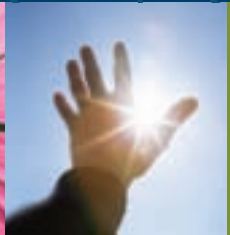


Your Pension. Our Promise.

ONTARIO PENSION BOARD

2006 REPORT TO MEMBERS AND PENSIONERS



WHO WE ARE

Ontario Pension Board (OPB) is the administrator of the Public Service Pension Plan (“PSPP” or “the Plan”) – a defined benefit pension plan sponsored by the Government of Ontario. Our membership base is made up of certain employees of the provincial government and its agencies, boards and commissions.

With more than \$15 billion in assets, 34,600 active members, 36,900 pensioners and 4,800 deferred members, the PSPP is one of Canada’s largest pension plans. It is also one of the country’s oldest pension plans, dating back to the early 1920s.

WHO WE SERVE

OPB serves:

- PSPP members, pensioners and employers (clients); and
- other key stakeholders (the Plan Sponsor, bargaining agents and taxpayers).

OUR PROMISE

OPB’s promise is fourfold:

1. protect the long-term health of the Plan;
2. invest the Plan’s assets to maximize returns within acceptable risk parameters;
3. keep contribution levels stable and affordable; and
4. deliver superior, cost-effective service to all stakeholders.

TABLE OF CONTENTS

Your pension. Our promise.	1	Five-year review	16
Highlights	2	Board of Directors	18
Your “defined benefit” pension plan	4	Our good governance guarantee	20
Letter from the Chair and the CEO	6	Corporate directory	inside back cover
Performance scorecard	8		
Financial review	14		

PROFILE



Your pension. Our promise.

You don't have to look far to know what OPB is all about. Our new logo says it all: *"Your pension. Our promise."*

We're here to ensure the PSPP remains strong, meaningful and affordable. During 2006, we moved forward with a multi-year action plan aimed at ensuring we have the people, processes and technology needed to protect the pension promise and provide better and more personalized service to all our clients and stakeholders – now and into the future.

In short, we're making major headway in turning our vision for a stronger, more responsive OPB into reality... and we're building on that momentum.

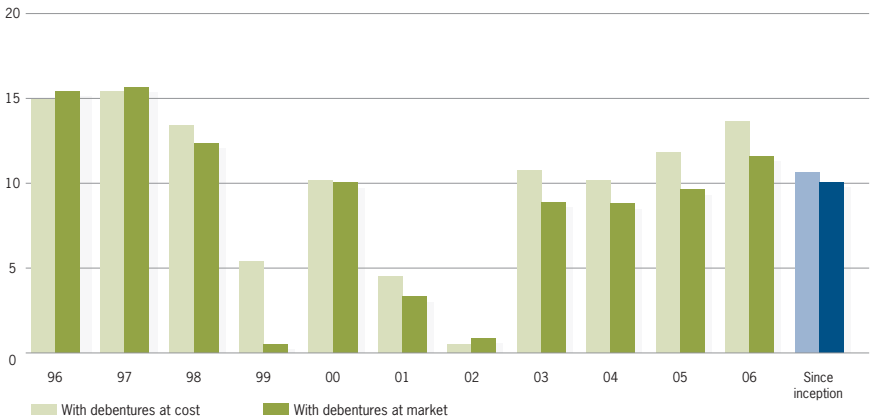
HIGHLIGHTS

About your plan

The Public Service Pension Plan is a defined benefit pension plan. This means retired members receive a pension benefit based on a pre-set formula. That formula takes into account each member's earnings history and years of service with the Plan. To fund the pension promise, both members and employers make contributions to the Plan.

