

Your Pension. Our Promise.

ONTARIO PENSION BOARD
2007 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 \$15.8 billion in assets, 35,700 active members, 36,500 pensioners and 5000 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 vitality 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.

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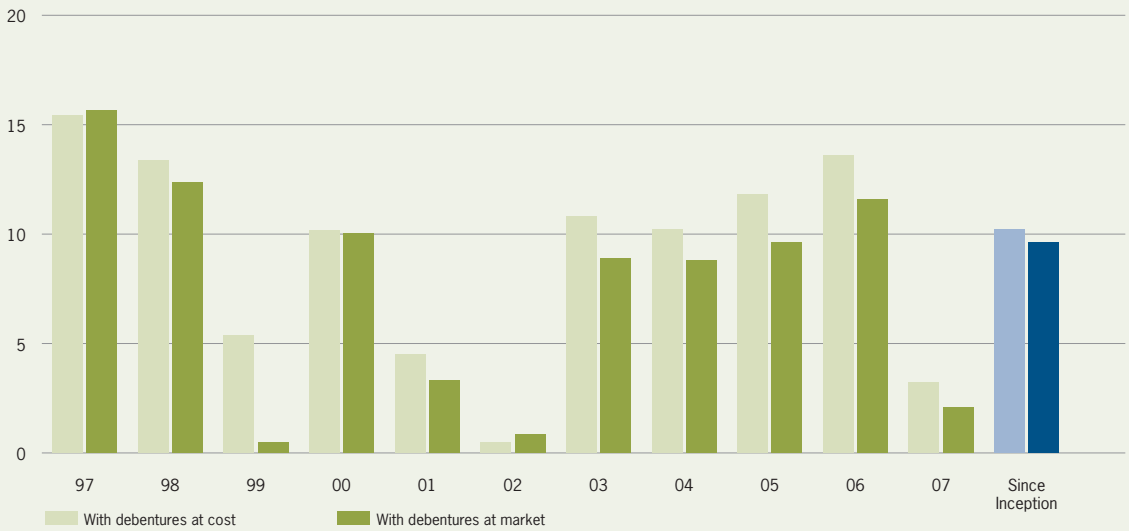
At OPB, delivering the pension promise is our top priority. We're here to ensure that your Plan remains strong and affordable now and for generations to come. In 2007, we continued to move forward with our progressive, multi-year action plan designed to secure the continued vitality and health of the Plan, while ensuring you – our clients – receive the most value from your Plan.

Over the long-term, it's inevitable that markets will have ups and downs. It's not a question of if, but when. Following four straight years of double-digit investment returns, our return for 2007 dropped to a modest 3.2% – reflecting the challenging and uncertain investment climate. While we can't eliminate the risk and uncertainty that comes with market volatility, what we can do – and what OPB is committed to doing – is to prudently manage the Plan's assets with an understanding of that risk and uncertainty. At OPB, we have a solid track record of successfully managing through market adjustments and volatile conditions. The Plan has earned a 10.2% average rate of return since OPB's inception in 1990 and entered 2008 approximately 97% funded.

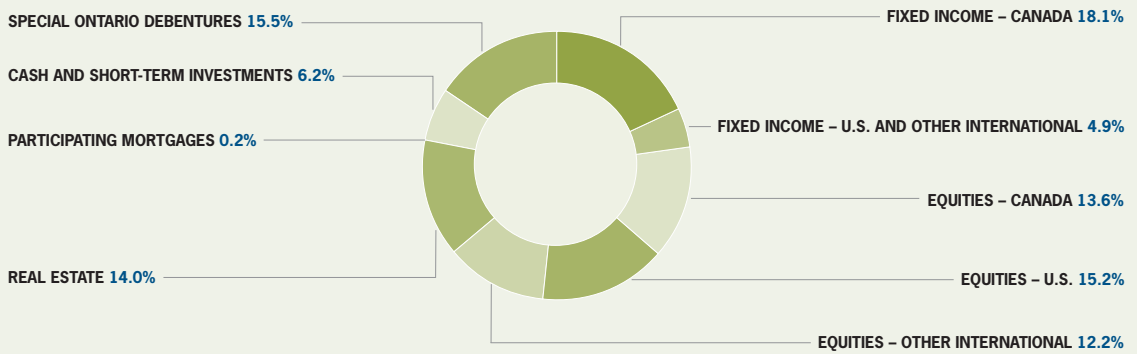
We are also committed to service excellence and helping you get the most value from your participation in the Plan. In 2007, OPB's Board of Directors adopted a new vision for service delivery that will enable us to provide you with the proactive, highly personalized information and guidance you need to make informed decisions. Efforts to turn that vision into reality are well underway.

