Ontario Pension Board

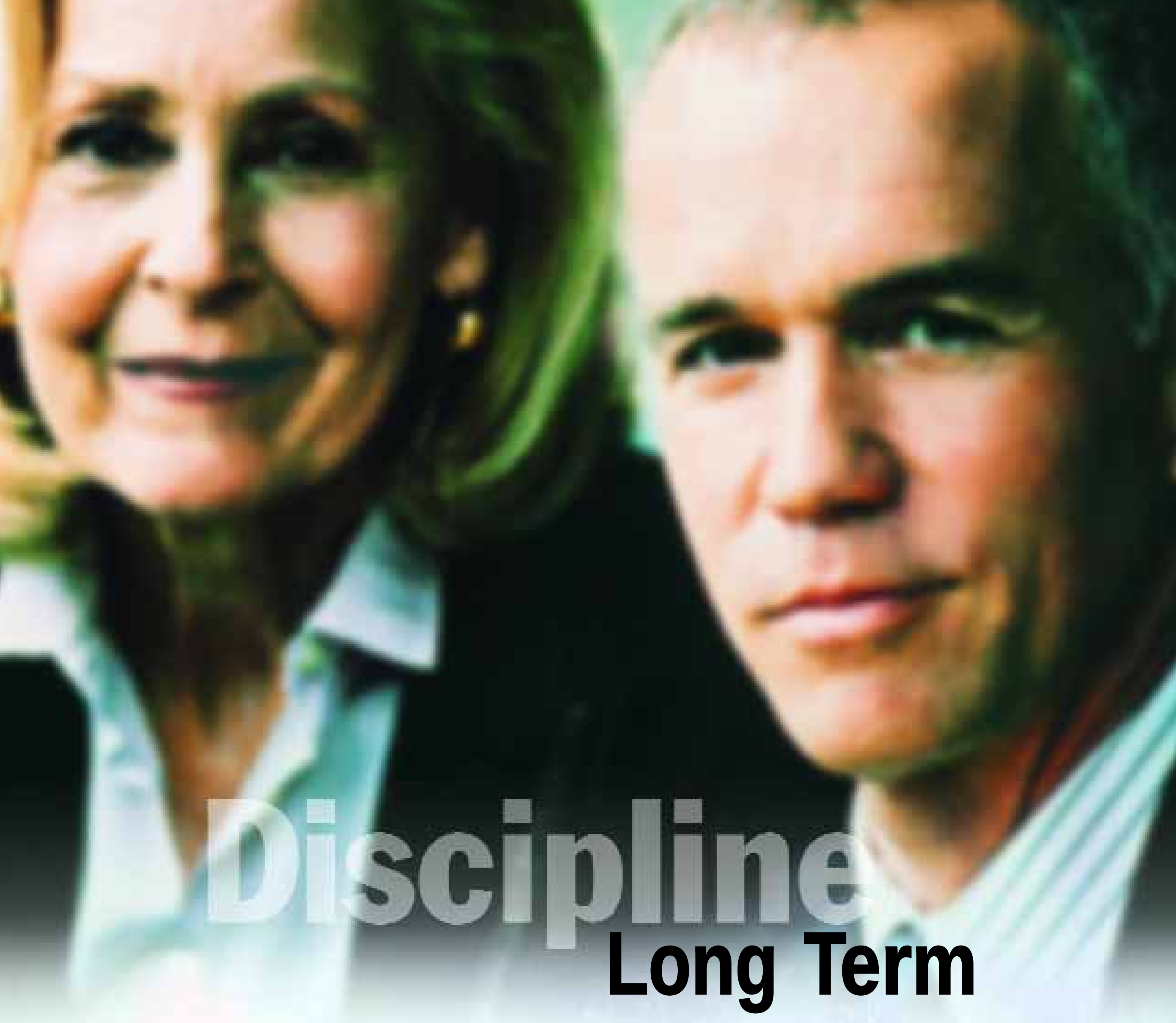
2004 Annual Report

WHO WE ARE

The Ontario Pension Board's (OPB) prime goal is to secure the pension promise to beneficiaries of the Public Service Pension Plan (PSPP). OPB operates on an arm's length basis from the Plan's sponsor, the Province of Ontario, which both sets contribution rates and defines pension benefits, and which guarantees the pensions 100%. This guarantee is unique among public service pension plans in Ontario.

OPB is both trustee and administrator of the Plan, one of Canada's largest pension plans, with assets in excess of $13 billion, approximately 32,400 active members employed by the various Ontario ministries, agencies, boards and commissions, and approximately 42,400 pensioners and their survivors. Dating from 1920, PSPP is also one of Canada's oldest pension plans, and as a result of a long series of amendments, legislative changes, and changes to its own provisions, it is one of the most complex pension plans to administer.

CONTENTS



Discipline
Long Term

At the Ontario Pension Board, everything we do is driven by our commitment to fulfill the pension promise. We strive to provide our members and pensioners with a high quality, cost-effective service. Our history of strong investment performance is a result of our disciplined and long-term approach to asset management. We believe it continues to be **the right strategy for the future**.

Strategy

Managing through Volatility

OPB's objective is to achieve an investment return over the long term that, at the current contribution rates, is adequate to fully fund the pension promised by the Plan. Our investment philosophy is a conservative, disciplined long-term approach with strong risk management processes that focus on capital preservation and the generation of the reliable cash flows we need to fund our current and future retirees' pensions. We manage the assets of the Plan to reflect the unique nature of the liabilities of our Plan. Unlike most major public sector pension plans, we have more pensioners and other beneficiaries than contributing members. We have a single Plan sponsor who sets both pension benefits and contribution rates.

Despite the accentuated peaks and valleys in the economy and the investment environment over the past decade and a half, during this period OPB has exceeded the Fund's long-term real rate of return requirement of 3.75% (that is, 3.75% in excess of the rate of inflation), however the low interest rate environment will make it more difficult to do that in the future. Managing through the volatility has been one of our strengths. The Fund's consistent investment performance has eliminated the initial funding shortfall of $2.5 billion (which we assumed in 1990 when OPB was established) more quickly than planned and also afforded temporary enhancements to the Plan's early retirement provisions and temporary reductions in member and Plan sponsor contributions.

Under pension legislation, an actuarial valuation of the Plan has to be filed with the pension regulator at least every three years. The most recent valuation filed was prepared as of December 31, 2002. That actuarial valuation reported a funding excess of $25 million, which means the assets used for actuarial valuation purposes exceeded the liabilities of the Plan by $25 million. One of the approaches used to manage volatility is to smooth out the gains and losses on the marketable securities of the Fund in determining the value of the assets for purposes of the actuarial valuation. As of December 31, 2002, the smoothed value of the marketable securities was $494 million higher than the market value of these securities, or in other words, without the smoothing of the gains and losses, the Plan would have had a funding shortfall of $469 million.

Our investment philosophy is a conservative, disciplined long-term approach with strong risk management processes that focus on capital preservation and the generation of the reliable cash flows we need to fund our current and future retirees' pensions.

Although the next actuarial valuation required to be filed with the Financial Services Commission of Ontario will be prepared as of December 31, 2005, as part of our monitoring process, we prepare an actuarial valuation on an annual basis for management purposes. The latest such actuarial valuation was prepared as of December 31, 2003 and reported a funding shortfall of $749 million. This represents 4.5% of the Plan's liabilities, or in other words, the assets of the Plan are about 95.5% of the Plan's liabilities. This funding shortfall in part reflects the recognition of past losses in the smoothed value of the assets—at December 31, 2003, the smoothed value of the marketable securities is essentially equal to the market value, which means those past losses have now been fully reflected in assessing the funded position of the Plan.

At the same time as the "actuarial" assets grew slower than expected under the assumptions, the Plan's liabilities grew faster than expected. The liabilities represent the present value of all the future benefits to be paid from the Plan many years into the future. The liabilities are determined by making assumptions about future salary increases (used to estimate pension levels), future inflation (used to estimate the indexation of pensions), retirement age patterns (used to estimate when pensions will start) and life expectancy (used to estimate how long pensions will be paid). For each one of these assumptions, the actual experience in 2003 resulted in the liabilities growing faster than assumed.

While the pension benefits remain secure and the Plan's investment performance still compares favourably with the pension industry, we are paying close attention to the funding shortfall. We will continue to analyze the situation and fulfill our mandate to the stakeholders of the Plan.

Vision

Letter from the Chairman

I am pleased to report on the Ontario Public Service Pension Plan's performance during my first year as Chairman of the Board.

The Ontario Pension Board's mandate is to secure the pension promise made by the Plan's sponsor, the Province of Ontario, to our 32,400 active members and to our 42,400 pensioners.

The security of both current and future pensions starts at the top with the Board of Directors and its relationship with Plan management, with the direction and oversight it applies to the Plan's assets and to the services it provides to members and pensioners.

While our mandate does not change from year to year, our pursuit of more effective ways of ensuring its achievement never ceases.