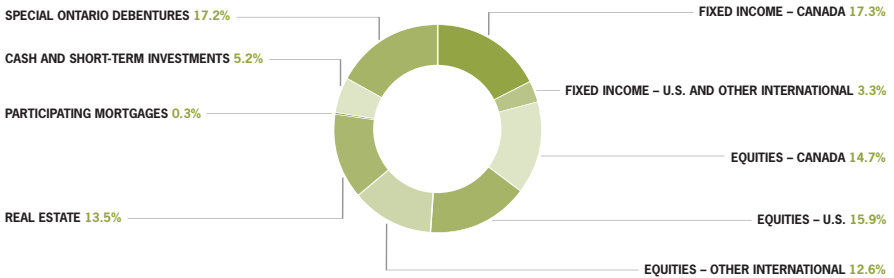
Total Returns

% per annum



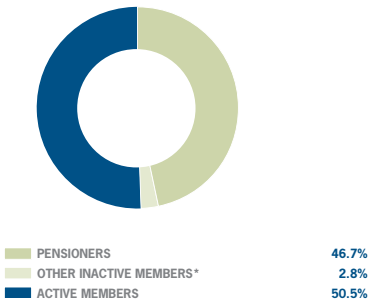
Asset Mix

as at December 31, 2006



Present Value of Benefits*

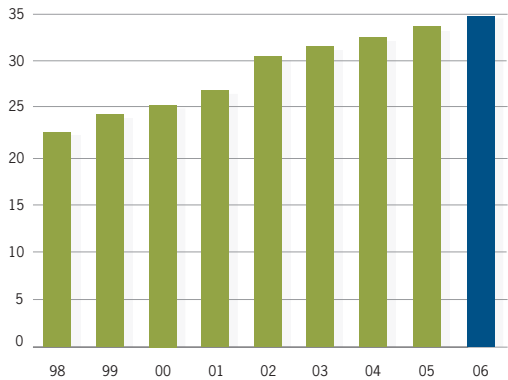
as reported in the December 31, 2005 funding valuation



*Includes Deferred and In-Transits

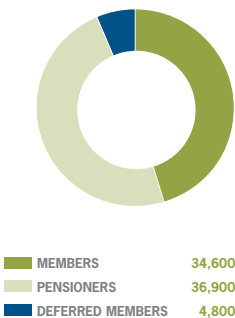
Growth in Membership

thousands of persons



Client Profile

as at December 31, 2006



Membership in OPB is on the rise. During 2006, OPB embarked on a number of short- and long-term initiatives aimed at elevating service levels. We also conducted our first client survey which will help us develop performance metrics going forward.

Our service to members

	2006	2005
Telephone calls	16,295	14,231
Buybacks of service	1,285	1,062
Pension estimates	1,140	925
Presentations	37	35
Other cases	26,770	38,010

Our service to pensioners

	2006	2005
Telephone calls	19,366	17,843
Information changes	16,554	16,091
Other cases	10,461	12,575

Security, stability, certainty

Health care and pensions are two of the most important conversations taking place in Canada today. As the baby boomer population ages, more and more Canadians are concerned about making sure they have sufficient income and resources for their retirement years.

Our population is aging, so it's no surprise that pensions are a hot topic these days. Recently, there's been public debate about which of the two basic types of pension plan is most effective – “defined benefit” or “defined contribution.”

Your Public Service Pension Plan (PSPP, or the Plan) is a defined benefit plan and we want you to clearly understand the valuable benefits this type of plan offers you and your family, such as:

Certainty – Your PSPP pension is payable for life. There is no chance that you will outlive your pension.

Adequate retirement income – Mandatory participation ensures that you build an adequate retirement income over time.

Superior security – Your pension is based on a set formula. That means you have the security of knowing what your monthly pension will be... and can plan for retirement accordingly.

Inflation protection – Your PSPP is indexed to inflation. That means the purchasing power of your pension remains strong throughout your retirement.

Survivor benefits – Your PSPP provides survivor benefits for your eligible spouse for life.

Investment expertise – Important investment decisions aren't left to you... they're managed by investment experts who have the knowledge, expertise and experience to generate – over the long term – the returns that are needed to fund the pension promise.

In contrast, members of defined contribution plans assume virtually all of the risk and responsibility for their retirement. For example:

- In most defined contribution plans, members aren't required to make contributions at a level that will provide an adequate retirement income – so many don't save enough.
- Each individual is responsible for managing their own investments and ensuring they achieve the returns needed to fund their retirement.
- Ultimately, members are responsible for making sure they've saved enough to last their entire retirement.