Highlights

TOTAL RETURNS % per annum



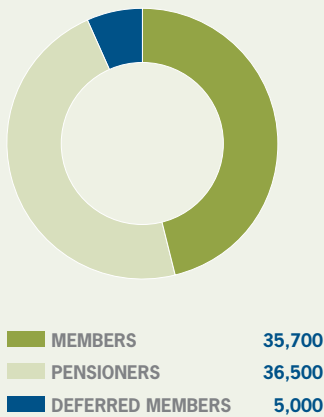
ASSET MIX as at December 31, 2007



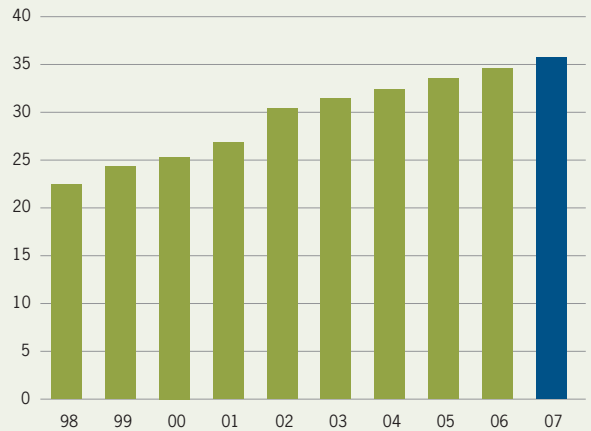
About the Plan

Your Public Service Pension Plan is a defined benefit pension plan. This means that at retirement, your pension benefit is based on a pre-set formula that takes into account your earnings history and years of service with the Plan. We fund the pension promise through contributions to the Plan from you and your employer, and investment returns.

CLIENT PROFILE as at December 31, 2007



GROWTH IN MEMBERSHIP thousands of persons



Membership in OPB is on the rise. During 2007, OPB embarked on a number of short- and long-term initiatives aimed at elevating service levels. We also conducted our second client survey which will help us begin to develop performance metrics.

Our service to members

	2007	2006
Telephone calls	17,996	16,295
Buybacks of service	1,519	1,285
Pension estimates	1,070	1,140
Presentations	104	37
Other cases	32,319	26,770

Our service to pensioners

	2007	2006
Telephone calls	18,870	19,366
Information changes	15,578	16,554
Other cases	9,352	10,461

Message from the Chair and the CEO

The year 2007 was a formative one for OPB. We initiated new service delivery and investment strategies, continued to enhance our already strong governance practices, increased our advocacy efforts around the defined benefit pension model, and managed changes to our Board and succession planning for our senior management team.

Service excellence

You told us that you want more personalized information and guidance to help you make informed decisions about your pension options. With that in mind, the Board and management worked together to develop a five-year strategic plan that will effectively position OPB to deliver the pension promise in a changing environment and to exceed your service expectations. The Board also approved a new vision for service delivery. The new model is one that is both proactive and highly personalized. The transition will take time – but we expect to provide improved value and service each step of the way. Going forward, you can expect faster turnaround times for key transactions and more personalized information and guidance.