John Richardson
Chairman

In 2004, our examination of the Board's activities took us back to an assessment of the first principles under which we are governed. The principles provide a framework for meeting the OPB's mandate. They deal with establishing clearly defined roles and responsibilities both between the Board and its Committees and between the Board and management. They set the tone for maintaining our culture of integrity and acceptance of individual and collective responsibility.

During the year, a Committee of the whole Board spent substantial time reviewing general governance issues, and a decision was made to separate the roles of Chairman and CEO. Don Weiss accepted the role as President and CEO and I was appointed Chairman by an Order in Council.

There were a number of other Board and management changes during the past year that I would like to acknowledge.

Geoffrey Collins retired from the Board. We are grateful for his wise counsel and dedication to OPB's members and pensioners.

Leonard Lu retired at year-end, after 14 years with OPB, including 10 as President. Leonard guided OPB through a number of complex issues and challenges over the past decade and our reputation as one of Canada's leading pension plans is due in no small part to his leadership. We thank Leonard for his many contributions and wish him the very best in retirement.

We welcome two new Directors, J. Urban Joseph and M. Vincenza Sera, who joined the Board during 2004 and bring strong investment and management skills and experience.

In 2004, following a competitive process, the Board also engaged Hewitt Associates as new primary actuaries for OPB.

OPB managed well through the ever-shifting environment of 2004 and we are now poised to deal with 2005. Clearly one of the main challenges we face in the coming year is the uncertain investment environment, with expected low interest rates and restrained equity markets.

Our strong long-term investment performance has kept our funding shortfall at a manageable level.

We have a strong and mutually supportive working relationship with our sponsor and other stakeholders. We have a management team that continuously achieves a high standard of performance and we have a Board of Directors that will continue to ensure that OPB meets the long-term funding goals and current service needs of our members. We thank them all for their contributions to our success.

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The security of both current and future pensions starts at the top with the Board of Directors.

John Richardson
Chairman

Leadership

Letter from the President and CEO

My first year as President and CEO has been a year of change and transition. There have been changes in the senior management team, challenges in the investment markets, new Board member appointments, and we have undertaken a comprehensive review of the principles that govern the OPB. Throughout this year of change and transition, we have stayed focused on our tasks, and I am pleased with our performance as a manager of the investment fund and as administrator of the pension plan.

As the Chairman stated in his letter, our senior management team changed in 2004. In June 2004, OPB's Board of Directors decided to split the position of Chairman and CEO. I stepped down as Chairman and was honoured to be appointed by the Board as President and CEO. Leonard Lu retired as OPB's President.

Donald D. Weiss
President & CEO

Mark Fuller has been appointed Executive Vice-President, Pensions and has a strong liability management focus. Linda Bowden was appointed Senior Vice-President, Corporate Services and she will focus on advancing the use of technology in our service delivery. During 2004, Joe Farrugia, our Director of Planning & Information Technology, retired. Reflecting our increased focus on information technology, in early 2005, Thomas Choi was appointed Vice-President, Planning & Information Technology. I am confident that these changes have positioned OPB to continue to perform well in an increasingly challenging environment for defined benefit pension plans.

Our role is two-fold: to increase the value of the Fund through an investment strategy that will produce returns that exceed our real rate of return objective over the long term and to provide our members with high quality, efficient pension administration services. Our solid performance in 2004, in achieving both these objectives, reaffirms that our long-term view and disciplined approach put us on the right course to secure the pension promise for our members and pensioners.

Our investment portfolio continues to perform well. The rate of return on the assets for 2004 was 10.18% compared to 10.77% in 2003 and 10.36% since our inception in 1990. Our strength has been in Canadian equities, which make up approximately 43% of our equities portfolio, and non-traditional investments. Real estate has anchored our non-traditional investments since 1994 and we continue to receive solid consistent returns from our $1.4 billion portfolio. Real estate comprises 10.8% of the Fund's assets and provided us with a 13.08% return in 2004. We will continue to add to this quality portfolio to reach our stated objective of 15% of the Fund. While a high quality, well-managed real estate portfolio fits well with current pension requirements, caution must be exercised in over-heated markets.

Despite our continued strong investment performance, the Plan is projected to have a funding shortfall of approximately $750 million, which represents 4.5% of the Plan's liabilities. The funding shortfall has in part emerged as a result of smoothing, which recognizes gains and losses evenly over a four-year period, including the market downturn of 2001 and 2002, and the low interest rate environment, which drives up our liabilities. However, funding of the core pension promise of the Plan is sound and is not characterized by structural or systemic underfunding.

In late 2004 we commenced a comprehensive review of our strategic plan. Our view is that the changing environment for defined benefit pension plans demands new approaches to investment, liability management and delivering service to our members, pensioners and broader stakeholders. We will be finalizing our new strategic plan during the first half of 2005.

I want to extend my sincere thanks to all our Board members and OPB staff for their extraordinary efforts during the past year. With the Board's full support, we look to the future, confident that OPB is well-positioned to meet the challenges that lie ahead of us.

Donald D. Weiss
President & CEO

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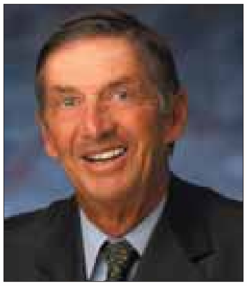
Integrity

Strong Governance

The Board of Directors has a minimum of four members. All members are appointed by the Lieutenant Governor in Council, normally for three-year terms which may be renewed. At least one Director must represent Plan members who are members of a bargaining agent with whom the Ontario government has a collective agreement. Board appointees may be selected for their expertise in the management, investment or administration of pension plans or to represent the concerns of the Crown, members who contribute to the Fund or Plan pensioners.

The objective of OPB's Board of Directors is to ensure that the Plan's two main responsibilities, as trustee and administrator of the Plan, are fulfilled in the best interests of the beneficiaries of the Public Service Pension Plan. The Board, through capable staff, must also ensure compliance with the Plan text and all applicable legislative and regulatory standards, principally the *Public Service Pension Act*, the *Pension Benefits Act (Ontario)* and the *Income Tax Act*.

BOARD OF DIRECTORS



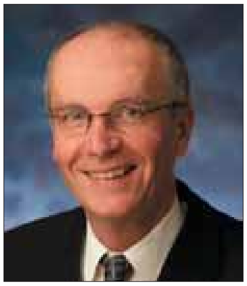
JOHN E. RICHARDSON
Chairman of the Board of Directors
Appointed to the Board on February 6, 2002.
Mr. Richardson brings his expertise in finance and investment management to his role as Chair of the Board. He was Deputy Chairman of London Insurance Group Inc., Chairman, President and CEO of Wellington Insurance Co. and President of Great Lakes Power. Prior to that, he was a partner with Ernst & Young LLP. He has also served as director of a number of community organizations, including the Toronto Rehabilitation Research Institute, the Toronto Community Foundation and the United Way of Toronto.

Mr. Richardson graduated from the University of Toronto with a bachelor of commerce, received an MBA from the Harvard Business School, and is a fellow of the Institute of Chartered Accountants of Ontario.

HUGH GRANT MACKENZIE
Appointed to the Board on December 4, 2002.
Hugh Mackenzie is principal in an economic consulting business, Hugh Mackenzie and Associates, based in Toronto. He has worked for over 30 years in a variety of capacities related to public policy development in the trade union movement, the private sector, and at all three levels of government. For 20 years, he was research director for the United Steelworkers of America, serving as the union's internal consultant on pension policy and pension bargaining.

He serves as the nominee of AMAPCEO on the Ontario Pension Board. He is also a member of the Pension Investment Committee of the Canada Post Pension Plan and a member of the Board of Trustees and Investment Committee and Treasurer of the Atkinson Charitable Foundation. From 1991 to 1994, Mr. Mackenzie was Executive Director of the Ontario Fair Tax Commission.

He is a graduate of the University of Western Ontario and holds a master's degree in economics (public finance) from the University of Wisconsin (Madison).



DEBBIE L. MCKENNA

Appointed to the Board on December 17, 1997.

Ms. McKenna has extensive experience in pension policy and other pension-related matters, including benefit entitlement, retirement counselling, long-term income protection and financial management. She serves as an executive officer of Member Benefits and Services for the Ontario Provincial Police Association, where she has been employed for 25 years. Her responsibilities include reviewing benefit contracts and policies, pension entitlement projections, and establishing the roles and responsibilities of OPPA members. Ms. McKenna received a Credit Union Director Achievement Certificate and is educated in legal administration, real estate law and financing.

M. VINCENZA SERA

Appointed to the Board on September 17, 2004.

Ms. Sera is an accomplished investment banker and advisor to senior executives and boards of directors. From 1992 to 2004, Ms. Sera served as Managing Director of Financial Institutions Group, Investment Banking for National Bank Financial. During 2003 and 2004, she was co-head of the Canadian Financial Institutions Group (FIG) practice of Putnam Lovell NBF which specializes in investment banking activity for global FIG clients. Ms. Sera began her career at CIBC in 1982 and held increasingly senior positions over a nine-year period, culminating in the position of Vice President, Asset Distribution Group, overseeing the sale and syndication of CIBC's loan assets.

