2008

Malcolm P. Hamilton, F.C.I.A.

Consolidated statement of net assets available for benefits and accrued pension benefits and deficit

as at December 31, 2007 ($ millions)	*2007*	*2006*
Net assets available for benefits		
Assets		
Investments (note 2)	**$155,830**	$141,069
Receivable from the Province of Ontario (note 3)	**1,839**	1,575
Receivable from brokers	**245**	44
Cash	**88**	27
Fixed assets	**24**	15
	158,026	142,730
Liabilities		
Investment-related liabilities (note 2)	**47,829**	35,391
Due to brokers	**1,390**	1,059
Accounts payable and accrued liabilities	**261**	266
	49,480	36,716
Net assets available for benefits	**108,546**	106,014
Actuarial asset value adjustment (note 4)	**(3,629)**	(11,164)
Actuarial value of net assets available for benefits	**$104,917**	$ 94,850
Accrued pension benefits and deficit		
Accrued pension benefits (note 5)	**$115,459**	$110,496
Deficit	**(10,542)**	(15,646)
Accrued pension benefits and deficit	**$104,917**	$ 94,850

On behalf of the Plan Administrator:

Chair

Board Member

Consolidated statement of changes in net assets available for benefits

for the year ended December 31, 2007 ($ millions)	*2007*	*2006*
Net assets available for benefits, beginning of year	$106,014	$ 96,128
Investment operations		
Investment income (note 9)	4,678	12,311
Administrative expenses – Investments (note 14a)	(229)	(220)
Net investment operations	4,449	12,091
Member service operations		
Contributions (note 12)	2,138	1,646
Benefits paid (note 13)	(4,020)	(3,819)
Administrative expenses – Member Services (note 14b)	(35)	(32)
Net member service operations	(1,917)	(2,205)
Increase in net assets available for benefits	2,532	9,886
Net assets available for benefits, end of year	$108,546	$106,014

Consolidated statement of changes in accrued pension benefits

for the year ended December 31, 2007 ($ millions)	*2007*	*2006*
Accrued pension benefits, beginning of year	$110,496	$110,530
Increase in accrued pension benefits		
Interest on accrued pension benefits	5,177	5,075
Benefits accrued	3,332	3,422
Changes in actuarial assumptions (note 5a)	492	(5,133)
Experience (gains)/losses (note 5c)	(18)	421
	8,983	3,785
Decrease in accrued pension benefits		
Benefits paid (note 13)	4,020	3,819
Net increase/(decrease) in accrued pension benefits	4,963	(34)
Accrued pension benefits, end of year	$115,459	$110,496

Consolidated statement of changes in deficit

for the year ended December 31, 2007 ($ millions)	*2007*	*2006*
Deficit, beginning of year	$(15,646)	$(21,836)
Increase in net assets available for benefits	2,532	9,886
Change in actuarial asset value adjustment (note 4)	7,535	(3,730)
Increase in actuarial value of net assets available for benefits	10,067	6,156
Net (increase)/decrease in accrued pension benefits	(4,963)	34
Deficit, end of year	$(10,542)	$(15,646)

Notes to consolidated financial statements

for the year ended December 31, 2007

Description of Plan

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

(a) General

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

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

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

(b) Funding

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

(c) Retirement pensions

A retirement pension is available based on the number of years of credited service, the average of the best five annual salaries and the age of the member at retirement. A member is eligible for a reduced retirement pension from age 50. An unreduced retirement pension is available at age 65 or if the sum of a member's age and qualifying service equals 85.

(d) Disability pensions

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

(e) Death benefits

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

(f) Escalation of benefits

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

(g) Retirement Compensation Arrangement

Restrictions in the ITA and its regulations on the payment of certain benefits from the registered pension plan for periods of service after 1991 may impact some Plan members. To address affected members, the Retirement Compensation Arrangement (the RCA) was established by agreement between the co-sponsors as a supplementary plan to provide for these benefits. Examples of these benefits include: (1) members of the Plan who retired with average earnings above $120,440 (CPP-exempt members $111,111) in 2007 and $114,677 (CPP-exempt members $105,556) in 2006; and (2) members whose pensions would require a larger reduction for early retirement to comply with the ITA limitations than the Plan would impose. Because the RCA is a separate trust, the net assets available for benefits and accrued benefits and deficit of the RCA are not included in these consolidated financial statements.

NOTE 1.
Summary of significant accounting policies

(a) Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles.

The fair value of assets and liabilities and the results of operations of subsidiary companies and variable interest entities (VIEs) where the Plan is the primary beneficiary are consolidated as part of the Plan's financial statements.