LETTER FROM THE CHAIR AND THE CEO

2006 was an exciting – and successful – year for OPB. We made great progress on a wide range of issues – from reducing the funding shortfall to improving our service delivery.

Addressing the Plan's funding shortfall was a key area of focus in 2006. Our ongoing objective is to address the shortfall by generating returns above the rate required to fund the Plan. We believe this can be achieved over the long term through astute and disciplined investing.

During 2006, we generated returns of 13.64% – the fourth consecutive year of double-digit returns. These returns will reduce the funding shortfall. There are several other factors that affect the funded position of the Plan in addition to investment returns. Therefore, the extent of the funding shortfall will not be known until the funding valuation report is completed later this year.

To continue managing the Plan's funded status effectively and to generate the desired investment returns, OPB launched a number of investment-related initiatives in 2006. For example:

- To help generate value-added returns going forward, we began exploring opportunities for investing in non-traditional assets.
- To help ensure the Plan's asset mix reflects long-term funding requirements and short-term cash-flow needs, we laid the groundwork for an asset allocation review.

During the year, OPB also followed through on two key commitments:

- enhancing the service experience for clients, and
- assisting our clients in making the best decisions to maximize their proper entitlement under the Plan

To that end, we conducted our first client satisfaction survey. As a direct outcome, we're reshaping our service-delivery model to better meet the needs and expectations of our clients. For example, during 2006, we:

- completed the transition to a new operating structure that will allow us to respond more quickly to client needs,
- moved forward with a project that will ensure OPB employees are fully equipped with the knowledge and resources needed to help our clients, and
- began upgrading our communications to make them more meaningful and accessible.

Without question, 2006 was a year of solid accomplishment. (And, thanks to the energy of a dedicated OPB staff, we're still building momentum.) Going forward, we intend to use that momentum to achieve even higher levels of efficiency, financial security and client service.

“2006 was an exciting – and successful – year for OPB. We made great progress on a wide range of issues – from reducing the funding shortfall to improving our service delivery.”



John Richardson, Chair



Donald D. Weiss, President & CEO





Disciplined and astute investing

Securing the pension promise and maintaining affordable and stable contribution rates are top priorities at OPB. That is why we've continued our long-standing emphasis on capital preservation. In 2006, our investment performance kept pace with most of the

Objectives

- Achieve long-term rates of return at or above the levels required to fund the Plan
-
- Ensure the Plan's asset mix reflects its investment strategy, funding needs and cash flow requirements

industry's top players and achieved double-digit returns for the fourth consecutive year. That said, we believe there are still opportunities to achieve additional, value-added returns while maintaining our focus on minimizing risk.

2006 Initiatives and Results

- With a return of 13.64% (our fourth straight year of double-digit returns), OPB significantly exceeded the 6.15% long-term rate needed to fund the promised benefits. As of December 31, 2006, the average rate of return for the Plan since OPB's inception (in 1990) stood at 10.64%.
 - Solid investment returns will reduce the Plan's funding shortfall. There are several other factors that affect the funded position of the Plan. Therefore, the extent of the shortfall will not be known until the funding valuation is completed later this year.
 - OPB laid the groundwork for a strategic asset allocation review. As a first step, OPB established a framework for an asset/liability study. The results of this study will be used to adjust the Plan's asset mix. Adjusting the asset mix will help ensure that the Plan continues to provide optimum returns and is solidly positioned to deliver the pension promise in the future.
-
- OPB developed a plan to explore investment opportunities in alternative investment classes (e.g., private equity, infrastructure and emerging markets). Expanding the scope of investments can help generate returns above those required to fund the plan while maintaining a lower-risk investment approach.



Managing better, faster, smarter

At OPB, we're committed to service excellence. To help us deliver on that commitment we conducted our first client satisfaction survey in 2006. The results were enlightening. They confirmed that if we're going to live up to the expectations and needs of our clients,

Objectives

- Realize faster, more efficient case handling

- Maximize the service experience for our clients and other stakeholders by increasing access to information and providing more online service

- Better manage all of the risks facing the Plan as effectively as possible

we need to manage better, faster, and smarter. To that end, we launched a number of short-, mid- and longer-term initiatives to streamline operations, elevate service levels and enhance communications.