Ms. Sera has an MBA (finance) from the University of Toronto (1982) and an honours bachelor business administration (accounting) from the University of Windsor (1979).

MARY TATE

Appointed to the Board on November 20, 2002.

Ms. Tate is currently on secondment as the Assistant Deputy Minister of the Registration Division of the Ministry of Consumer and Business Services. In this position she is responsible for the delivery of program services in land, corporations, personal property, vital statistics, and for moving service delivery from counters to multi-channel access in partnerships with ServiceOntario and other ministries, jurisdictions, and corporations.

As Assistant Deputy Minister of ServiceOntario with the Ministry of Consumer and Business Services since February of 2003, Ms. Tate is responsible for improving access to government information and services by citizens and businesses, through electronic or over-the-counter channels. Prior to taking this position, she was the Assistant Deputy Minister of the Strategic Corporate Support Division within the Ministry of Consumer and Business Services.

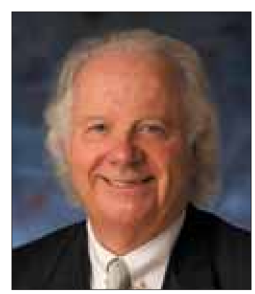
Ms. Tate has almost 25 years experience in the Ontario Public Service. Her portfolio includes leading the successful OPS Workforce Information Network Project, and she has progressively responsible positions within the Ontario Ministries of Labour and Housing.

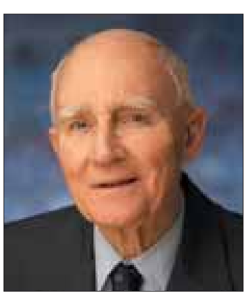
J. URBAN JOSEPH, O.C.

Appointed to the Board on July 1, 2004.

Mr. Joseph led a distinguished career at the Toronto Dominion Bank beginning in 1952. While at TD, he played a leading role in a wide range of areas, including as Assistant General Manager of Marketing & Public Relations, Executive Vice President of the Human Resources Division, and Vice Chairman from 1992 to 1996. He has held 11 directorships, including Director of First Nations Bank of Canada, and has been actively involved in a number of charities, such as St. Michael's Hospital Capital Campaign.

Mr. Joseph has an honours BA and an MBA from the University of Western Ontario (1962–63). He became an Officer of the Order of Canada in 2001.





G. PATRICK H. VERNON

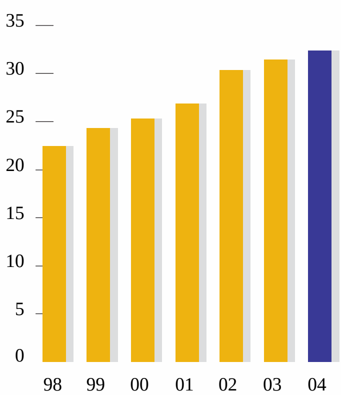
Appointed to the Board on October 1, 2001.

Mr. Vernon brings a broad range of experience to the Board as a lawyer and bank director. He is associate counsel with McCarthy Tetrault LLP. He previously served on the board of directors of Mizuho Bank Canada, the wholly owned subsidiary of a major Japanese bank, and of the Munich Reinsurance Company of Canada. He also currently serves as director for several charitable organizations, including the Carolyn Sifton Foundation. Mr. Vernon graduated with a BA from the University of Toronto, a bachelor of laws (LL.B.) from York University, and is a Queen's Counsel.

Service

Client Profile

Growth in Active Membership
thousands of persons



Our Members	Number of Members	Percent
Province of Ontario Ministries		
Greater than 1,000 members		
Community Safety (includes OPP officers and civilians)	7,699	23.8%
Attorney General	2,528	7.8%
Health and Long-Term Care	1,785	5.5%
Transportation	1,377	4.3%
Management Board of Cabinet	1,087	3.4%
Community and Social Services	1,052	3.2%
Others	8,328	25.7%
	23,856	73.7%
Agencies, Boards and Commissions		
Greater than 1,000 members		
Ontario Lottery and Gaming Corporation	6,197	19.1%
Others	2,347	7.2%
	8,544	26.3%
Total Members	32,400	100.0%

Our Service to Members

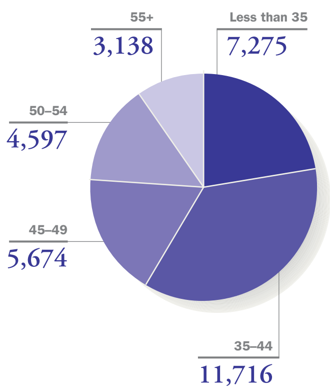
	2004	2003
Telephone calls	**15,591**	13,800
Buybacks of service	**2,191**	997
Pension estimates	**998**	890
Presentations	**34**	23
Other cases	**40,159**	29,573

Our Service to Pensioners

	2004	2003
Telephone calls	**19,613**	19,763
Information changes	**18,026**	13,778
Other cases	**10,926**	10,304

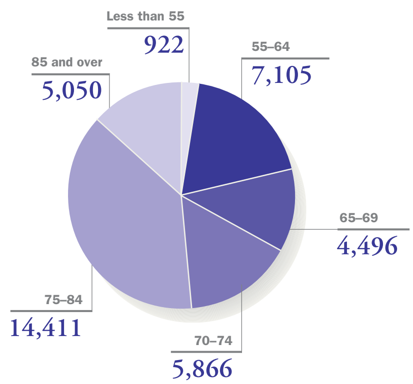
Age Distribution of Members

as at December 31, 2004



Age Distribution of Active Pensioners

as at December 31, 2004



Pensioners

	2004	2003
Number of Active Pensioners at beginning of year	**38,400**	39,000
Additions, including new retirees, previously deferred	**1,150**	1,150
Deceased Pensioners	**(1,100)**	(1,150)
Deceased survivors of original pensioner	**(600)**	(600)
Number of Active Pensioners at end of year	**37,850**	38,400

Deferred Pensioners

	2004	2003
Deferred Pensioners at end of year	**4,550**	4,300

Accountability

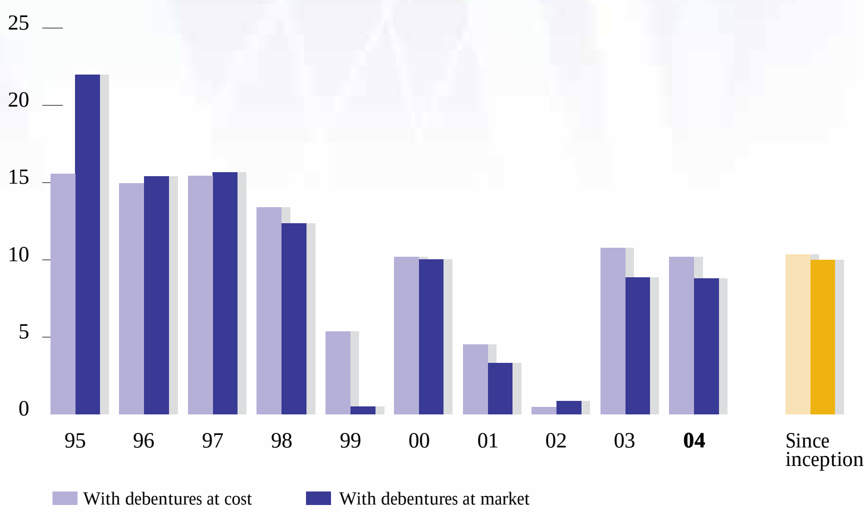
Financial Review

This financial review presents a snapshot of the results of our continuing efforts to produce value for our members and pensioners.

Investments

In order to meet the Fund's liabilities for pension benefits, OPB is required to achieve a long-term return of 3.75% in excess of inflation. It has been challenging to maintain steady returns in uncertain times. OPB achieved a rate of return of 10.18% in 2004 compared with 10.77% in 2003. These results add to the OPB's consistent record of long-term performance. Despite challenging market conditions, since the inception of OPB in 1990 the Fund's average annual rate of return has been 10.36%.

Total Returns
% per annum



Asset Mix

OPB's asset mix is analyzed in detail in Note 4 to the financial statements. For discussion purposes, investments are grouped into three categories:

- Marketable securities
- Special Province of Ontario Debentures
- Real estate and participating mortgages

Marketable Securities

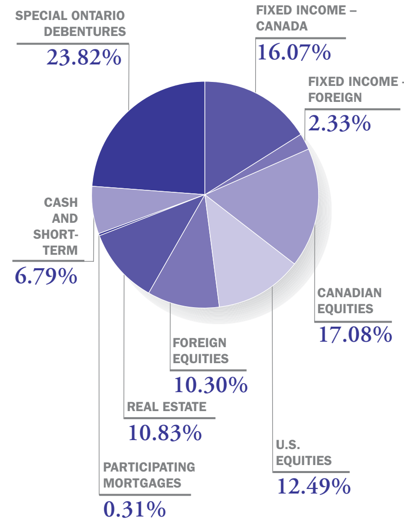
The marketable security portfolio of equities, bonds and cash equivalents is managed by eight portfolio managers and represents 65.1% of our investment portfolio.