A VIE is an entity which does not have sufficient equity at risk to finance its activities without additional subordinated financial support or an entity in which the holders of the equity at risk lack the characteristics of a controlling financial interest. The primary beneficiary, which is the enterprise that absorbs the majority of the expected losses or is entitled to the majority of the expected residual returns, is required to consolidate the VIE in its financial statements.

VIEs in which the Plan is the primary beneficiary or in which it has a significant variable interest are primarily private equity and alternative investments limited partnerships.

The Plan's consolidated financial statements also include its proportionate share of the fair value of assets, liabilities and operations of investments in joint ventures.

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

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

(b) Change in accounting policy

In 2007, the Plan adopted Canadian Institute of Chartered Accountants (CICA) Emerging Issues Committee Abstract No. 168, Accounting by Pension Plans for Transaction Costs (EIC-168), which requires that pension plans not include transaction costs in the fair value of investments. Under EIC-168, transaction costs are included in the statement of changes in net assets in the period incurred. EIC-168 is required to be applied retrospectively, without restatement of prior periods, for fiscal years ending on or after December 31, 2007.

Prior to the adoption of EIC-168, transaction costs incurred were capitalized and added to the cost of securities purchased and deducted from the proceeds of securities sold. Upon the adoption of EIC-168, transaction costs are expensed and presented as a component of net investment income in Note 9. The impact of adopting this EIC did not have a material impact on the consolidated financial position or results of operations of the Plan.

(c) Investments

Valuation of investments

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

Fair values of investments are determined as follows:

a. Short-term money-market securities are valued using either market closing mid prices or discounted cash flows based on current market yields, when market closing mid prices are unavailable.
b. Bonds are valued on the basis of market quoted closing mid prices. If quoted closing mid prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

c. Public equities are valued at quoted market closing prices. When the market for a public equity is not active or when there are restrictions on the sale of all or part of a public equity imposed on the Plan by external parties, management estimates the fair value by using appropriate techniques including valuation models.
d. Real estate, private equities, infrastructure and timber are valued based on estimated fair values determined by using appropriate techniques including valuation models and best estimates by management and/or appraisers.
e. All derivative financial instruments are recorded at fair value using market prices. Where quoted market values are not readily available, appropriate techniques including valuation models are used to determine fair value.
f. Alternative investments, comprised of hedge funds and managed futures accounts, are recorded at fair value based on net asset values obtained from each of the funds' administrators.

Fair values determined using valuation models require the use of assumptions. In determining these assumptions, management utilizes inputs observed from markets including factors such as interest rate yield curves, multiples for public comparable securities, market-based multiples, and asset-based multiples as applicable and appropriate. In limited circumstances, management uses input parameters that are not based on observable market data with an adjustment to reflect the uncertainty and to ensure that investments are reported at fair value. Management has assessed and determined that using possible alternative assumptions will not result in significantly different fair values.

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

Investment income
Dividend income is recognized based on the ex-dividend date, and interest income and real estate income are recognized on the accrual basis as earned. Investment income also includes both realized and unrealized gains and losses. Since real estate income is determined on a fair value basis, a charge for depreciation and amortization is excluded from the determination of real estate income. Certain management and performance fees for externally-managed private equity and hedge funds are offset against investment income.

Transaction costs
Transaction costs are incremental costs directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs incurred are expensed and recorded as transaction costs. Any transaction amounts received by the Plan that are directly attributable to the acquisition of an investment are netted against transaction costs paid.

(d) Foreign currency translation

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

(e) Accrued pension benefits

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

(f) Contributions

Contributions from the members, the Province and designated private schools and organizations are recorded on an accrual basis. Cash received from members for credited service and cash transfers from other pension plans are recorded when received.

(g) Benefits

Benefit payments to members and others, commuted value payments and refunds to former members, and transfer payments to other plans are recorded in the period in which they are paid. Any benefit payment accruals not paid are reflected in accrued pension benefits.

(h) Use of estimates

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

(i) Future accounting changes

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These new standards became effective for the Plan on January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and procedures and process for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

NOTE 2.

Investments

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

(a) **Investments[1] before allocating the effect of derivative contracts**

The schedule below summarizes the Plan's investments and investment-related liabilities, including net accrued interest and dividends of $440 million (2006 – $401 million), before allocating the effect of derivative contracts, as at December 31:

	2007		2006	
($ millions)	*Fair Value*	*Cost*	*Fair Value*	*Cost*
Fixed income				
Debentures	$ 5,936	$ 5,316	$ 7,875	$ 6,855
Bonds	34,137	34,619	23,613	23,081
Money-market securities	8,037	8,042	6,159	6,166
Alternative investments[2]	11,450	11,051	12,767	11,283
	59,560	59,028	50,414	47,385
Equity				
Publicly traded				
Canadian	10,020	6,153	15,453	9,660
Non-Canadian	18,136	18,444	19,604	16,403
Non-publicly traded				
Canadian	3,369	2,864	2,945	2,435
Non-Canadian	8,860	9,284	5,102	5,030
	40,385	36,745	43,104	33,528
Inflation-sensitive investments				
Real estate (note 8)	16,852	11,854	15,157	10,989
Real-rate products				
Canadian	7,946	6,103	8,612	6,262
Non-Canadian	3,733	3,820	3,640	3,522
Infrastructure and timber	15,418	14,693	9,586	8,596
	43,949	36,470	36,995	29,369
	143,894	132,243	130,513	110,282
Investment-related receivables				
Securities purchased under agreements to resell	7,896	7,937	6,848	6,814
Cash collateral deposited under securities borrowing arrangements	227	240	930	904
Derivative-related, net	3,813	1,814	2,778	1,452
	11,936	9,991	10,556	9,170
Investments	$155,830	$142,234	$141,069	$119,452

(1) For additional details, refer to the schedule of Investments over $100 million on page 89.

(2) Comprised of hedge funds and managed futures accounts.

	2007		2006	
($ millions)	***Fair Value***	***Cost***	*Fair Value*	*Cost*
Investment-related liabilities				
Securities sold under agreements to repurchase	**$ (23,143)**	**$(23,205)**	$ (17,252)	$(17,187)
Securities sold but not yet purchased				
Fixed income	**(6,188)**	**(6,233)**	(3,263)	(3,243)
Equities	**(226)**	**(237)**	(921)	(817)
Joint ventures (note 6)	**(3,995)**	**(3,983)**	(3,575)	(3,575)
Subsidiaries and VIEs (note 7)	**(8,693)**	**(8,699)**	(4,713)	(4,714)
Real estate (note 8)	**(3,440)**	**(3,428)**	(4,038)	(3,804)
Cash collateral received under credit support annexes	**(32)**	**(32)**	(5)	(5)
Derivative-related, net	**(2,112)**	**(1,172)**	(1,624)	(1,337)
	(47,829)	**(46,989)**	(35,391)	(34,682)
Net investments (note 2c)	**$108,001**	**$ 95,245**	$105,678	$ 84,770

(b) **Derivative contracts**

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

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

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

		2007		2006
($ millions)	Notional	Fair Value	Notional	Fair Value
Equity and commodity derivatives				
Swaps	$ 18,117	$ (117)	$ 18,114	$1,194
Futures	5,062	60	2,939	(7)
Options: Listed – purchased	86	2	69	–
– written	108	(3)	92	(1)
OTC – purchased	4,476	469	2,638	161
– written	1,380	(50)	2,116	(102)
	29,229	361	25,968	1,245
Interest rate derivatives				
Swaps	67,557	547	44,510	88
Futures	85,111	1	61,026	(5)
Options: Listed – purchased	14,427	9	4,777	5
– written	3,374	(8)	4,753	(5)
OTC – purchased	21,777	294	21,414	298
– written	21,556	(191)	19,189	(230)
	213,802	652	155,669	151
Currency derivatives				
Swaps	522	93	671	87
Forwards(3)	61,896	10	74,195	(470)
Futures	–	–	3	–
Options: OTC – purchased	15,121	229	3,700	21
– written	6,654	(125)	2,873	(13)
	84,193	207	81,442	(375)
Credit derivatives				
Loan participations	368	154	959	680
Credit default swaps – purchased	17,489	720	9,811	46
– written	4,520	(427)	1,760	(91)
Total return swaps	810	(19)	591	6
Equity default swaps	9	2	9	–
	23,196	430	13,130	641
Other derivatives				
Volatility/variance swaps	24,332	17	8,905	44
Dividend swaps	376	3	128	38
	24,708	20	9,033	82
	375,128	1,670	285,242	1,744
Less: Net cash collateral paid/(received) under derivative contracts	–	31	–	(590)
Notional and net fair value of derivative contracts	$375,128	$1,701	$285,242	$1,154

(3)Excludes currency forwards related to Real Estate assets as disclosed in note 8.