2006 Initiatives and Results

- We completed the transition to an operating model that better aligns people and processes. We're hearing from our clients and stakeholders that our Service levels and responsiveness have improved.
- We initiated a multi-year project to transform our information technology (IT) infrastructure – a project that will allow us to provide our clients with a one-stop source for personalized information, as well as greater access to online information. In addition, we also launched an easy-to-use online administration manual for employers to make day-to-day transactions easier.
- We started an enterprise-wide risk management review to further our risk management practices.
- We also took a number of immediate steps to better manage risks, such as:
 - OPB provided the Plan Sponsor with the information it needed to develop a funding strategy for the PSPP. Based on this information, the Plan Sponsor decided to start funding the shortfall through special payments to the Plan. The first payment of \$60.5 million was made in 2006.
 - We began working with the Plan Sponsor to develop a reserve policy for the PSPP. When the Plan develops a funding excess, a reserve policy is used to protect the pension promise and maintain stable contribution rates in the event of an economic downturn.



Educating & advocating

To protect the long-term health of the Plan, OPB needs to ensure that our clients understand the true value of their PSPP benefits and the defined benefit pension model. We also need to ensure that other key stakeholders – such as the Plan Sponsor and bargaining agents and taxpayers – understand the benefits of the defined benefit model.

Objectives

Ensure OPB's communications and services:

- assist our clients in making the best decisions to maximize their proper entitlement under the Plan; and
- enhance appreciation for the DB model and the true value of the PSPP

Protect the PSPP for future generations of members by promoting a healthy environment for defined benefit pension plans

Build PSPP's public profile

We believe the key to building that understanding is a proactive education and advocacy strategy. With that in mind, OPB launched a number of initiatives in 2006 to ensure our clients and other stakeholders are getting the information they need and want.

2006 Initiatives and Results

The client satisfaction survey conducted in early 2006 confirmed that members and pensioners want the communications they receive from us to be more personalized, easier to read and concise. To this end, we:

- increased the frequency and professionalism of client and stakeholder presentations to provide them with a full understanding of the value of the PSPP; and
- revamped annual pension statements to provide members with a plain-language document that clearly illustrates the value of the PSPP benefits.

OPB continued to:

- play an active role in the Association of Canadian Pension Management (ACPM), the national voice of Canada's pension industry; and
- broaden its involvement in industry groups, so more of its people are active in the industry.

Looking forward, we will make submissions to the Ontario Expert Commission on Pensions to promote solutions that protect and advance the defined benefit model.

We strengthened our visual identity to help foster recognition and appreciation of OPB among clients and stakeholders.

Investment performance

OPB achieved a 13.64% return on investments in 2006 (with Special Debentures at cost), compared with 11.83% in 2005. Since its launch in 1990, OPB has generated an average annual return of 10.64% – well above the rate needed to meet the Plan’s benefit obligations.

Investment approach

To help achieve its investment objectives, OPB invests in various asset classes. Asset diversification (also referred to as asset mix) helps reduce risk and preserve capital.

The primary asset classes are:

- interest bearing investments;
- public equities; and
- real estate.

Interest-bearing investments

OPB’s interest-bearing investments include:

- cash and short-term investments;
- Special Province of Ontario Debentures (“Special Debentures”); and
- marketable bonds.

These lower-risk investments account for about 43% of the Plan’s total assets and provide the stable returns that anchor the Fund.

Public equities

Equities provide the Fund with an opportunity to generate value-added investment growth. In 2006, the Fund’s Canadian equity portfolio returned 18.44%, its U.S. equity portfolio returned 16.82%, and its international equities portfolio returned 32.33%.

Real estate

OPB's real estate portfolio, which provides an important source of monthly cash flow, returned 15.49% in 2006. OPB's real estate portfolio includes over 11 million square feet of retail, light industrial and office space in major centres across Canada.