Protecting the defined benefit pension environment

At OPB, we believe that the defined benefit (DB) model is the superior model to provide individuals with security in retirement. We also believe that you – and society as a whole – benefit from a pension environment that supports the DB model and encourages broader DB coverage. We continued our strong education and advocacy efforts in 2007 by

- conducting 104 pre-retirement and information sessions with members to explain the merits and value of belonging to the PSPP, and
- making an innovative submission to the Ontario Expert Commission on Pensions outlining our recommendations for building a stronger pension environment (we encourage you to read our submission, available at www.opb.ca).

Investments

Like the rest of the investment community, we weathered a challenging investment market in 2007. Following four consecutive years of double-digit investment returns, our return of 3.2% reflects modest gains made in difficult market conditions. Market volatility is inevitable, and OPB has a solid track record of navigating through difficult markets. The Plan has earned a 10.2% average rate of return since OPB's inception in 1990.

In 2007, we approved a new asset allocation strategy to identify and seek out sources of higher real returns and greater diversification. A corresponding focus on risk management will form an integral part of this new strategy.

Funded status of the Plan

Due to challenging markets, we saw an increase in the Plan's funding shortfall. The full extent of that increase won't be known until a Plan valuation is completed in mid-2008. However, it is expected to exceed the \$587 million shortfall reported at year-end 2005. To put our shortfall in perspective, at year's end, the Plan was approximately 97% funded. Moving forward, we will continue to monitor our financial performance – and to take the strategic steps necessary to protect both the Plan and the interests of our Plan members.

Changing team

We also saw some changes at both the Board and executive level in 2007:

- Vincenza Sera was appointed Board Chair, replacing John Richardson, who retired in June 2007.
- Mary Tate's term as the Plan Sponsor representative ended; and Debbie McKenna retired from the Board. The Board welcomes two new appointees: Patricia Li and Lisa Hillstrom.
- Don Weiss announced his decision to step down as President, but will stay on as CEO until the end of 2008 to help manage the transition.
- As part of our leadership transition plan, Mark Fuller was appointed President, effective January 2008.

The year 2007 was certainly a year of notable progress. Successfully managing a large defined benefit pension plan like the PSCP requires vigilance, commitment and vision – three traits that are at the heart of OPB and our proven ability to deliver on the pension promise.



M. Vincenza Sera, Chair



Donald D. Weiss, CEO



We deliver!

At OPB, we have a clear vision of where we want to go, and the steps we need to take to get there. We aim to:

- deliver a pension plan to you that is strong and affordable, and
- dramatically improve your service experience – so you get the personalized information and guidance you need to make informed decisions, and get the most value from your Plan.

To deliver on this vision, we are committed to our core strategies: disciplined and astute investing; managing better, faster, and smarter; and education and advocacy. Using our action plan as a roadmap for success, we passed several important milestones in 2007, and continue to make progress with each passing day.



DISCIPLINED AND ASTUTE INVESTING

WHAT WE DID IN 2007

- Began making adjustments to our investment strategy and strategic asset allocation. In particular, we are:
 - increasing our allocation to equities
 - expanding our investment in high-growth regions around the world
 - exploring opportunities in other asset classes and strategies
- Intensified our focus on investment risk management
- Expanded our team of internal investment professionals

WHY WE DID IT

- To capitalize on increased flexibility stemming from changing Plan demographics by accepting an even longer-term view on investments
- To maximize the long-term returns needed to deliver the pension promise, within acceptable risk parameters
- To manage different and complex risks associated with our revised, broader investment approach
- To develop the internal expertise we need to achieve the value-added investment returns required to meet our pension obligations



MANAGE BETTER, FASTER, SMARTER

WHAT WE DID IN 2007

- Laid the groundwork for a new workflow management system to be launched in 2008
- Refocused several client service positions and surveyed our members and pensioners
- Introduced a new policy for handling the pension benefits of members in a marriage breakdown situation
- Played a key role in the development of a groundbreaking solution for handling “pension divestments”
- Developed a risk-based internal audit plan
- Appointed an independent third party to assess our governance practices and policies

