Your Pension. Our Promise.

ONTARIO PENSION BOARD 2007 ANNUAL REPORT

OPB

Your Pension. Our Promise.

Who we are

Ontario Pension Board (OPB) is the administrator of the Public Service Pension Plan ("PSPP" or "the Plan") – a major 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 5,000 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).

About your Plan

The PSPP is a defined benefit pension plan that is designed to enhance the financial security of its members. Retired members receive a pension benefit based on a pre-set (defined) formula. That formula takes into account each member's earnings history and years of service with the Plan. To fund the pension promise, members and employers both make contributions to the Plan.

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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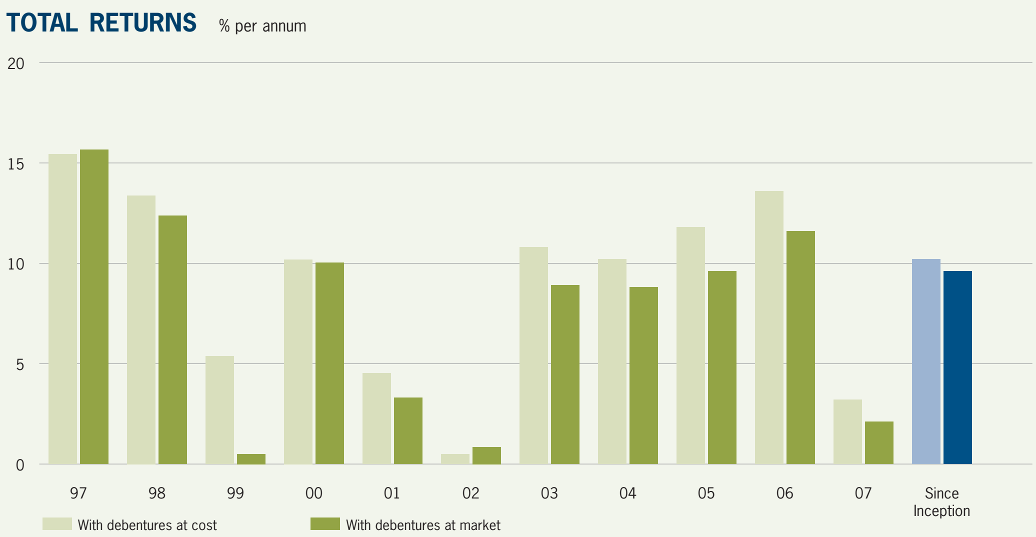
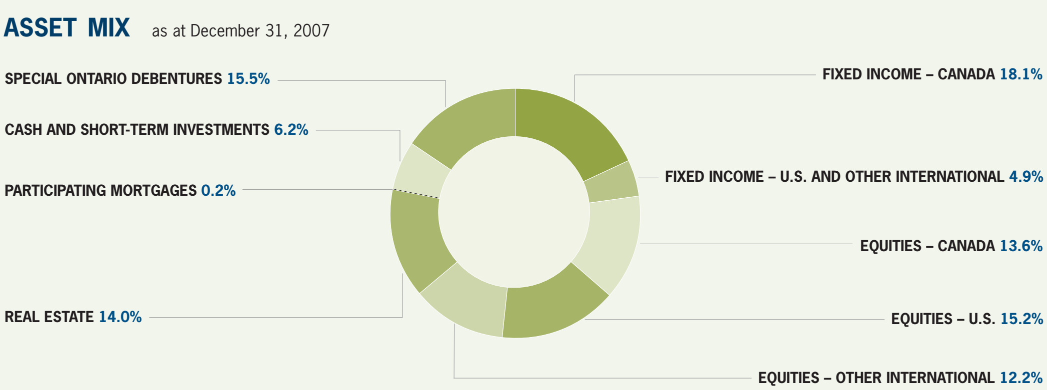
Financial highlights

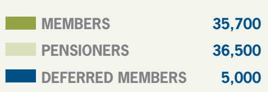




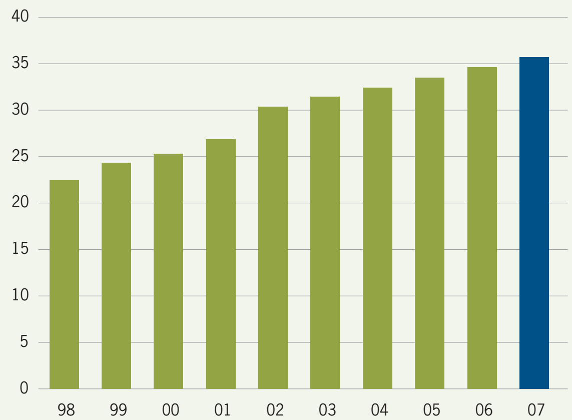
Administrative highlights

During 2007, we continued to move forward with a number of initiatives aimed at improving client service levels – including the hiring of individuals to fill several redefined staff positions and the launch of a new document and workflow management system that will help us achieve faster turnaround times for key client transactions.