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

($ millions)	2007	2006
Derivative-related receivables	$ 4,048	$ 3,413
Cash collateral paid under derivative contracts	406	96
Derivative-related liabilities	(2,378)	(1,669)
Cash collateral received under derivative contracts	(375)	(686)
	$ 1,701	$ 1,154

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

	2007		2006	
	Notional ($ millions)	Weighted Average Maturity (years)	Notional ($ millions)	Weighted Average Maturity (years)
Equity and commodity derivatives				
Swaps	$ 1,275	1.9	$ 1,227	2.0
OTC options	3,127	2.7	2,690	2.7
Interest rate derivatives				
Swaps	41,920	8.0	39,402	9.5
OTC options	26,495	6.4	7,465	15.2
Currency derivatives				
Swaps	428	10.8	453	4.4
Forwards	19,205	1.6	90	1.1
Options	1,382	2.3	–	–
Credit derivatives				
Loan participations	244	2.7	959	3.6
Credit default swaps	20,318	16.0	11,057	8.1
Total return swaps	747	5.6	591	2.8
Equity default swaps	9	4.5	9	5.5
Other derivatives				
Volatility/variance swaps	18,215	3.8	6,343	2.4
Dividend swaps	299	6.0	120	4.5

(c) Investment asset mix

The Plan had a policy asset mix of 45% equities, 22% fixed income and 33% inflation-sensitive investments at December 31, 2007 and 2006.

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

	2007		2006	
	Effective Net Investments at Fair Value ($ millions)	*Asset Mix %*	*Effective Net Investments at Fair Value ($ millions)*	*Asset Mix %*
Equity				
Canadian	$ 13,732	13%	$ 16,386	15%
Non-Canadian	36,314	34	32,425	31
	50,046	47	48,811	46
Fixed income				
Bonds	22,911	21	20,856	20
Alternative investments	9,889	9	9,656	9
Absolute return strategies	2,408	2	5,557	5
Money market	(13,584)	(12)	(11,222)	(11)
Debt on real estate properties (note 8)	(2,945)	(3)	(3,409)	(3)
	18,679	17	21,438	20
Inflation-sensitive				
Real estate, net (note 8)	16,357	15	14,528	14
Real-rate products	11,061	10	11,803	11
Infrastructure and timber	8,840	8	6,775	7
Commodities	3,018	3	2,323	2
	39,276	36	35,429	34
Net investments	$108,001	100%	$105,678	100%

(d) Interest rate risk

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

As at December 31, 2007, holding the inflation and salary escalation assumptions constant, a 1% decrease in the assumed long-term real rates of return would result in an increase in the pension liabilities of approximately 17% (2006 – 16%).

After giving effect to the derivative contracts and investment-related receivables and liabilities discussed in note 2b, a 1% increase in nominal interest rates would result in a decline in the value of the fixed income securities of 7% (2006 – 7%). Similarly, a 1% increase in real interest rates would result in a decline in the value of the real-rate products of 16% (2006 – 16%).

(e) **Credit risk**

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

As at December 31, 2007, the Plan has a significant concentration of credit risk with the Government of Canada and the Province. This concentration relates primarily to the holding of $23.9 billion of Government of Canada issued securities, $5.9 billion of non-marketable Province of Ontario debentures, $0.1 billion in Province of Ontario bonds, a receivable from the Province of $1.8 billion (see note 3), and future provincial funding requirements of the Plan.

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

(f) **Foreign currency risk**

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

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

($ millions)	***2007***	*2006*
Currency	***Net Exposure***	*Net Exposure*
United States Dollar	**$10,279**	$11,509
Euro	**5,203**	8,219
British Pound Sterling	**3,865**	3,624
Brazilian Real	**2,740**	1,653
Australian Dollar	**2,326**	990
South Korean Won	**1,047**	977
Norwegian Krone	**1,039**	(388)
Japanese Yen	**895**	3,464
Chilean Peso	**644**	7
New Zealand Dollar	**639**	357
Other	**2,222**	2,331
	$30,899	$32,743

(g) **Securities collateral**

Securities with a fair value of $1,124 million (2006 – $1,242 million) have been deposited or pledged with various financial institutions as collateral or margin. Securities with a fair value of $431 million (2006 – $21 million) have been received from various financial institutions as collateral.

NOTE 3.

Receivable from the Province of Ontario

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

($ millions)	2007	2006
Contributions receivable	$1,791	$1,530
Accrued interest receivable	48	45
	$1,839	$1,575

The receivable as at December 31, 2007, from the Province consists of $808 million, which was received in January 2008, and an estimated $1,031 million to be received with interest in 2009. The receivable as at December 31, 2006, from the Province consisted of $795 million, which was received in January 2007, and an initial estimate of $780 million to be received in January 2008.

NOTE 4.

Actuarial asset value adjustment

The actuarial value of net assets available for benefits is determined by reference to market rates consistent with assumptions underlying the valuation of accrued pension benefits. The adjustment represents accumulated deferred net gains, being the unamortized difference between the actual, and management's best estimate of, return on the Plan's equity investments (including real estate, commodities, alternative investments, and infrastructure and timber). Annual returns that are in excess of (gains) or below (losses) management's best estimate of returns are amortized over five years. The change in actuarial asset value adjustment for the year was $7,535 million (2006 – $(3,730) million).