WHY WE DID IT

- To ensure faster turnaround times for key transactions, so we can respond more quickly to your enquiries
- To provide you with the personalized guidance you need to get the most value from your Plan
- To simplify the division of pension benefits in a marriage breakdown situation, saving time and money for the parties involved
- To allow divested police officers who are moving between municipal and provincial forces to consolidate their pensions
- To help optimize our operations by pinpointing areas of risk, testing our controls, and identifying opportunities for improvement
- To ensure our governance practices stand up to leading industry benchmarks and deliver value-added benefits to you



EDUCATE AND ADVOCATE

WHAT WE DID IN 2007

- Made a balanced and thoughtful submission to Ontario's Expert Commission on Pensions containing innovative and strategic recommendations (available at www.opb.ca)
- Conducted 104 client information and pre-retirement sessions
- Continued to play an active role in various industry associations

WHY WE DID IT

- To promote and support Ontario's system of DB plans
- To help ensure the evolving DB pension environment is responsive to changing needs of plan sponsors, plan members and pensioners
- To help you understand your entitlements and the value of your defined benefit pension
- To support efforts to improve the legislative environment for DB pension plans and encourage broader coverage by DB plans

Enhanced accountability and

At OPB, we embrace being fully accountable to you – our clients.

To us, good governance means delivering value-added benefits to you and maintaining your trust.

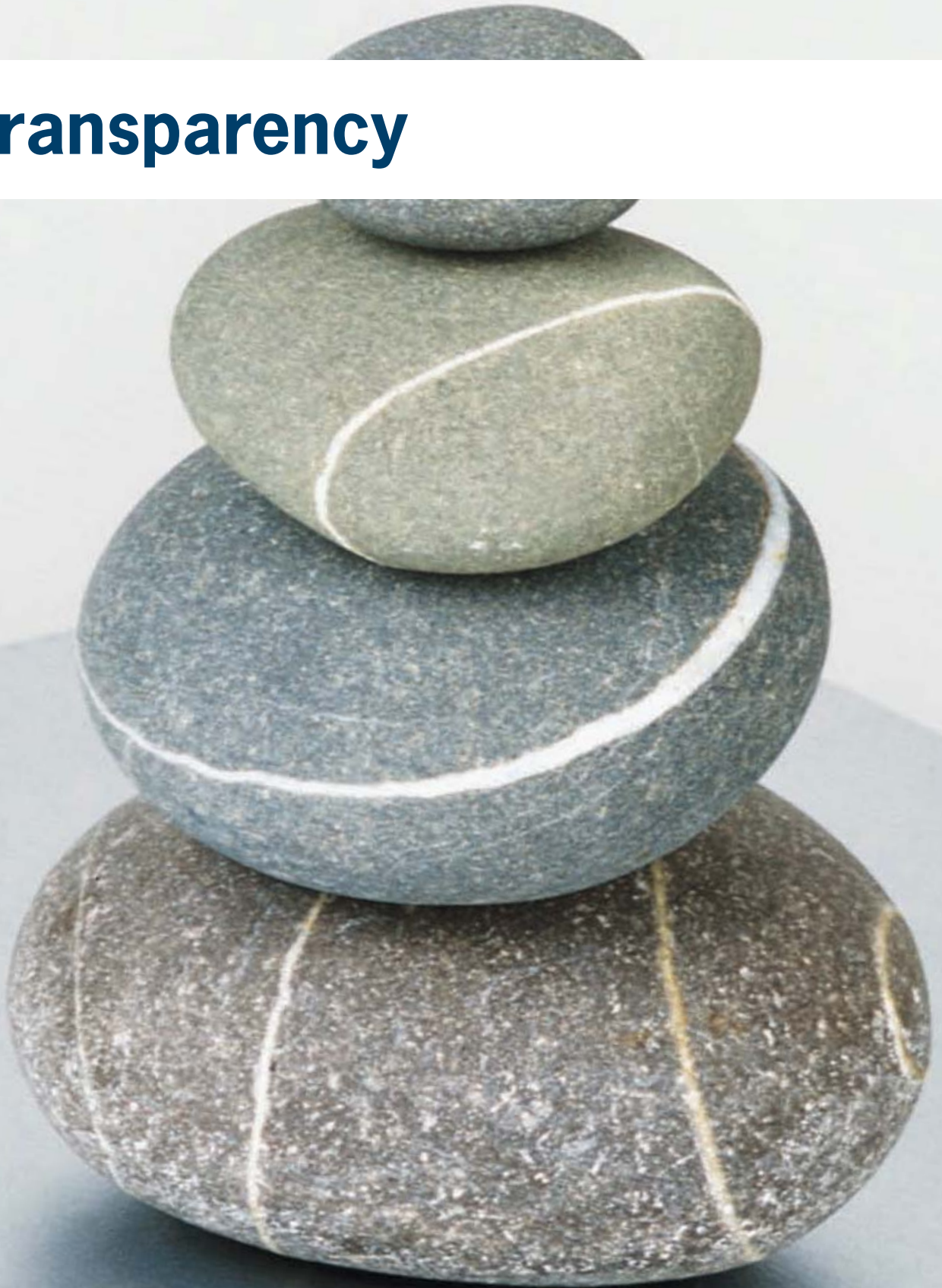
Over the years, we've put in place the operating structure and procedures we need to manage, administer and monitor the Plan based on standards that meet, and in many cases exceed, leading industry benchmarks.