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

Delivering on the pension promise

At OPB, we've made a promise.

At OPB, delivering the pension promise is our top priority. We're here to ensure that the Plan remains strong and affordable now and for generations to come. That hasn't changed. What has changed is the investment environment in which we operate and the composition of our Plan membership.

During 2007, we weathered a challenging investment market. After four years of double-digit returns, the Plan's 2007 investment return of 3.2% reflects modest gains made in difficult market conditions. The lower return will have an impact on the funded status of the Plan, and is a reflection of current market conditions.

Over the long term, it's inevitable that markets will have ups and downs. It's not a question of if, but when. We can't eliminate the risk and uncertainty that comes with market volatility. But what we can do – and what OPB is committed to doing – is prudently manage the Plan's assets with an understanding of the risk and uncertainty.

At OPB, we have a solid track record of successfully managing through market adjustments and volatile conditions – enabling the Plan to earn an average long term rate of return, since OPB's inception in 1990, of 10.2%.

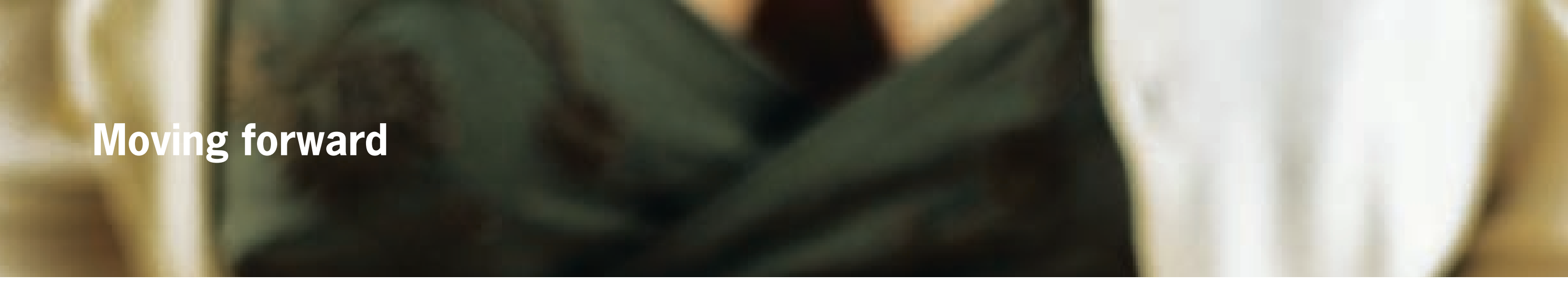
Investment returns are not the only factor affecting the funded status of the Plan. The increased cost of providing pensions to a population that is retiring earlier and living longer is also having an impact on the Plan's financial status. Despite these challenges, the Plan is approximately 97% funded and remains in a strong financial position. The Plan Sponsor continues to make annual special payments to the Plan of $59 million in respect of the funding shortfall reported in the December 31, 2005 actuarial valuation filed with the Financial Services Commission of Ontario.

Monitoring and managing the Plan's funded status continues to be one of our top priorities. We've successfully managed through funding shortfalls in the past and we will continue to be vigilant and take the strategic steps necessary to deliver the pension promise and protect the long-term vitality of the Plan.

The Plan's composition has changed – that is, the ratio of active members to pensioners has increased. In recognition of this new reality, we're able to adjust our investment strategies to give us the flexibility to take an even longer-term view on our investments.

In 2007 we also made significant headway on our multi-year action plan aimed at ensuring that we

- Invest Fund assets relative to pension obligations with a view to enhancing the Plan's long-term funded status
- Provide proactive, highly personalized information and guidance to help our clients and stakeholders make informed decisions so that they can get the most value from the Plan
- Maintain a progressive governance model, so that we continue to deliver value-added benefits to our clients and stakeholders and maintain their trust
- Encourage, initiate and support efforts aimed at strengthening the defined benefit environment and at eliminating legislative and regulatory roadblocks that stand in the way of broader defined benefit coverage



Moving forward

At OPB, we have a clear vision of where we want to go, and the steps we need to take to get there. Our ultimate goal is to

- deliver a pension plan that is strong and affordable, and
- dramatically improve the service experience for our clients and stakeholders so that they get the personalized support and customized information they need to make informed decisions, and get the most value from the Plan.