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

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

	Unamortized (Gains)/Losses	Unamortized (Gains)/Losses to Be Recognized in				Unamortized (Gains)/Losses
($ millions)	2007	2008	2009	2010	2011	2006
2003	$ –	$ –	$ –	$ –	$ –	$ (1,080)
2004	(727)	(727)	–	–	–	(1,454)
2005	(2,372)	(1,186)	(1,186)	–	–	(3,558)
2006	(3,804)	(1,268)	(1,268)	(1,268)	–	(5,072)
2007	3,274	819	819	818	818	–
	$(3,629)	$(2,362)	$(1,635)	$ (450)	$ 818	$(11,164)

NOTE 5.

Accrued pension benefits

(a) Actuarial assumptions

The actuarial assumptions used in determining the value of accrued pension benefits of $115,459 million (2006 – $110,496 million) reflect management's best estimate of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, salary escalation rate and the inflation rate. The discount rate is based on the market rate, as at the valuation date, of long-term Government of Canada real-return bonds, which have characteristics similar to the Plan's liabilities, plus 50 basis points to reflect the credit risk of the Province of Ontario. The inflation rate is the difference between the yield on Government of Canada long-term nominal bonds and Government of Canada Real-Return Bonds. The salary escalation rate incorporates the inflation rate assumption and long-term expectation of growth in real wages. A summary of the primary economic assumptions, as at December 31, is as follows:

	2007	*2006*
Discount rate	**4.65%**	4.70%
Salary escalation rate	**3.20%**	3.40%
Inflation rate	**2.20%**	2.40%
Real rate	**2.45%**	2.30%

The primary economic assumptions were changed as a result of changes in capital markets during 2007. These changes resulted in a net decrease in the value of accrued pension benefits of $2,594 million (2006 – $5,219 million). In addition, changes in non-economic assumptions increased the value of accrued pension benefits by $3,086 million (2006 – $86 million). In 2007, the primary change to non-economic assumptions was to assumed mortality rates. The changes in economic and non-economic assumptions resulted in a net increase in the value of accrued pension benefits of $492 million (2006 – $5,133 million decrease).

(b) Plan provisions

No material amendments were made to the Plan provisions in 2007. The TPA was amended in 2006 to remove the funding restrictions previously in that Act. The Plan became subject to the funding requirements of the Pension Benefits Act which was also amended in 2006 to introduce requirements for a newly-created class of pension plans referred to as "Jointly Sponsored Pension Plans" which includes the Plan. These requirements allow the Plan to continue to use the funding valuation method that was previously prescribed by the TPA provided that certain additional tests are satisfied. The Plan was amended in 2006 to phase in over a three-year period a 3.1% contribution increase for both members and employers for a period of 15 years beginning in 2007. The Plan was also amended in 2006 to introduce a cap on pensionable salary of six times the Year's Maximum Pensionable Earnings prescribed each year under the Canada Pension Plan (the CPP).

(c) Experience gains and losses

Experience gains of $18 million (2006 – $421 million losses) arose from differences between the actuarial assumptions and actual results.

NOTE 6.

Investments in joint ventures

The Plan's proportionate share of the fair value of assets and liabilities in joint ventures as at December 31, 2007 (excluding joint ventures related to real estate which are disclosed in note 8), is $5,923 million (2006 – $5,119 million) and $3,995 million (2006 – $3,575 million), respectively.

NOTE 7.

Consolidation of subsidiaries and variable interest entities

Subsidiaries and variable interest entities

The Plan's fair value of assets and liabilities of subsidiaries (excluding the real estate subsidiaries included in note 8) and VIEs at December 31, 2007, is $14,675 million (2006 – $7,185 million) and $8,693 million (2006 – $4,713 million), respectively.

Subsidiaries

In 2007, the Plan acquired a controlling interest in the following companies for consideration of $4,126 million comprised primarily of cash:

- A 51% interest in Empresa de Servicios Sanitarios del Bio-Bio S.A., a publicly-traded water utilities company in Chile;
- A 100% interest in Aguas Nuevo Sur Maule, S.A., a private water utilities company in Chile;
- A 69% interest in Esval S.A., a publicly-traded water utilities company in Chile;
- A 99% interest in Arclin (formerly known as Dynea North America), a provider of bonding and surfacing products for engineered materials in North America;
- A 100% interest in Global Terminal and Container Systems, Inc., a company which holds and directs its infrastructure investments in marine container terminals in Canada and the U.S.; and
- A 100% interest in Glass, Lewis & Co., an investment research and global proxy advisory and voting services firm.

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

NOTE 8.