Fund managers have been given discretion within the mandates OPB has set for them to adjust exposure to particular securities, industries or geographic sectors or even to hold cash if they believe that market movements are not justified by fundamentals. Fund managers' mandates are aligned with OPB's approach to long-term value investing, and the managers are required to adhere closely to this strategy. OPB staff and the Investment Committee provide an oversight role in monitoring the mandates and activities of Fund managers.

OPB does not require Fund managers to track their progress against the movement of particular indices (commonly referred to as "benchmarks"). Benchmarks are useful in managing a portfolio; however, they can lead to an overemphasis on short-term results to the detriment of long-term investment performance. Indices are primarily used for comparative purposes.

In 2004 our marketable security investments returned 9.00% (2003 – 10.32%).

Asset Mix
as at December 31, 2004



Special Province of Ontario Debentures

The Special Province of Ontario Debentures ("the Debentures") were provided to the Plan as a funding mechanism when it was first formed in 1990.

We continue to hold the Debentures since they provide consistent, secure, high rates of return as well as stable cash flows. These Debentures are presented at cost in the financial statements and our investment returns are stated on that basis. The chart on the preceding page shows the returns with the Debentures included both on a cost and on a market value basis. These returns can be expected to converge over time.

The return on the Special Province of Ontario Debentures was 12.00% in 2004 (2003 – 11.89%). The Debentures will mature over the next 10 years. The maturity schedule is set out on page 32 of this report.

Real Estate and Participating Mortgages

OPB's real estate portfolio has a year-end total appraised value of $1.41 billion, representing 10.8% of the Fund's total investments. Appraisals, performed annually, resulted in increased value of $62.5 million that is included in unrealized gains (see Note 6 to the financial statements). The real estate portfolio earned a 2004 return of 13.08% (2003 – 10.58%) and an annualized average rate of 9.93% since the first real estate purchase in 1994.

The increased appraised value of the portfolio is attributable to high market demand from Canadian and foreign investors, generated by persistent low interest rates. As interest rates are expected by many to rise in 2005, a flattening of the market values may result.

The properties are 98.1% leased, and earned $104.9 million in operating income. The cash flow from real estate is an important monthly source of funds for OPB.

The real estate investments comprise retail shopping centres, office and industrial buildings and residential land.

The expansion and renovation of the shopping centres has been an ongoing project to ensure the continuing profitability of these properties. In 2004, OPB invested $22 million in renovation projects at the Pen Centre in St. Catharines, the Pickering Town Centre, Carlingwood Mall in Ottawa, the St. Vital Centre in Winnipeg, and at the Lougheed Town Centre in Burnaby. As well, Chebucto Place offices in the Halifax Shopping Centre Annex were completed. The 2004 projects added 145,000 square feet of leaseable area to the portfolio, which now totals 7,011,000 square feet.

Accountability / Financial Review *(continued)*

On March 1, 2005, OPB purchased a portfolio of 10 industrial and retail buildings in Halifax and Edmonton for $54.7 million. These properties add important diversification to the real estate portfolio.

Total investment in participating mortgages is $40.0 million. Undeveloped lands in the Greater Toronto Area are held as security, and were appraised at $74.8 million. These mortgages accrue a base interest, and are designed to earn a share of profits generated over the next several years as the lands are sold or developed.

Financial Position

There are different measurements of the financial position of the Plan, that serve different purposes, and two of these measurements are discussed below.

Funding Basis Valuation

There is a statutory obligation to perform an independent actuarial valuation of assets and liabilities to determine the funded position of the Plan. This valuation is required to be prepared and filed with regulatory authorities at least every three years.

The objective of the funding basis valuation is to assess whether there will be sufficient assets in the Fund to meet the Plan's long-term obligations given the existing contribution rates and Plan features. It is our policy to prepare funding basis valuations for management purposes every year so that we may monitor the funded position of the Plan on a timely basis.

In assessing the funded position, the liabilities under the funding basis valuation take into account both the projected benefits for service accrued to the valuation date as well as the future benefits to be earned by existing members. The assets also reflect future member and employee contributions on behalf of existing members.

The process involves making long-term assumptions and estimates about demographic and economic experience, such as when members retire, how long members will live, how investments will perform and the level of inflation. Variances from these long-term assumptions ("experience gains" or "experience losses") affect the funded position of the Plan. In each valuation, the actuary analyzes the experience over the period from the last valuation and determines whether the assumptions have been borne out. The differences between what actually happened and what was assumed would happen (experience gains or losses) generate higher or lower liabilities or assets than were expected.

For funding valuation purposes, assets are valued on an "actuarial basis." The Special Province of Ontario Debentures are valued on a discounted cash flow basis rather than cost, and the changes in the market values on other investments are deferred and recognized evenly over a four-year period.

A funding basis valuation for management purposes computed as of December 31, 2003 disclosed a funding shortfall of $749 million. In our 2003 annual report, we reported a funding excess of $25 million computed as at December 31, 2002. The changes in the funded position are set out in the table below.

	millions
Funding excess at December 31, 2002	$ 25
Cost of 3% member contribution rate reduction	(34)
Change in valuation methodology	(148)
Investment return experience on actuarial value of assets*	(318)
Salary and YMPE (Canada Pension Plan covered earnings level) experience loss	(89)
Inflation higher than assumed	(27)
Demographic experience	(122)
Change in expense provision	(28)
All other experience (net)	(8)
Funding shortfall at December 31, 2003	$ (749)

* The lower than expected return on the actuarial value of assets primarily reflects the impact of the smoothing of changes in market values of investments over a four-year period.

Accounting Basis Valuation

Each year, OPB is required to calculate its actuarial liabilities on a best estimate basis for the purposes of financial statement presentation. The Canadian Institute of Chartered Accountants (CICA) prescribes the methodology to be used for that purpose. The CICA prescribed method bases the liability only on projected benefits for service accrued to the end of the current reporting period. No accruals are made for members' future service in this valuation, nor do the assets consider any future contributions.

As in the funding valuation, a variety of demographic and economic assumptions are employed. Several experience losses from actuarial assumptions were identified in the accounting basis valuation. There were experience losses in all major categories: salary increases and inflation were higher than expected; retirements were earlier than expected and demographic experience (such as mortality rates) added to our liabilities. These experience losses amounted to $285 million.

For 2004 reporting, we changed the key economic assumption for valuing our pension obligations – the real rate of return assumption. The Plan's real rate of return assumption for accounting purposes had remained stable for a number of years. This year we re-evaluated the assumption in the context of our asset allocation and valuations. Our analysis led to a reduction in our real rate of return assumption to 3.75% (we continue to maintain our inflation estimate at 2.5%). The decrease in the investment return assumption increased the liability for accrued pension benefits by $422.7 million.

In the accounting basis valuation, our assets are adjusted to an actuarial basis using an actuarial asset value adjustment. The components of the adjustment are set out in Note 8 to the financial statements. A smoothing adjustment is included in this amount and is intended to level the effect of market fluctuations. We use the same methodology for the smoothing as employed in our funding valuation. Last year $1.6 million of net gains were deferred while this year net investment gains of $459.6 million were deferred.

As at December 31, 2004, OPB reported a deficit for accounting purposes of $213.3 million compared with a $705.7 million surplus at the end of 2003. The changes in the surplus (deficit) are set out in the Consolidated Statement of Changes in Surplus (Deficit)(page 22).

The Funding Basis Valuation and the Accounting Basis Valuation Are Very Different

Although these valuations both measure the financial position of the Plan, and require a variety of demographic and economic assumptions, they do it from different objectives and a different result is inevitable.

The funding valuation addresses an ongoing need to ensure that the Plan will have adequate resources to pay future pension obligations as they come due. This is contrasted with the accounting valuation that is prepared for financial reporting purposes – it is designed to show the financial position of the Plan as accrued to the end of the reporting period. The accounting valuation is a measure of the progress of the Plan to that date, although it still considers the Plan as a going concern and is not calculated on a liquidation basis.

The most significant difference between the accounting basis valuation and the funding basis valuation, therefore, is the difference in the prescribed methodology. In particular, the accounting basis valuation does not include the excess of the present value of future service accruals over the present value of future member and employer contributions. At the end of 2004 this amounted to approximately $440 million.

An additional difference is that the funding valuation may be more conservative than the accounting valuation and include additional provisions. These provisions may include more conservative asset valuations as well as a reserve for future expenses. For example, in the accounting valuation, the Special Province of Ontario Debentures are valued by discounting cash flows at market proxy rates, which change over time. In contrast, in the funding valuation they are discounted using a fixed rate.