We've been moving closer to our goal over the last three years. During 2007, we passed several important milestones and continue to make progress with each passing day.

To deliver on our vision, we are making strategic investments in the organization, specifically in information systems and human resources – including training and development of staff. As a result, our overall expense levels have increased in 2007 and will continue to increase. That said, we are confident that our long-term investment will yield real value to our clients and stakeholders. We are mindful of the need to prudently manage our expenses and will continue to monitor our costs and expense ratios against those of our peers. We are also developing a plan to participate in success benchmarking to monitor the progress we are making in implementing our investment strategy and transforming the client service experience.

DISCIPLINED AND ASTUTE INVESTING

What we did in 2007

- Conducted a funding risk study
- Began making adjustments to our investment strategy by revising the Fund's strategic asset allocation:
  - increasing our allocation to equities and higher-growth economies
  - 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 guide the development of a revised strategic asset allocation
- 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
- Performed an in-depth governance self-assessment and independent review

Why we did it

- To ensure faster turnaround times for key transactions so that we can respond more quickly to client enquiries
- To provide clients and stakeholders with the personalized guidance they need in order to get the most value from the Plan
- To ensure our governance practices stand up to leading industry benchmarks and deliver greater accountability and transparency to our clients and stakeholders

EDUCATE AND ADVOCATE

What we did in 2007

- Provided balanced and thoughtful recommendations to the Ontario Expert Commission on Pensions, aimed at strengthening the defined benefit (DB) pension environment
- Conducted 104 client information and pre-retirement sessions
- In collaboration with the Plan Sponsor and the OPPA, developed an innovative divestment transfer agreement for police personnel

Why we did it

- To ensure Ontario's DB pension environment is responsive to the changing needs of Plan sponsors, Plan members and pensioners
- To help members understand their entitlements and the value of their defined benefit pension
- To develop a solution that can be used as a model transfer agreement for any divested group of employees

Funding the pension promise

At the heart of the pension promise is the ever-important balance between assets and liabilities.

Assets include contributions (from both members and employers) and investment earnings. Liabilities are what the plan must pay out to meet its pension obligations.

When assets equal associated liabilities, the Plan is fully funded. When assets exceed liabilities, the Plan has a funding excess, and when liabilities exceed assets, 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. mortality rates, termination rates).

Consider the example of an individual PSPP member – an individual who retires at age 60 with 30 years of pension credit and average annual earnings of $60,000. This individual would be entitled to 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.

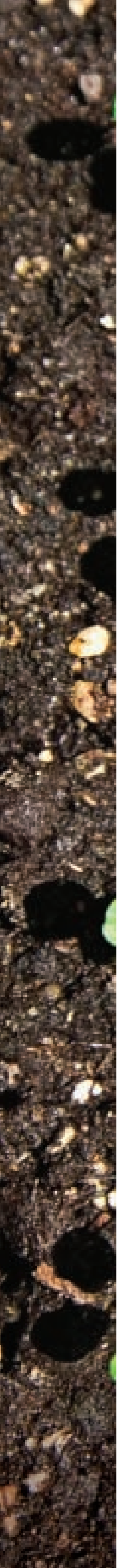
Now assume this individual lives five years longer than expected. The pension obligation for this individual would increase by another $135,000 (five years at $27,000 a year).

That's just for one individual. The reality is that members are living longer. So, imagine the impact of these different scenarios, 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 approximately $1.2 billion dollars every year. But the reality is that markets fluctuate. In some years, our investment earnings will exceed this amount, while in other years – like 2007 – our earnings will fall short. It's important to remember, however, that pension plans operate over an extended time horizon. In the end, what matters is that our assets and liabilities balance out over the long term.

To achieve that balance, we need to ensure that the assumptions used to value the Plan reflect, as accurately as possible, the demographic and economic trends affecting our future pension obligations. The more accurate our assumptions, the better we will be able to project the Plan's funding requirements. That's why we continually monitor and, when necessary, adjust the assumptions used to value the Plan.

Once we have a good understanding of our future pension obligations, we can then develop an investment strategy that matches our funding requirements. For example, OPB is currently adjusting its investment approach and strategic asset allocation to reflect the Plan's changing demographics.



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.

Message from the Chair

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.

Strategic initiatives

The Board and management worked to develop a strategic plan supported by strategic initiatives that will transform the organization going forward. Our five-year strategic plan will effectively position OPB to deliver the pension promise in a changing environment and to exceed service expectations.

Clients and stakeholders have told us they want more personalized information and guidance to help them make informed decisions about their pension options. With that in mind, the Board has approved a new vision for service delivery – one that is both proactive and highly personalized. While the transition will take time, we expect to provide improved value and service each step of the way.