Investment in real estate

(a) Investment in real estate

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

	2007		2006	
($ millions)	*Fair Value*	*Cost*	*Fair Value*	*Cost*
Assets[1]				
Real estate properties[2]	$15,110	$10,457	$14,129	$10,281
Investments	1,550	1,205	846	526
Other assets[2]	192	192	182	182
Total assets	16,852	11,854	15,157	10,989
Liabilities				
Debt on real estate properties[2][3]	2,945	2,996	3,450	3,355
Other liabilities[2]	495	432	588	449
Total liabilities	3,440	3,428	4,038	3,804
Net investment in real estate	$13,412	$ 8,426	$11,119	$ 7,185

[1] As at December 31, 2007, U.S. Dollar and British Pound Sterling assets have been hedged by way of foreign currency forward contracts for a notional amount of $2,188 million (2006 – $1,918 million) with a combined fair value of $(3) million (2006 – $(49) million).

[2] Includes the proportionate share of assets and liabilities in real estate joint ventures of $3,132 million (2006 – $3,501 million) and $853 million (2006 – $1,110 million), respectively.

[3] As at December 31, 2007, there are contingent liabilities for the obligations of certain co-owners in the aggregate amount of $4 million (2006 – $19.0 million). However, in each case the co-owner's share of the assets was available for the purpose of satisfying such obligations.

(b) **Real estate income**

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

($ millions)	*2007*	*2006*
Revenue		
Rental	$1,586	$1,538
Investment	27	13
	1,613	1,551
Expenses		
Property operating	725	705
General and administrative	25	31
Other[7]	13	9
	763	745
Operating income (note 9)	850	806
Interest expense (note 9)	(189)	(218)
	661	588
Net investment gain on real estate assets[4][6]	1,260	1,324
Net investment gain on debt on real estate properties[5][6]	145	54
Net real estate income	$2,066	$1,966

[4] Includes unrealized net gain on real estate assets and other liabilities, of $906 million (2006 – $1,288 million).

[5] Includes unrealized net gain on debt on real estate properties of $146 million (2006 – $34 million).

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

[7] Includes transaction costs of $6 million in 2007.

NOTE 9.

Investment income

(a) Investment income before allocating net realized and unrealized gains on investments and transaction costs to asset classes

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

($ millions)	*2007*	*2006*
Fixed income interest		
Debentures	$ 690	$ 823
Money-market securities	219	307
Bonds	1,138	1,396
Net repo interest expense	(457)	(237)
Net swap interest expense	(1,541)	(630)
Real estate interest expense (note 8b)	(189)	(218)
	(140)	1,441
Equity dividend income		
Canadian equity	408	521
Non-Canadian equity	979	783
	1,387	1,304
Inflation-sensitive investment income		
Real estate operating income (note 8b)	850	806
Real-rate products		
Canadian	216	213
Non-Canadian	90	68
Infrastructure and timber	380	303
	1,536	1,390
	2,783	4,135
Net realized and unrealized gain on investments[1][2]	1,971	8,176
Transaction costs	(76)	–
Investment income	$ 4,678	$12,311

[1]Includes unrealized net losses of $8,152 million (2006 – gains of $4,245 million).

[2]Includes net foreign currency gains of $2,193 million (2006 – losses of $1,036 million).

(b) **Investment income**

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

($ millions)	*2007*	*2006*
Fixed income	$ 472	$ 1,134
Canadian equity	2,272	2,187
Non-Canadian equity	(1,206)	6,691
Inflation-sensitive investments	3,140	2,299
	$ 4,678	$12,311

NOTE 10.

Investment returns and related benchmark returns

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

	2007		*2006*	
(percent)	*Investment Returns*	*Investment Benchmark Returns*	*Investment Returns*	*Investment Benchmark Returns*
Fixed income(1)(2)	5.4%	9.6%	6.1%	1.4%
Canadian equity(2)(3)	14.5	9.8	12.5	17.3
Non-Canadian equity(2)(3)	(5.4)	(5.6)	25.0	21.5
Inflation-sensitive investments(3)	7.0	2.9	7.4	1.6
Total plan	4.5%	2.3%	13.2%	9.4%

(1)Includes currency policy hedge trading, internal absolute return strategy investments and alternative investments.

(2)For the period January 1, 2006 to June 30, 2006, mezzanine debt was included in Canadian and Non-Canadian equities. Beginning July 1, 2006, mezzanine debt is included in Fixed Income due to a change in benchmark.

(3)On September 1, 2007, the Plan commenced the inclusion of transaction costs in the calculation of investment returns for the year ended on December 31, 2007. All transaction costs incurred in 2007 prior to September 1, 2007, were included in investment returns except for $11 million. The impact of excluding these transaction costs is not material to the investment returns for the asset class or total Plan.