Our uncompromising emphasis on governance is rooted in our commitment to fulfill the pension promise to you and protect the long-term vitality of the PSPP. We want to make sure our governance practices uphold the principles of transparency, accountability, efficiency, effectiveness and superior performance. And we want to make certain that you see and experience the business benefits resulting from our efforts.

In 2007, the Board and senior executive team completed a self-assessment of our governance practices. We also hired an independent third party to measure our governance practices against leading industry benchmarks and compliance with our own governance code. The results confirmed that we have made significant progress and are on the leading edge of industry standards.

Going forward, we will look to raise the bar on governance and to retain your hard-earned trust.

transparency



Board of Directors



M. Vincenza Sera (Chair) ^{2c, 4}

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.

APPOINTED AS CHAIR JULY 1, 2007.



J. Urban Joseph, O.C. (Vice Chair) ^{1, 5c}

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.

APPOINTED AS VICE CHAIR JULY 1, 2007.



M. David R. Brown ^{1, 3}

A former managing principal at Eckler Ltd., a leading Canadian 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 ^{2, 4, 5}

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 of 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.



Patricia Li ^{1, 3}

Assistant Deputy Minister for ServiceOntario in the Ministry of Government and Consumer Services. During her career, she has held a series of progressively responsible management positions in the Ontario Public Sector, practised public accounting, and worked for several national retail corporations.

APPOINTED TO THE BOARD ON OCTOBER 1, 2007.

Legend

- 1 Audit Committee Member
- 1C Audit Committee Chair
- 2 Investment Committee Member

- 2C Investment Committee Chair
- 3 Pensions Committee Member
- 3C Pensions Committee Chair
- 4 Governance & Conduct Committee Member

- 4C Governance & Conduct Committee Chair
- 5 Human Resources Committee Member
- 5C Human Resources Committee Chair



Hugh G. Mackenzie ^{2, 3, 4C}

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 ^{2, 3C, 5}

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.

RETIRED FROM THE BOARD DECEMBER 31 2007



John E. Richardson ^{1, 2, 5}

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.

RETIRED FROM THE BOARD AS OF JUNE 30, 2007.



Mary Tate ^{1C, 3, 4}

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

APPOINTED TO THE BOARD ON NOVEMBER 20, 2002.

TERM AS PLAN SPONSOR'S NOMINEE TO THE BOARD CONCLUDED AS OF SEPTEMBER 30, 2007.



Anthony Wohlfarth ^{1C, 3}

Currently a national representative for the CAW Canada, 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.