Accountability / Financial Review *(continued)*

Changes in Net Assets

As at December 31
(in millions of dollars)

		2004		2003
Net Investment Income	**$**	**1,210.7**	$	1,201.3

The composition of OPB's investment income is set out in Note 6 to the financial statements. Investment and custodial fees of $15.4 million (2003 – $13.6 million) were deducted from net investment income. These amounts consist primarily of fees paid to our Fund managers as well as our custodian. A continued improvement in equity markets maintained the significant investment income. Positive investment returns were experienced in both 2004 and 2003.

	2004	2003
Contributions	**308.5**	270.9

The contribution rates for the Plan are set out in Note 2(b) to the financial statements and are set by the Sponsor of the Plan. Contributions increased from 2003 to 2004. For the final 10 months of 2003 the basic contribution rate for employees was reduced by 3% of salary (employers' contributions continued at normal levels). In contrast, from March 2004 onwards both employees' and employers' contributions were returned to normal levels set out in the PSPPlan of 8% (with CPP integration).

In addition, our membership increased by 3% from 2003 to 2004. Membership statistics are set out on pages 10 and 11.

	2004	2003
Transfers from Other Plans, and	**81.7**	108.4
Termination Payments and Transfers	**(55.6)**	(41.2)

The day-to-day business of the Plan includes the transfer of commuted values and other accrued benefits to other plans and beneficiaries. Many transfers arise because the employee has transferred from an OPSEU represented position to an unrepresented position (or vice versa), often with the same employer. The Plan provides for the past service of the employee to be transferred into or out of the Plan as the case may be. In 2004, there were 804 (2003 – 1,190) transfers into the Plan from the OPSEU Pension Trust (OPT) and 280 (2003 – 145) transfers out of the Plan to the OPT.

	2004	2003
Pensions Paid	**(743.5)**	(728.5)

While there were fewer pensioners in 2004 than in 2003, the average pension paid increased. This was partly due to a 3.3% escalation in 2004.

Our monthly cash requirement to pay our pensions is now $62 million. In 2004 only 41% of this cash came from contributions. A substantial portion of the cash requirement comes from investment income. OPB's asset allocation is designed to meet these ongoing requirements.

Pensioner statistics are set out on page 11.

	2004	2003
Operating Expenses	**(17.5)**	(16.4)

Operating expenses are set out in Note 9 to the financial statements.

Operating expenses represent the costs of service to our members and continuing investment to improve the quality and timeliness of our service.

In 2004, the number of individual members, pensioners and deferred pensioners served by OPB increased by 1% to 74,800.

Operating expenses of $17.5 million, together with investment management and custodial fees of $15.4 million, represent 25 cents per $100 of assets (25 cents in 2003).

		2004		2003
Total Increase in Net Assets	**$**	**784.3**	$	794.5

Five-Year Review

(in millions of dollars)	**2004**	2003	2002	2001	2000
Opening assets	**$ 12,284.0**	$ 11,489.6	$ 11,945.1	$ 11,951.2	$ 11,196.0
Investment income	**1,210.7**	1,201.2	41.8	517.7	1,111.0
Regular contributions	**308.5**	270.9	135.2	130.2	176.5
Unfunded liability payments	**–**	–	–	–	106.1
Transfers from other plans	**81.7**	108.4	144.5	103.0	143.2
	1,600.9	1,580.5	321.5	750.9	1,536.8
Pension payments	**743.5**	728.5	721.2	695.9	669.6
Terminations	**55.6**	41.2	42.1	45.7	100.3
Operating expenses	**17.5**	16.4	13.7	15.4	11.7
	816.6	786.1	777.0	757.0	781.6
Closing assets	**$ 13,068.3**	$ 12,284.0	$ 11,489.6	$ 11,945.1	$ 11,951.2

						Cumulative Since Inception
Annual rate of return:						
With Special Debentures at cost	**10.18%**	10.77%	0.48%	4.52%	10.19%	10.36%
With Special Debentures at market	**8.80%**	8.87%	0.85%	3.31%	10.03%	9.98%

Actuaries' Opinion to the Directors of the Ontario Pension Board

Hewitt Associates was retained by the Ontario Pension Board ("OPB") to prepare the following actuarial valuations of the Public Service Pension Plan ("PSPPlan"):

- An actuarial valuation as at December 31, 2003 on a funding basis, as described in Note 8(a) of these consolidated financial statements, prepared in accordance with the *Public Service Pension Act* and applicable pension legislation.

- An actuarial valuation as at December 31, 2004 for purposes of these consolidated financial statements, prepared in accordance with The Canadian Institute of Chartered Accountants Handbook, Section 4100.

The actuarial valuation of the PSPPlan as at December 31, 2003 on a funding basis was based on membership data provided by OPB as at December 31, 2003.

Using the same data as provided by the OPB for the funding valuation of the PSPPlan, we have prepared a valuation of the liabilities as of December 31, 2003 on the basis of the accounting methodology required by The Canadian Institute of Chartered Accountants Handbook, Section 4100, as disclosed in Note 8(b), and extrapolated the liabilities to December 31, 2004. The valuation was based on assumptions that reflect the OPB's best estimates as of December 31, 2004 of future events such as future rates of inflation, future retirement rates and future rates of return on the pension fund. The amounts are set out in the Consolidated Statement of Changes in Accrued Pension Benefits.

We hereby certify that, in our opinion:

- The data provided to us by the OPB as of December 31, 2003 are sufficient and reliable;

- The actuarial assumptions used are, in aggregate, appropriate for the purposes of each valuation; emerging experience differing from the assumptions will result in gains or losses which will be revealed in future valuations; and

- The methods used are appropriate for purposes of each valuation and are consistent with the applicable regulatory requirements.

Our valuations have been prepared, and our opinions given, in accordance with accepted actuarial practice.

HEWITT ASSOCIATES

Allan H. Shapira
Fellow, Canadian Institute of Actuaries
February 21, 2005

James C.C. Koo
Fellow, Canadian Institute of Actuaries

Management's Responsibility for Financial Reporting

The consolidated financial statements of the Ontario Pension Board ("OPB") have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these consolidated financial statements are in accordance with Canadian generally accepted accounting principles. Of necessity, many amounts in the financial statements must be based on the best estimates and judgement of management with appropriate consideration as to materiality. Financial information presented throughout this 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 are safeguarded against unauthorized use or disposition, and proper records maintained. The system includes careful hiring and training of staff, the establishment of an organizational structure that provides for a well-defined division of responsibilities and the communication of policies and guidelines of business conduct throughout the OPB.

The Board of Directors ("Board") is ultimately responsible for the consolidated financial statements of the OPB. The OPB's Audit Committee assists in this responsibility by reviewing the consolidated financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of audits, to review their findings and suggestions for improvements in internal control, and to satisfy themselves that their responsibilities and those of management have been properly discharged.

Donald D. Weiss
President & CEO
February 21, 2005

Darla S. Sycamore
Darla S. Sycamore, CA
Director, Finance

Auditors' Report to the Directors of the Ontario Pension Board

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and surplus (deficit) of the Ontario Pension Board ("OPB") as at December 31, 2004, and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus (deficit) for the year then ended. These consolidated financial statements are the responsibility of the OPB's management. 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 financial position of the OPB as at December 31, 2004 and the results of its operations and the changes in its financial position, accrued pension benefits and surplus (deficit) for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Toronto, Canada
February 21, 2005

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

As at December 31

(in thousands of dollars)	**2004**	2003
Assets		
Investments (Note 4)	**$ 13,052,756**	$ 12,275,080
Contributions receivable (Note 7)	**37,560**	32,317
Capital assets (Note 5)	**1,369**	1,256
Total assets	**13,091,685**	12,308,653
Liabilities		
Income taxes withheld on pension payments	**9,568**	8,952
Accounts payable and accrued charges	**12,260**	14,704
Contributions payable	**1,500**	951
Total liabilities	**23,328**	24,607
Net assets available for benefits	**13,068,357**	12,284,046
Actuarial asset value adjustment (Note 8(b))	**612,028**	1,135,261
Actuarial value of net assets available for benefits	**13,680,385**	13,419,307
Accrued pension benefits and surplus (deficit)		
Accrued pension benefits	**13,893,721**	12,713,633
Surplus (deficit)	**(213,336)**	705,674
Total benefits and surplus (deficit)	**$ 13,680,385**	$ 13,419,307

See accompanying notes

On behalf of the Board:

John E. Richardson
Director

Mary Tate
Director

Consolidated Statement of Changes In Net Assets Available for Benefits

For the year ended December 31 *(in thousands of dollars)*	**2004**	2003
Increase in net assets		
Net investment income (Note 6)	**$ 1,210,687**	$ 1,201,278
Contributions (Note 7)	**308,545**	270,927
Transfers from other plans	**81,691**	108,351
Increase in net assets	**1,600,923**	1,580,556
Decrease in net assets		
Pensions paid	**743,485**	728,456
Termination payments and transfers	**55,599**	41,208
Operating expenses (Note 9)	**17,528**	16,420
Decrease in net assets	**816,612**	786,084
Net increase in net assets for the year	**784,311**	794,472
Net assets, at beginning of year	**12,284,046**	11,489,574
Net assets, at end of year	**$ 13,068,357**	$ 12,284,046