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

The Plan identifies benchmarks to evaluate the investment management performance. The performance of each asset class is measured against benchmarks that simulate the results based on the investment strategies employed by the investment managers identified for the asset class.

The total Plan return is measured against a Canadian dollar-denominated composite benchmark produced by aggregating returns from each of the policy asset class benchmarks, using the Plan's asset-mix policy weights.

Effective January 1, 2007, certain benchmarks have been revised to reflect changes in investment strategy and objectives.

NOTE 11.

Statutory actuarial valuations

Statutory actuarial valuations are prepared periodically to determine the funding requirements of the Plan. Until 2007, active members were required to contribute 7.3% of the portion of their salaries covered by the CPP and 8.9% of salaries above this level. Member contributions are matched by the Province and other employers. In addition, the Funding Management Policy established by the co-sponsors provides procedures for the co-sponsors to determine contributions and benefits.

Under an agreement between the co-sponsors, contribution rates are as follows:

	Members Contribution Rate on portion of salaries:		*Government and Designated Employers Contribution Rate on portion of salaries:*	
(percent)	*covered by CPP*	*not covered by CPP*	*covered by CPP*	*not covered by CPP*
2007	9.3%	10.9%	9.3%	10.9%
2008	9.6%	11.2%	10.4%	12.0%
2009	10.4%	12.0%	10.4%	12.0%

The actuarial methods used to prepare statutory actuarial valuations are different than those used to prepare a financial statement actuarial valuation and the amounts disclosed in these consolidated financial statements. The statutory actuarial valuations use a valuation method which takes into account future benefits to be earned and future contributions to be made by members of the Plan as at the valuation date.

The most recent statutory actuarial valuation that has been filed with regulatory authorities was prepared as at January 1, 2005, by Mercer (Canada) Limited and disclosed a funding deficit of $6,064 million, based on an agreement between the Board and the co-sponsors. The deficit is being amortized over the 15-year period commencing January 1, 2007, by the contribution increases summarized above.

Using the assumptions prescribed by the Funding Management Policy, the estimate of the funding deficit is approximately $12,700 million as at January 1, 2008. A funding valuation as at January 1, 2008, must be completed and filed with FSCO by September 30, 2008.

NOTE 12.

Contributions

($ millions)	2007	2006
Members		
Current service	$1,023	$ 779
Optional credit	17	16
	1,040	795
Province of Ontario		
Current service	1,008	779
Interest	37	33
Optional credit	15	8
	1,060	820
Other employers	19	14
Transfers from other pension plans	19	17
	38	31
	$2,138	$1,646

NOTE 13.

Benefits paid

($ millions)	2007	2006
Retirement pensions	$3,725	$3,535
Death benefits	219	203
Disability pensions	32	32
Commuted value transfers	30	34
Refunds	8	7
Transfers to other plans	6	8
	$4,020	$3,819

NOTE 14.

Administrative expenses

(a) Investment expenses

($ millions)	2007	2006
Salaries, incentives and benefits	$119.4	$119.8
Investment management fees	37.6	30.9
Professional and consulting services	24.5	33.0
Premises and equipment	17.4	11.4
Custodial fees	10.6	7.7
Information services	9.7	7.2
Communication and travel	7.5	6.6
Statutory audit fees	0.8	0.8
Board and committee remuneration	0.5	0.4
Other	1.4	1.7
	$229.4	$219.5

(b) Member Services expenses

($ millions)	2007	2006
Salaries, incentives and benefits	$23.4	$ 21.1
Premises and equipment	6.8	6.6
Professional and consulting services	2.5	2.4
Communication and travel	1.2	1.2
Statutory audit fees	0.3	0.3
Board and committee remuneration	0.2	0.2
Other	0.8	0.7
	$35.2	$32.5

NOTE 15.

Retirement Compensation Arrangement (RCA)

Restrictions in the ITA on the payment of certain benefits from a registered plan for periods of service after 1991 may impact some Plan members. To address affected members, the RCA was established by agreement between the co-sponsors as a supplementary plan to provide these benefits.

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

Because the RCA is a separate trust and the Plan does not hold any variable interest in the RCA, the net assets available for benefits and the value of accrued benefits and deficit, referred to below, have not been included in the consolidated financial statements of the Plan.

The RCA is funded on a pay-as-you-go basis from a portion of the contributions made to the Plan by teachers, the Province and designated private schools and organizations. The portion is based on a limit on contributions to the Plan with contributions above the limit being remitted to the RCA. The limit is determined annually by the Plan's independent actuary such that the RCA contributions are expected to be sufficient to pay the benefits over the next 12 months. At the beginning of 2008, the actuary determined that the limit should decrease from $12,700 to $11,800. Due to the funding policy adopted by the co-sponsors, the net assets available for benefits will continue to be substantially less than the accrued benefits.