The portfolio also holds \$43.6 million in participating mortgages, which are secured with undeveloped lands in the Greater Toronto Area. The value of that land, which is appraised annually, is well in excess of twice the outstanding mortgage amounts.

The funded position of the Plan

A funding basis valuation prepared as at December 31, 2005, disclosed a funding shortfall of \$587 million. This valuation was filed with the Financial Services Commission of Ontario as required under the Pension Benefits Act. In response to the valuation results, the Plan Sponsor has confirmed its commitment to the long-term health of the Plan and decided to begin making special payments to eliminate the shortfall. The first special payment (\$60.5 million) was made in 2006.

Strong investment returns in 2006 have improved the financial position of the Plan. The full extent of that improvement will not be known until a funding basis valuation prepared as at December 31, 2006 has been completed later this year.

FINANCIAL REVIEW

Five-year review

<i>(in millions of dollars)</i>	2006	2005	2004	2003	2002
Opening assets	\$14,191.8	\$ 13,068.3	\$ 12,284.0	\$ 11,489.6	\$ 11,945.1
Investment income ¹	1,887.0	1,502.2	1,210.7	1,201.2	41.8
Contributions ²	424.9	340.7	308.5	270.9	135.2
Transfers from other plans ³	85.3	93.5	81.7	108.4	144.5
	2,397.2	1,936.4	1,600.9	1,580.5	321.5
Pension payments ⁴	766.1	750.1	743.5	728.5	721.2
Terminations	55.4	43.3	55.6	41.2	42.1
Operating expenses ⁵	22.2	19.5	17.5	16.4	13.7
	843.7	812.9	816.6	786.1	777.0
Closing assets	\$15,745.3	\$ 14,191.8	\$ 13,068.3	\$ 12,284.0	\$ 11,489.6

Cumulative
Since
Inception

Annual rate of return:

With Special Debentures at cost	13.64%	11.83%	10.18%	10.77%	0.48%	10.64%
With Special Debentures at market	11.59%	9.61%	8.80%	8.87%	0.85%	10.05%

- 1. Investment income** – Strength in the equity and real estate markets enabled OPB to boost investment income in 2006. After deducting investment and custodial fees of \$19.4 million (\$17.0 million in 2005), the Plan reported net investment income of \$1.89 billion. Investment fees are the fees paid to investment fund managers. Custodial fees are the fees paid to financial institutions that hold the Plan's securities for safekeeping.
- 2. Contributions** – Contributions were higher in 2006, primarily due to three key factors: a \$60.5 million Special Payment (\$59 million, plus interest) by the Province of Ontario to help pay down the funding shortfall reported for 2005, a 3.3% increase in Plan membership, and regular member salary increases. Contribution rates are set by the Plan Sponsor.
- 3. Transfers from other plans** – The day-to-day business of the Plan includes the transfer of service and benefits between pension plans, most often between the PSPP and OPSEU Pension Plan. In 2006, there were 727 transfers into the PSPP from the OPSEU Pension Plan and 105 transfers from the PSPP into the OPSEU Pension Plan. The PSPP also allows members to transfer past service in or out of the Plan.
- 4. Pension payments** – The average pension rose in 2006, due in part to the 2.2% Escalation Factor (inflation protection adjustment) granted on January 1, 2006. As 2006 drew to a close, OPB was paying \$65.6 million in pensions each month, up from \$62.9 million a year earlier. Approximately 55% of this monthly cash disbursement came from contributions; the balance came from investment income.
- 5. Operating expenses** – Operating expenses are the expenses incurred by OPB to operate and manage the PSPP and serve more than 76,300 members and pensioners. Operating expenses for 2006 were \$22.2 million, compared to \$19.5 million in 2005. In addition, OPB paid \$19.4 million in investment management and custodial fees. This means total expenses for 2006 were \$41.6 million – or 26 cents for every \$100 of assets (which is unchanged from 2005).