See accompanying notes

Consolidated Statement of Changes in Accrued Pension Benefits

For the year ended December 31 *(in thousands of dollars)*	2004	2003
Accrued pension benefits, at beginning of year	$ 12,713,633	$ 12,186,535
Increase in accrued pension benefits		
Interest on accrued pension benefits	835,808	839,293
Benefits accrued		
Service accrual	283,647	266,689
Transfer of assets from other plans	81,691	108,351
Past service buybacks	13,967	11,826
Changes in valuation methodology	56,112	–
Experience losses	285,224	70,606
Change in actuarial assumptions	422,724	–
Total increase	1,979,173	1,296,765
Decrease in accrued pension benefits		
Benefits paid	799,085	769,667
Total decrease	799,085	769,667
Net increase in accrued pension benefits	1,180,088	527,098
Accrued pension benefits, at end of year	$ 13,893,721	$ 12,713,633

See accompanying notes

Consolidated Statement of Changes in Surplus (Deficit)

For the year ended December 31 *(in thousands of dollars)*	2004	2003
Surplus, at beginning of year	$ 705,674	$ 1,032,401
Increase in net assets available for benefits	784,311	794,472
Change in actuarial asset value adjustment	(523,233)	(594,101)
Increase in actuarial value of net assets available for benefits	261,078	200,371
Net increase in accrued pension benefits	(1,180,088)	(527,098)
Net decrease in surplus	(919,010)	(326,727)
Surplus (deficit), at end of year	$ (213,336)	$ 705,674

See accompanying notes

Notes to Consolidated Financial Statements

NOTE 1 Public Service Pension Act

Effective January 1, 1990, the Province of Ontario ("Province") enacted the *Public Service Pension Act*, 1990 ("*PSPAct*") to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan ("PSPPlan") are stated in Schedule 1 to the *PSPAct*. The Ontario Pension Board ("OPB") is the administrator of the PSPPlan.

NOTE 2 Description of PSPPlan

The following is a brief description of the PSPPlan. For more complete information, reference should be made to the *PSPAct*.

a) General

The PSPPlan is a contributory defined benefit pension plan. Membership is mandatory for most employees who satisfy the eligibility requirements provided in the *PSPAct.* Under the PSPPlan, contributions are made by the members and the employers. The PSPPlan is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency (Registration Number 0208777) as a Registered Pension Plan not subject to income taxes.

b) Contributions

The PSPPlan is integrated with the Canada Pension Plan ("CPP"). Member contributions are 6.2% of the salary on which contributions to CPP are made and 8% on the balance of salary. The employers contribute matching amounts. The Province, as Plan sponsor, amended the PSPPlan to provide for a contribution reduction of 3% of salary for members, other than those belonging to the Ontario Provincial Police Association and Justices of the Peace. Employer contributions continued at the full 8% rate. The one-year reduction for employees ended in February 2004.

Ontario Provincial Police ("OPP") officers are required to contribute to the PSPPlan an additional 2% of salary which is matched by the employer. These additional contributions are used to fund the 50/30 unreduced early retirement provision available to OPP officers.

Contributions from members and employers are remitted to the OPB. The portion of these contributions which exceed *Income Tax Act* limits are transferred to the Province's Public Service Supplementary Benefits Account ("PSSBA").

c) Pensions

A pension is payable at age 65 (or at age 60 for some members with pre-1966 pension credits) based on the number of years of credit in the PSPPlan multiplied by 2% of the average salary during the best consecutive 60-month period, less an offset for amounts received under the CPP at age 65. An unreduced pension can be received before age 65 if the member's age and years of credit total 90 ("Factor 90") or when the member reaches age 60 and has 20 or more years of credit. The Province amended the PSPPlan to provide for an enhanced early retirement opportunity for members of the Plan whose age and service in the Plan equals at least 80 years ("Factor 80"). The Factor 80 program ended on March 31, 2002. The PSPPlan was again amended to permit those members who are deemed to be surplus by their employer to retire upon attaining the Factor 80. To qualify, certain conditions must be satisfied by both the employer and the member. The program is scheduled to expire March 31, 2006. OPP officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

d) Death Benefits

Benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or pensioner's estate on the death of a member or a pensioner.

e) Disability Pensions

Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the PSPPlan. The amount of the disability pension is dependent on years of credit and average salary.

Notes to Consolidated Financial Statements *(continued)*

f) Termination Payments
Members terminating employment before age 55, who are eligible for a deferred pension, may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to another pension plan, or to purchase a life annuity.

g) Escalation of Benefits
Current pensions and deferred pension benefits are increased for inflation, based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

NOTE 3 Summary of Significant Accounting Policies

a) Basis of Presentation
The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, and present the position of the PSPPlan as a separate entity independent of the employers and Plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

b) Principles of Consolidation
The accounts of the wholly owned subsidiary, OPB Realty Inc., are included on a consolidated basis.

c) Investments
Investments are stated at fair value based on year-end market prices. Short-term investments are carried at cost, which approximates their aggregate fair value. Special Province of Ontario Debentures, which are non-marketable, are recorded at face value. Gains and losses realized on the disposal of investments are credited or charged to investment income. Interest and dividends on fixed income securities and equities, respectively, are recognized on an accrual basis. Investment transactions are recorded on a trade date basis.

Real estate investments are stated at appraised values as established by independent annual appraisals. Changes in valuation due to appraisal adjustments are included in unrealized gains. Income from real estate operations is recognized on an accrual basis.

Participating mortgages are recorded at face value, subject to an assessment of recoverable value based on an annual independent appraisal of the securitized properties. Income is accrued at the rate stated in the instrument and any participation income is recorded when realized.

d) Contributions
Contributions from members and employers which are due to the PSPPlan at year-end are recorded as receivable. Transfers and purchases of prior service are recorded after cash is received and the case is processed.

e) Pensions
Payments of pensions, refunds and transfers are recorded in the year in which they are made.

f) Capital Assets
Capital assets are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

Computer equipment	3 years
Leasehold improvements	Remaining term of lease
Furniture and fixtures	10 years

g) Foreign Currency Translation

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The fair value of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

NOTE 4 Investments

As of December 31 *(in thousands of dollars)*	2004 Fair Value	2004 Cost	2003 Fair Value	2003 Cost
Cash and short-term investments				
Canada	$ 858,883	$ 860,312	$ 630,604	$ 633,089
United States and other international	62,707	63,959	60,718	61,654
Forward exchange contracts	(35,245)	–	(14,895)	–
	886,345	924,271	676,427	694,743
Fixed income				
Special Province of Ontario Debentures	3,108,555	3,108,555	3,279,966	3,279,966
Bonds				
Canada	2,097,250	2,013,640	1,957,732	1,884,370
Other international	304,206	264,607	281,960	246,493
	5,510,011	5,386,802	5,519,658	5,410,829
Equities				
Canada	2,229,175	1,549,519	1,904,166	1,443,345
United States	1,630,338	1,573,603	1,640,750	1,536,097
Other international	1,343,800	1,153,005	1,170,536	1,060,912
	5,203,313	4,276,127	4,715,452	4,040,354
Real estate	1,413,131	1,238,872	1,325,408	1,213,690
Participating mortgages	39,956	39,956	38,135	38,135
Total	$ 13,052,756	$ 11,866,028	$ 12,275,080	$ 11,397,751

a) Investment Objectives

As administrator of the Public Service Pension Fund (the "Fund"), the OPB has adopted a Statement of Investment Policies and Procedures. This Statement provides investment objectives, performance expectations and guidelines for the management of the Fund. To reduce risk and enhance returns, the OPB diversifies its investments into various asset classes. The allocation at any point in time is determined based on an assessment of economic and financial market conditions.

To provide the ability to respond to fundamental changes, the Fund's asset mix is maintained within the following ranges:

Canadian equity	10% to 20%
Non-Canadian equity	20% to 30%
Real estate	5% to 15%
Total equity and real estate	35% to 65%
Bonds	35% to 65%
Short term	0% to 10%
Total fixed income	35% to 65%

Notes to Consolidated Financial Statements *(continued)*

The Fund's long-term asset mix policy is as follows:

Equity	50%
Fixed income	50%

This policy was adopted after evaluating the risk characteristics of alternative policies, considering the liquidity requirements of the Fund and the economic assumptions employed for actuarial valuation purposes.

b) Cash and Short-term Investments

(in thousands of dollars)	2004 Fair Value	2004 Cost	2003 Fair Value	2003 Cost
Canada				
Cash	$ 2,241	$ 2,241	$ 9,875	$ 9,875
Short-term notes and treasury funds	806,525	807,954	599,022	601,507
Term deposits	48,166	48,166	20,069	20,069
Accrued interest	1,951	1,951	1,638	1,638
	$ 858,883	$ 860,312	$ 630,604	$ 633,089
United States and other international				
Cash	$ 4,636	$ 4,636	$ 3,623	$ 3,623
Short-term notes and treasury funds	10,605	10,821	12,721	13,036
Term deposits	34,201	34,719	35,860	36,053
Pooled funds	13,255	13,773	8,499	8,927
Accrued interest	10	10	15	15
	$ 62,707	$ 63,959	$ 60,718	$ 61,654

The OPB has entered into various forward exchange contracts to limit exposure to foreign currency fluctuations. The total fair value of contracts payable is $1.207 billion (2003 – $746 million) and the total fair value of contracts receivable is $1.172 billion (2003 – $731 million).

c) Fixed Income and Equities

The Special Province of Ontario Debentures are recorded at their aggregate face value of $2.929 billion (2003 – $3.092 billion) plus accrued interest of $179.765 million (2003 – $187.799 million). By discounting cash flows based on year-end market yields of comparable bonds, a value of $4.180 billion (2003 – $4.417 billion) could be determined. There are currently 12 Special Province of Ontario Debentures maturing over the next 10 years with a weighted average interest rate of 12.07 % (2003 – 11.97%).