In addition, because it is difficult to predict the benefits expected to be paid over the next 12 months, it is possible that the assets may be insufficient to pay the benefits. In such a case, the payment of benefits will be temporarily suspended and contributions raised in order to fund the payments that are due under the RCA.

A summary of the financial statements for the RCA as at December 31 is as follows:

($ thousands)	*2007*	*2006*
Statement of net assets available for benefits and accrued benefits and deficit		
Net assets available for benefits		
Assets	$ 11,400	$ 11,870
Liabilities	(823)	(1,384)
	$ 10,577	$ 10,486
Accrued benefits and deficit		
Accrued benefits	$ 245,401	$ 207,655
Deficit	(234,824)	(197,169)
	$ 10,577	$ 10,486
Statement of changes in net assets available for benefits		
Contributions	$ 3,189	$ 3,654
Investment income	172	172
	3,361	3,826
Benefits paid	3,221	2,800
Expenses	49	126
	3,270	2,926
Increase in net assets	$ 91	$ 900

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

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

NOTE 16.

Commitments

The Plan has committed to enter into investment and other transactions, which may be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2007, these commitments totalled $15,008 million (2006 – $12,456 million).

Included in these commitments is $4 billion, which represents an equity commitment in respect of a transaction pursuant to which a corporation (the "Purchaser") organized by several investors is proposing to acquire BCE Inc. ("BCE") in a transaction valued at $51.7 billion, including debt and other interests. Pursuant to the definitive agreement that was entered into between BCE and the Purchaser in respect of the transaction, a break-up fee of $800 million would be payable by BCE in certain circumstances, and a reverse break-up fee of $1 billion would be payable by the Purchaser in certain circumstances. Certain of the investors are parties to a limited guarantee pursuant to which they may be required to make payments in an aggregate amount not in excess of the reverse break-up fee of $1 billion (of which the Plan's share is up to $587 million). It is anticipated that upon closing, the Plan will own a 52% indirect equity interest in BCE. As of December 31, 2007, the closing of the transaction remains subject to a number of conditions, including regulatory approvals from Industry Canada and the Canadian Radio-television and Telecommunications Commission and receipt of a final order of the Quebec Superior Court approving the plan of arrangement pursuant to which the transaction would be implemented, which currently is being contested by certain holders of bonds issued by Bell Canada.

NOTE 17.

Guarantees and indemnifications

Guarantees

In 2004, as part of an investment transaction, the Plan agreed to guarantee a letter of credit facility of a counterparty. In the event that the counterparty defaults on the letter of credit, the Plan would assume 50% of the line of credit facility amount up to US$25 million as at December 31, 2007 (2006 – US$25 million), plus interest and transaction costs. These letters of credit facilities have a term of one year and are renewable annually. As at December 31, 2007, the counterparty has issued US$19 million in letters of credit which are guaranteed by the Plan (2006 – US$18 million).

In 2006, as part of an investment transaction, the Plan agreed to guarantee an equipment lease of a counterparty. In the event the counterparty defaults on the lease, the Plan would assume 25% of the lease amount up to $15 million as at December 31, 2007 (2006 – $15 million). The guarantee expires on April 1, 2012, upon termination of the lease agreement. No payments have been made by the Plan regarding this guarantee in either 2007 or 2006.

Certain joint ventures and subsidiaries have provided performance guarantees and/or letters of credit facilities during their normal course of business. The beneficiaries of these guarantees and/or letters of credit facilities have the ability to draw against these facilities to the extent the contractual obligations, as defined in the related agreements, are not met. The term of these guarantees and/or facilities can range from one year to twenty-two years. As at December 31, 2007, the maximum exposure is $784 million (2006 – $422 million).

The Plan also indirectly guarantees the underlying reference obligations when writing credit derivatives. The maximum potential exposure is the notional amount of written credit derivatives as shown in note 2b. No net payments related to written credit derivatives have been made in either 2007 or 2006.

Indemnifications

The Plan provides that Board members, employees and certain others are to be indemnified against the expenses related to certain proceedings against them. In addition, in the normal course of operations, the Plan may, in certain circumstances, agree to indemnify a counterparty. Under these agreements, the Plan, its subsidiaries and joint ventures may be required to compensate counterparties for costs incurred as a result of various contingencies such as legal claims or changes in laws and regulations. The number of such agreements, the variety of indemnifications and their contingent character prevents the Plan from making a reasonable estimate of the maximum amount that would be required to pay all such counterparties.