BOARD OF DIRECTORS



M. David R. Brown

Former chairman at Eckler Partners, an actuarial consulting firm. During a career spanning more than 40 years, David has consulted to pension clients in both the private and public sectors, served on the Pension Commission of Ontario, and held numerous positions with professional organizations.

APPOINTED TO THE BOARD ON OCTOBER 25, 2006.



Lynn A. Clark

Founding principal of L.A. Clark Consulting, an independent consulting and research organization that focuses on pension and investment issues. Lynn has more than 20 years' experience in the investment banking and pension arena and is a former member of the Industry Task Force on Pension Governance.

APPOINTED TO THE BOARD ON OCTOBER 5, 2006.



J. Urban Joseph, O.C.

Vice Chairman of Toronto-Dominion Bank from 1992 to 1996. During his career with the bank, which began in 1952, he held a number of positions, including Executive Vice President of the Human Resources Division.

APPOINTED TO THE BOARD ON JULY 1, 2004.



Hugh G. Mackenzie

Principal in his own economic consulting business and a Research Associate of the Canadian Centre for Policy Alternatives. He has worked for over 30 years in the trade union and non-profit sectors, as well as all three levels of government. He is a member of the board of the Atkinson Charitable Foundation and the Ontario Teachers' Pension Plan.

APPOINTED TO THE BOARD ON DECEMBER 4, 2002.



Debbie L. McKenna

Currently Chief Administrative Officer for the Ontario Provincial Police Association, where she has worked for more than 26 years as an expert in pension policy and financial management.

APPOINTED TO THE BOARD ON DECEMBER 17, 1997.



John E. Richardson (Chair)

A former Deputy Chairman of London Insurance Group Inc., Chairman, President and CEO of Wellington Insurance Company, President of Great Lakes Power, and partner with Ernst & Young LLP.

APPOINTED TO THE BOARD ON FEBRUARY 6, 2002.



M. Vincenza Sera

Managing Director of the Financial Institutions Group, Investment Banking for National Bank Financial from 1992 to 2004. Served as co-head of the Canadian Financial Institutions Group (FIG) practice at Putnam Lovell NBF from 2003 to 2004. She has more than 20 years' experience in investment banking.

APPOINTED TO THE BOARD ON SEPTEMBER 17, 2004.



Mary Tate

A former Assistant Deputy Minister, ServiceOntario, she had more than 25 years' experience in the Ontario Public Service. She is currently consulting on government service improvement.

APPOINTED TO THE BOARD ON NOVEMBER 20, 2002.



Anthony Wohlfarth

He is currently a national representative for the CAW, where he has held a series of senior positions. He was previously Worker Commissioner with the Canada Employment Insurance Commission from 2000 to 2005. He has 25 years of diverse experience in the fields of pensions and employee benefits.

APPOINTED TO THE BOARD ON SEPTEMBER 1, 2005.

OUR COMMITMENT TO GOOD GOVERNANCE

At OPB, we're committed to good governance. That means we're committed to ensuring we have the necessary structures and procedures in place to manage, administer and monitor the PSPP based on standards that meet or exceed industry best practices.

We've built a solid governance model based on a well-defined operating structure, high professional standards, best practices, and a deep-seated culture of integrity and openness.

The emphasis we place on good governance is rooted in the importance of our mandate – securing and delivering the pension promise to our 76,300 clients *and* protecting the long-term health of the PSPP. To meet this mandate, we've established a solid governance framework that ensures we:

- operate effectively and efficiently;
- invest and manage the Plan's assets prudently;
- protect and promote the best interests of clients and other stakeholders; and
- meet applicable legislative requirements.

For more information on our governance structure and policies, visit our website at www.opb.ca

CORPORATE DIRECTORY

Donald D. Weiss

President & CEO

Mark J. Fuller

Executive Vice President & COO

Linda J. Bowden

Senior Vice-President, Corporate Services

Anne-Marie Thomas*

Senior Vice-President, Investments

Peter Shena

Vice-President, Policy & Communications

Thomas Choi

Vice-President, IT Services & Project Management Office

Karen Kojima

Treasurer & Director, Finance

Peter Johnson

Director, Client Services

*Joined OPB September 2006



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