Canadian bonds include pooled funds with $138.246 million fair value and $135.554 million cost (2003 – $132.699 million fair value and $129.973 million cost). Canadian equities include pooled funds with $125.659 million fair value and $99.022 million cost (2003 – $98.872 million fair value and $78.919 million cost).

The OPB invests in high-grade bonds and common shares. The fair value of investments denominated in foreign currencies will fluctuate with moves in exchange rates.

See the schedules of Fixed Income Maturities and Investments over $35 Million Market Value for further information.

d) Real Estate

The fair value of real estate was increased by $62.541 million (2003 – $28.245 million) to reflect the results of independent appraisals conducted as at December 31, 2004.

e) Securities Lending

At year-end, approximately $891 million (2003 – $563 million) of the Fund's securities were on loan to third parties. Pursuant to a securities lending agreement, the Fund's custodian arranges the loans and the Fund earns a fee. The custodian follows strict lending criteria and over-collateralizes the loans with comparable securities.

NOTE 5 Capital Assets

As at December 31 *(in thousands of dollars)*		Cost		Accumulated Amortization		2004 Net Book Value		2003 Net Book Value
Computer equipment	$	2,105	$	1,603	$	502	$	771
Leasehold improvements		1,935		1,321		614		253
Furniture and fixtures		848		595		253		232
Total capital assets	$	4,888	$	3,519	$	1,369	$	1,256

NOTE 6 Net Investment Income

For the year ended December 31 *(in thousands of dollars)*		2004		2003
Interest income				
Cash and short-term investments				
Canada	$	15,840	$	15,201
United States and other international		1,334		912
Fixed income				
Special Province of Ontario Debentures		362,084		377,137
Bonds				
Canada		111,561		109,626
Other international		13,038		11,600
Total interest income		503,857		514,476
Dividend income				
Canada		37,171		35,492
United States		41,976		33,487
Other international		40,429		26,089
Total dividend income		119,576		95,068
Real estate income		105,793		99,278
Participating mortgage income		1,822		1,723
Realized gain (loss)		185,675		(29,197)
Unrealized gain		309,399		533,488
Total investment income		1,226,122		1,214,836
Investment management and custodial fees		(15,435)		(13,558)
Net investment income	$	1,210,687	$	1,201,278

Notes to Consolidated Financial Statements *(continued)*

a) Interest Income

(in thousands of dollars)	2004	2003
Cash and short-term investments		
Canada		
Cash	$ 882	$ 782
Short-term notes and treasury funds	14,319	13,876
Term deposits	639	543
	$ 15,840	$ 15,201
United States and other international		
Cash	$ 56	$ 94
Short-term notes and treasury funds	738	85
Term deposits	540	733
	$ 1,334	$ 912

Earnings from pooled short-term investment funds are included with short-term notes and treasury funds.

Canadian bond interest includes $3.414 million (2003 – $9.488 million) from pooled bond funds.

b) Dividend Income

Canadian dividend income includes $0.741 million (2003 – $0.111 million) from pooled equity funds.

c) Real Estate

The following is selected information from the operations of the subsidiary OPB Realty Inc.:

(in thousands of dollars)	2004	2003
Rental	$ 192,339	$ 182,072
Other income	4,524	4,309
Total revenue	196,863	186,381
Operating expenses	77,879	73,032
General, administrative and other	14,121	14,852
Total expense	92,000	87,884
	104,863	98,497
Unrealized gains	62,127	27,927
Net income of OPB Realty Inc.	$ 166,990	$ 126,424

d) Investment Management and Custodial Fees

(in thousands of dollars)	2004	2003
Portfolio fund management	$ 12,671	$ 11,029
Custody	1,476	1,259
Real estate	999	996
Consulting	289	274
	$ 15,435	$ 13,558

NOTE 7 Contributions

For the year ended December 31 *(in thousands of dollars)*	2004	2003
Members		
Current service	$ 148,260	$ 112,142
Prior service	9,312	7,958
	157,572	120,100
Employers		
Current service		
Regular contributions	153,488	153,486
PSSBA transfer	(9,998)	(9,078)
Long Term Income Protection	2,830	2,551
	146,320	146,959
Prior service	4,653	3,868
	150,973	150,827
Total contributions	$ 308,545	$ 270,927

The contribution requirements are set out in the *PSPAct* and summarized in Note 2.

Members who are receiving benefits on Long Term Income Protection ("LTIP") have their employers contribute on their behalf their contribution to the PSPPlan.

Contributions receivable represent members' and employers' contributions due as well as estimated receivables for members receiving benefits on LTIP and for the matching portion of buybacks billed to the employer. The portions receivable from members and employers are set out in the following table:

For the year ended December 31 *(in thousands of dollars)*	2004	2003
Members	$ 13,348	$ 8,043
Employers	24,212	24,274
Total contributions receivable	$ 37,560	$ 32,317

NOTE 8 Accrued Pension Benefits

a) Funding Basis

The funding of the PSPPlan is based on methods required under the *PSPAct*. The *Pension Benefits Act (Ontario)* and the *Income Tax Act* require that an actuarial funding valuation of the PSPPlan be completed and filed with the regulatory authorities, at least every three years.

Mercer Human Resource Consulting Limited performed a funding valuation as at December 31, 2002 that was filed with the Financial Services Commission of Ontario ("FSCO"). That valuation disclosed an actuarial surplus of $25 million. The next mandatory filing is for December 31, 2005 and must be submitted to FSCO no later than September 30, 2006.

In 2004 OPB appointed Hewitt Associates ("Hewitt") as its actuarial advisor. Hewitt performed a funding valuation as at December 31, 2003. That valuation disclosed a funding shortfall of $749 million. This shortfall is attributable to investment and demographic experience losses, and changes in actuarial methodologies.

Notes to Consolidated Financial Statements *(continued)*

b) Accounting Basis

The consolidated financial statements include the actuarial value of net assets and accrued pension benefits as at December 31, 2004 and 2003, which are based on actuarial calculations as of these dates in accordance with the recommendations of The Canadian Institute of Chartered Accountants ("CICA") as set out in Section 4100 of the CICA Handbook.

These standards require that the obligation for accrued pension benefits be calculated using the projected benefit method pro-rated on services and management's best estimate assumptions.

The accounting basis valuation at December 31, 2004 is computed by reference to the data used for the December 31, 2003 funding basis valuation. Amounts are extrapolated to compute the liability for accrued pension benefits as at December 31, 2004. In computing this amount no account is taken for new entrants to the Plan in 2004.

Hewitt recomputed the liability for accrued pension benefits as at December 31, 2003. Differences in valuation system, methodology, and refinements of estimation increased the liability by $56.1 million. These adjustments have been accounted for as changes in estimates, charged to the current period.

(i) Actuarial Assumptions

The assumptions used for accounting purposes, following the CICA recommendations, reflect management's best estimates of future events. They include such non-economic assumptions as mortality and retirement rates as well as economic assumptions such as investment returns.

The key economic assumptions used for accounting purposes in 2004 and 2003 are as follows:

(in thousands of dollars)	2004	2003
Investment return	6.25%	6.50%
Inflation	2.50%	2.50%
Real rate of return	3.75%	4.00%
Salary	3.50%	3.50%
	+promotional scale	+promotional scale

The impact of the change in the real rate of return assumption was $422.7 million, charged to the Consolidated Statement of Changes in Accrued Pension Benefits.