On the investment side, we approved a new asset allocation strategy to identify and seek out sources of higher real returns and greater diversification. In conjunction with this new orientation, a focus on risk management will form an integral part of our investment strategy.

Throughout OPB, we are broadening our senior management team and supporting the development of front-line staff, to ensure we have the skills and experience necessary to execute this strategy.

Good governance

To us, good governance means delivering value-added benefit to – and maintaining the trust of – our clients and stakeholders. Our commitment to continually advancing our governance practices resulted in the Board appointing an independent third party to conduct a comprehensive assessment of our policies and practices against leading industry benchmarks and against our own code. We learned that – while there are opportunities for improvements – we are at the leading edge of good governance practices. We will continue to build on this foundation.

Advocacy – Ontario Expert Commission on Pensions

To seek input about ways to ensure that Ontarians can rely on their pensions, and keep the province's pension system sustainable, the Ontario government established the Ontario Expert Commission on Pensions (OECP) in late 2006. As part of its review, the Commission has been asked to focus on "the importance of maintaining and encouraging the system of defined benefit pension plans [DB plans] in Ontario." The OECP announced that it would receive submissions from stakeholders in the fall of 2007. We filed our submission on November 1, 2007, and met with the OECP shortly thereafter to present our recommendations. We look forward to the report by Commissioner Arthurs in 2008.

One of our core strategies is to educate our clients and stakeholders about the value of DB plans, as well as to advocate for a legislative environment that will encourage and sustain DB plans. The current system does not encourage employers to start new DB plans or sustain existing coverage. OPB believes that employer-sponsored DB plans are the most efficient and effective model for delivering retirement security for individuals, and can be a competitive advantage for employers seeking to attract and retain employees. We saw this as an excellent opportunity to continue our advocacy efforts to demonstrate the superior value that DB plans provide to individuals and employers.

Our submission sets out a number of recommendations that encourage the creation of a legislative framework that is balanced – one that supports employer-sponsored DB coverage as part of Ontario's retirement income system. We do not regard the debate around pension models to be an either/or proposition. Rather, there is a continuum of risk sharing and risk pooling along which it is possible to locate reasonably effective plans – whether defined benefit or defined contribution. We believe there is room for other models; however, we do believe that the DB model is the better model to deliver financial security.

Our submission received favourable comments for its balanced perspective. The submission is available on our website at www.opb.ca. I strongly encourage you to read it.

Changing team

The year 2007 saw some changes at the Board table. John Richardson retired in June 2007, having served on the Board for five years, the last two as Board Chair. On behalf of the Board, I would like to thank John for his leadership, commitment and experience, and wish him all success in his future endeavours.

At that time, I was appointed Chair after having served as a Board member since 2004, and Urban Joseph was appointed Vice Chair. I want to congratulate Urban, and I look forward to building on our strong working relationship.

I would also like to extend the Board's appreciation to Debbie McKenna and Mary Tate, as their terms on the Board ended in late 2007. Their dedication, insight and forthright input contributed greatly to OPB's success. We welcome on to the Board Patricia Li, who brings a wide range of business experience garnered in both the private and public sectors; and Lisa Hillstrom, who brings in-depth knowledge of pensions and human resource administration.

In 2007, the Board also focused on succession planning. During those discussions, Don Weiss announced his decision to step down from the position of President & CEO. As part of the transition plan, Mark Fuller was appointed President, effective January 2008. Mr. Weiss will stay on as CEO until the end of 2008. Mr. Fuller has been with OPB for nine years and, as COO, he made significant contributions to the development and implementation of our core strategies. He brings outstanding leadership and extensive pension knowledge to his new role.

On behalf of the Board, I would like to extend our appreciation to Don Weiss, his executive team and the employees for their dedication and hard work during the past year. I also want to acknowledge the support and commitment of my fellow Board members and thank them for their efforts on behalf of OPB.

M. Vincenza Sera, Chair

Enhanced accountability and

At OPB, we embrace being held accountable by our clients and stakeholders. To us, good governance means delivering value-added benefit to our clients and stakeholders, as well as building and maintaining their trust.

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

Our uncompromising emphasis on continually advancing governance is driven by our commitment to fulfilling the pension promise and protecting the long-term vitality of the PSPP. That's why we review our governance practices on an ongoing basis. We want to make sure those practices uphold the principles of transparency, accountability, efficiency, effectiveness and superior performance. And we want to make certain that we deliver obvious business benefits to our clients and stakeholders.