Funding the pension promise

At the heart of delivering the pension promise to you is the critical balance between assets and liabilities.

- Assets include all contributions (from you and your employer) and investment earnings.
- Liabilities are what the Plan must pay out to meet its pension obligations.

When assets equal or exceed liabilities, the Plan is fully funded. When liabilities exceed assets, on the other hand, the Plan has a funding shortfall.

Striking – and maintaining – a balance between assets and liabilities is the key challenge for any defined benefit pension plan. This balance can be affected by a number of different factors – such as investment returns, contribution rates, benefit levels, interest rates, and changing demographics (e.g., life expectancy, termination rates).

Consider the example of a PSPP member who retires at age 60 with 30 years of service and average annual earnings of \$60,000. This member would receive an annual pension of:

- \$36,000, up to age 65, and
- \$27,000 each year from age 65 on.

At age 60, the Plan would need to have approximately \$500,000 set aside to fund this pension, assuming the pension is indexed for inflation by 2.5% each year, and those funds earn an investment return of 6.15% (net of expenses) every year.

Of this initial \$500,000, contributions fund approximately 40% to 45% of the total cost of a member's pension, while investment earnings of 6.15% per year (net of expenses) fund the other 55% to 60%. This means that the Plan must generate the anticipated 6.15% investment return per year, on average, over the long-term. If it earns less, there will be a funding shortfall.

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If the member in our example lives five years longer than expected, the pension obligation will increase by \$135,000 (5 x \$27,000 a year) to fund the pension promise. And that's just for one member. The reality is that members are living longer. So imagine the impact knowing the Plan has 75,000 active and retired members.

To fund the pension promise for the entire Plan, we currently need to generate investment earnings of \$1.2 billion every year. However, given that financial markets fluctuate, we can expect to earn more in some years and less in others. What matters is that our assets and liabilities balance out over the long term.

To achieve a balance, we need to monitor the Plan's financial position regularly and, where necessary, adjust the assumptions used to value the Plan's assets and liabilities so they reflect demographic and economic shifts that can affect our future pension obligations. We made such an adjustment for our December 31, 2007, valuation. This adjustment will help us to better project the Plan's funding requirements and to develop a complementary investment strategy.



Financial review

Investment performance

For the year ending December 31, 2007, OPB achieved an overall return on investment of 3.2% (with Special Debentures at cost), compared to 13.6% in 2006. This modest return in 2007 is largely the result of a challenging investment climate – and reflects the ongoing volatility of the markets. Since OPB's inception in 1990, the Plan has generated an average annual return of 10.2%.

Investment approach

To help achieve investment objectives, reduce risk, preserve capital, and generate sufficient cash flow, OPB invests in a range of asset classes. The primary asset classes are interest-bearing investments, public equities, and real estate.

During 2007, OPB began making adjustments to its investment approach. Specifically, it began to:

- increase its allocation to equities and higher-growth economies, and
- explore opportunities to invest in other asset classes and strategies.

These adjustments are designed to address changes in global investment markets and better align the Plan's asset mix with future pension obligations. To reflect the risk associated with its new, broader investment approach, OPB also intensified its focus on investment risk management.

The Plan does not hold any investments in asset-backed commercial paper, subprime mortgages or credit derivatives.

Public equities

Following four straight years of double-digit returns, the Fund's Canadian equity portfolio returned 9.3% in 2007 (compared to 18.4% in 2006). The Plan's U.S. equities portfolio had a negative return of -12.4% (compared to 16.8% in 2006), while the non-North American equities portfolio had a negative return of -4.1% (compared to 32.3% in 2006). Negative returns were due largely to a decline in foreign currencies relative to the Canadian dollar.

Real estate

OPB's real estate portfolio's total return was 10.4% in 2007, compared to 15.5% in 2006. Since 1994, when OPB made its initial investment in real estate, the portfolio has generated an average compounded annual return of 10.9%.