(ii) Actuarial Asset Value Adjustment

The actuarial asset value adjustment increases or decreases the financial statement carrying values of certain assets to an actuarial basis. For the OPB two adjustments are made – an adjustment to bring the Special Province of Ontario Debentures to a discounted cash flow basis and a smoothing adjustment to reflect realized and unrealized gains and losses on investments (other than Special Province of Ontario Debentures) over four years, including the current year. These adjustments are set out in the following table:

For the year ended December 31 *(in thousands of dollars)*	2004	2003
Adjustment for Special Province of Ontario Debentures, based upon discounted cash flows	$ 1,071,665	$ 1,136,865
Less: Net gain on investments, deferred to future periods (actuarial smoothing adjustment)	459,637	1,604
	$ 612,028	$ 1,135,261

The actuarial smoothing adjustment amortizes realized and unrealized gains and losses on investments over a four-year period. The net effect of this adjustment is a deferral of $459.6 million of net gains (2003 – $1.6 million). Set out below is a table analyzing this adjustment:

Deferred as at December 31
(in thousands of dollars)

Annual net gain (loss) on investments		Portion of net gain (loss) on investments deferred to future periods 2004	2003
2001	$ (195,949)	**$ –**	$ (48,987)
2002	(655,256)	**(163,814)**	(327,628)
2003	504,291	**252,146**	378,219
2004	495,074	**371,305**	–
Total net gain on investments, deferred to future periods		**$ 459,637**	$ 1,604

NOTE 9 Operating Expenses

For the year ended December 31
(in thousands of dollars)

	2004	2003
Salaries and benefits	**$ 9,938**	$ 9,753[1]
Agency services	**554**	482
Office premises and operations	**2,747**	2,362
Computer and professional services	**2,974**	2,718
Depreciation and amortization	**581**	453
Communications	**437**	374
Board remuneration	**83**	40
Audit	**65**	115
Travel	**73**	73
Publications, registration and filing fees	**76**	50
Total operating expenses	**$ 17,528**	$ 16,420

[1] For the year 2003, an amount of $1,287 thousand relates to accumulated staff vacation and termination benefits owing, which were previously expensed upon payment. For 2004 and subsequent years, the annual accrued costs of these items are included in salaries and benefits.

NOTE 10 Executive Compensation

The compensation table represents disclosure of the taxable compensation and benefits earned in the year by the Chief Executive Officer and the four other most highly compensated executives.

	Compensation	Taxable Benefits
Donald D. Weiss, President and CEO	$ 337,436	$ 313
Mark J. Fuller, Executive Vice-President, Pensions	318,746	382
Leonard Lu, former President[1]	302,467	409
Robert F. Kay, Senior Vice-President, Investments	264,036	337
Peter Shena, Vice-President, Pension Policy and Research	194,257	261

[1] Retired December 31, 2004.

NOTE 11 Comparative Figures

Certain comparative figures have been restated to conform with the financial statement presentation adopted in the current year.

Schedule of Fixed Income Maturities

As at December 31 *(in thousands of dollars)*	2004 Fair Value	2004 Effective Yield %	2003 Fair Value	2003 Effective Yield %
Special Province of Ontario Debentures				
0 – 1 year	**$ 129,159**	**11.05 – 13.33**	$ 120,323	9.82 – 12.78
1 – 5 years	**945,312**	**11.16 – 15.38**	843,855	11.05 – 15.38
5 – 10 years	**1,854,319**	**10.38 – 13.33**	1,677,050	10.38 – 13.33
> 10 years	**–**		450,939	11.19
Accrued interest	**179,765**		187,799	
	3,108,555		3,279,966	
Bonds				
Canada:				
0 – 1 year	**157,064**	**2.99 – 8.49**	86,545	3.44 – 9.18
1 – 5 years	**493,545**	**2.99 – 9.13**	486,438	3.34 – 8.70
5 – 10 years	**791,652**	**3.90 – 8.10**	809,999	4.62 – 8.18
> 10 years	**499,961**	**2.87 – 7.14**	425,455	2.87 – 7.27
PH&N Bond Fund: 3 – 31 years	**138,246**	**4.19**	132,699	4.35
Accrued interest	**16,782**		16,596	
	2,097,250		1,957,732	
Other international:				
0 – 1 year	**41,305**	**4.93**	2,954	7.76
1 – 5 years	**145,651**	**3.63 – 7.11**	161,630	4.33 – 6.94
5 – 10 years	**56,587**	**2.65 – 5.73**	62,099	2.76 – 5.43
> 10 years	**53,877**	**4.41 – 4.79**	48,945	4.90 – 5.22
Accrued interest	**6,786**		6,332	
	304,206		281,960	
	$ 5,510,011		$ 5,519,658	

Income over $35 Million Market Value

As at December 31 *(in thousands of dollars)*	Maturities	Coupon %	Market Value[1]
Cash and short-term investments			
Canada:			
Government of Canada			$ 521,691
Province of Ontario			79,830
Bank of Montreal			48,166
Canadian Imperial Bank of Commerce			37,884
Fixed income			
Special Province of Ontario Debentures[2]	2005 – 2014	10.38 – 15.38	2,928,790
Canada:			
Government of Canada	2005 – 2033	3.00 – 10.25	678,140
Province of Ontario	2005 – 2035	3.21 – 9.50	288,742
Phillips Hager & North High Grade Corporate Bond Fund	2007 – 2035	3.78 – 7.78	138,246
Province of Quebec	2010 – 2032	5.25 – 7.50	78,327
NHA Mortgage-Backed Securities	2005 – 2011	5.25 – 5.50	56,235
Woodbine Entertainment Group	2011	8.58	48,376
Manulife Financial Corporation	2011 – 2016	5.70 – 6.70	45,304
Royal Bank of Canada	2011 – 2053	5.45 – 7.10	42,871
Toronto-Dominion Bank	2009 – 2018	4.80 – 7.60	42,033
Power Financial Corporation	2011 – 2033	6.75 – 8.00	38,748
Province of British Columbia	2008 – 2014	5.30 – 6.38	36,735
Other international:			
Government of France	2005 – 2025	3.00 – 6.00	111,500
Germany Federal Republic Bonds	2006 – 2034	3.75 – 5.63	101,772
UK Treasury	2006 – 2010	5.00 – 7.50	54,925
Real estate			
OPB Realty Inc. (holding company, 100% owned)			1,364,960
Participating mortgages	2009 – 2019	5.00	36,331

[1] Excludes accrued income, includes guaranteed instruments issued by subsidiaries/agencies.

[2] At cost.

Income over $35 Million Market Value *(continued)*

As at December 31 *(in thousands)*	Shares	Market Value[1]
Equities		
Canada:		
Manulife Financial Corporation	2,197	$ 121,697
Encana Corp.	1,750	119,705
Sceptre Small Cap Section Pooled Fund	162	114,665
Royal Bank of Canada	1,739	111,711
Toronto-Dominion Bank	2,145	107,058
The Bank of Nova Scotia	2,586	105,238
Canadian Imperial Bank of Commerce	1,135	82,010
Bank of Montreal	1,204	69,555
Alcan Inc.	1,140	67,003
Canadian National Railway	873	63,756
Suncor Energy	1,451	61,535
Power Financial Corporation	1,794	57,390
Rogers Communications Inc.	1,825	57,369
The Thomson Corporation	1,224	51,755
Potash Corporation of Saskatchewan	504	50,314
Petro-Canada	761	46,526
Loblaw Companies Ltd.	635	45,697
Teck Cominco Ltd.	1,053	38,879
Telus Corporation	1,067	37,071
BCE Inc.	1,236	35,751
The Great-West Life Assurance Company	1,338	35,722
United States:		
General Electric Company	1,597	69,845
Pfizer Inc.	1,611	51,918
Microsoft Corporation	1,586	50,785
Wal-Mart Stores Inc.	695	43,978
American International Group Inc.	531	41,754
Citigroup Inc.	708	40,899
Exxon Mobil Corp.	654	40,172
Other international:		
France:		
Total S.A.	148	38,812

[1] Excludes accrued income, includes guaranteed instruments issued by subsidiaries/agencies.

CORPORATE DIRECTORY

Officers

Donald D. Weiss
President & CEO

Mark J. Fuller
Executive Vice-President, Pensions

Linda J. Bowden
Senior Vice-President, Corporate Services

Robert F. Kay
Senior Vice-President, Investments

Peter Shena
Vice-President, Pension Policy & Research

Thomas Choi*
Vice-President, Planning & Information Technology

Darla S. Sycamore
Treasurer & Director, Finance

Management

Stuart Anderson
Manager, Systems Development & Planning

Anne Catherall
Director, Human Resources

Armand de Kemp
Controller

Veronica Harris
Manager, Member Services

Mark A. Henry
Director, Operational Policy

Peter M.T. Johnson
Director, Member & Pensioner Services

Karen Kojima
Manager, Treasury & Investment Accounting

John Konas
Manager, Pensioner Services &
Acting Manager, Data Quality

Kimberly Norton
Director, Administrative & Board Services

Siva Sivanesan
Manager, Operational Policy

F.J. (Jim) Wyseman
Manager, User Applications Support & Control

*Joined OPB March 2005

OUR MISSION

OPB's mission is to excel in the provision of pension benefits by:

- delivering high quality cost-effective services to Plan participants and
- enhancing fund value by the prudent maximization of long-term investment returns

OUR CORE VALUES

- A commitment to excellence
- Achievement through teamwork, leadership and client service
- Trust, fairness and respect in the treatment of Plan participants
- Accountability to Plan participants

www.opb.on.ca

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