OPB's real estate portfolio includes over 11 million square feet of retail, light industrial and office space in major centres across Canada. Rental income from these properties provides an important source of monthly cash flow for OPB.

Interest-bearing investments

OPB's interest-bearing investments include:

Cash and short-term investments – Cash and short-term holdings at year-end 2007 stood at \$970 million, down slightly from \$1.10 billion at year-end 2006.

Special Debentures – Special Debentures provided \$536 million in cash flow, compared to \$529 million in 2006.

Marketable bonds – Canadian bonds, which make up the biggest slice of OPB's interest-bearing assets, generated a return of 3.2% in 2007 (compared to 4.3% in 2006). Non-Canadian bonds generated a negative return of -4.7% (compared to 14.1% in 2006), due largely to a decline in foreign currencies relative to the Canadian dollar.

Together, these lower-risk investments account for about 45% of the Plan's total assets and provide the generally stable returns that anchor the Fund.

Five-year review

<i>(in millions of dollars)</i>	2007	2006	2005	2004	2003
Opening assets	\$15,745	\$ 14,192	\$ 13,068	\$ 12,284	\$ 11,490
Investment income	473	1,887	1,502	1,211	1,201
Contributions	452	425	341	308	271
Transfers from other plans	82	85	94	82	108
	1,007	2,397	1,937	1,601	1,580
Pension payments	789	766	750	744	729
Terminations	67	56	43	56	41
Operating expenses	27	22	20	17	16
	883	844	813	817	786
Closing assets	\$15,869	\$ 15,745	\$ 14,192	\$ 13,068	\$ 12,284

Cumulative
Since
Inception

Annual rate of return:

With Special Debentures at cost	3.2%	13.6%	11.8%	10.2%	10.8%	10.2%
With Special Debentures at market	2.1%	11.6%	9.6%	8.8%	8.9%	9.6%

- 1. Investment income** – Despite a challenging investment climate, OPB managed to generate positive investment income during 2007. After deducting investment fees of \$32.1 million, the Plan reported net investment income of \$473 million. Investment fees include fund management fees and custody fees for the safekeeping of the Plan’s securities. In 2007, OPB added two new investment management firms.
- 2. Contributions** – Contributions for 2007 totalled \$452 million, up from \$425 million in 2006. The increase is due primarily to: a 3.2% increase in Plan membership and regular salary increases for members. The \$59 million in Special Payments by the Province of Ontario continued to help pay down the funding shortfall reported at year-end 2005.
- 3. Transfers from other plans** – The PSPP accepts transfers of service and benefits from other registered pension plans. Most of those transfers are from the OPSEU Pension Plan: \$72.8 million in 2007.
- 4. Pension payments** – As of December 2007, monthly pension payments were virtually unchanged from a year earlier (\$65.3 million compared to \$65.6 million). The cost of providing a 2.3% Escalation Factor (inflation protection adjustment) effective January 1, 2007, was offset by a decrease in the number of pensioners.
- 5. Operating expenses** – These are the expenses incurred by OPB to operate and manage the PSPP. Operating expenses for 2007 were \$27.0 million, up from \$22.2 million a year earlier. The increase is due largely to a heightened investment in the information systems, professional expertise, and human capital required to implement our multi-year action plan.

Your “defined benefit” pension plan

Security, Stability, Certainty

Your Public Service Pension Plan (PSPP) is a defined benefit (DB) 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 for 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 protection – 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 (DC) plans assume virtually all of the risk and responsibility for their retirement. For example:

- In most DC 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.

At OPB, we’re committed to protecting the long-term vitality of the PSPP. To do that, we believe you need to fully understand the Plan and the superior value it delivers.

Corporate Directory

Donald D. Weiss

Chief Executive Officer

Mark J. Fuller¹

President

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

¹appointed as President effective January 1, 2008



Ontario Pension Board
1 Adelaide St. E., Suite 1100,
Toronto ON M5C 2X6
Telephone: 416.364.8558
www.opb.ca