In 2007, the Board and senior executive team completed a self-assessment of our governance practices. We then had an independent third party conduct an in-depth evaluation designed to measure (a) our governance practices against leading industry benchmarks and (b) our compliance with our own advanced governance code. The results were both positive and informative. While the assessment identified some opportunities for improvement, it confirmed that we have made significant progress and are now on the leading edge of best practices.

Going forward, we will seek out new opportunities to raise the bar on governance and we will continue to welcome – and expect – our clients and stakeholders to hold us accountable.

transparency

Board of Directors

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				

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' 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

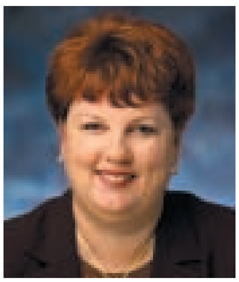
Assistant Deputy Minister for ServiceOntario in the Ministry of Government and Consumer Services. During her career, she has held a series of progressively responsible management positions in the Ontario Public Sector, practiced public accounting, and worked for several national retail corporations.

APPOINTED TO THE BOARD ON OCTOBER 1, 2007.

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.

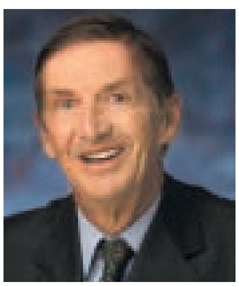
APPOINTED TO THE BOARD ON DECEMBER 4, 2002.



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 AS OF 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

He is 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.

Message from the CEO

Between advancing an ambitious action plan and managing the Plan's funded status, everyone at OPB – from the Board to management to staff – worked tirelessly in 2007 to protect the pension promise and deliver superior service to our clients and stakeholders.

Investment returns

Like the rest of the investment community, we weathered a challenging investment climate in 2007. After four years of double-digit returns, the Plan's 2007 investment return of 3.2% reflects modest gains made in difficult market conditions.

The Plan's real estate portfolio continued to generate double-digit returns. However, a number of market factors affecting OPB (and most Canadian pension plans) in 2007 included:

- modest returns for Canadian equities,
- low inflation and interest rates which translated into modest fixed income returns, and
- a strong Canadian dollar which decreased the value of international holdings.

There has been significant coverage of issues related to investments in asset-backed commercial paper, subprime mortgages and credit derivatives. The Plan does not hold direct investments in any of these instruments.

Over the long term, markets can be expected to fluctuate and some degree of volatility is inevitable. OPB has a solid track record of successfully navigating through market adjustments and volatile conditions. The Plan's average long-term rate of return since OPB's inception in 1990 is 10.2%.

While the investment environment has changed, the Plan's member and pensioner make-up has also changed. Ten years ago, there were approximately two pensioners for every contributing member. Over the last 10 years, the composition of our Plan's membership has changed and today that ratio is about 1:1. From an investment perspective, this means that we can now take a longer term view on investments – giving us more flexibility to maximize returns within acceptable risk parameters.

As a result, we have reviewed our investment strategy and strategic asset allocation and have begun to make some adjustments to our investment approach, including:

- reducing the Plan's allocation to cash and fixed income and increasing its allocation to equities,
- expanding the proportion of investments in higher economic growth areas around the world,
- exploring opportunities in other asset classes and strategies, and
- intensifying our focus on investment risk management to address the different risks associated with our broader investment approach.

Funded status of the Plan

To effectively manage the long-term vitality of the Plan, we continually monitor the demographic experience of the Plan, compare that experience against the assumptions we use to value the Plan, and make adjustments to our assumptions as necessary. As a result, we made some adjustments in the Plan valuation as at December 31, 2006 (the valuation was completed in mid-2007). The assumption changes we made reflect the increased cost of future pension obligations resulting from a number of factors, including people living longer.

At the end of 2005, the going concern funding shortfall was $587 million. In 2006, two things happened: we achieved strong investment returns, which improved our funded position, and we adjusted the assumptions used to value the Plan to reflect actual experience which increased our liabilities. However, because of the strong investment returns, the net result was a reduction in the Plan's funding shortfall to $300 million at the end of 2006.

Events unfolded differently in 2007. The gains from strong investment returns achieved in 2006 were given back in 2007 due to a weak investment climate – causing the funding shortfall to increase. The full extent of that increase will not be known until a Plan valuation as at December 31, 2007 is completed in mid-2008. However, the funding shortfall is expected to rise above the $587 million shortfall reported at the end of 2005.

To put it in perspective, this means that as of the end of 2007, the Plan is expected to be approximately 97% funded.

Monitoring and managing the Plan's funded status is one of our top priorities. We've successfully managed through funding shortfalls in the past and we will continue to be vigilant and take the strategic steps necessary to deliver the pension promise and protect the long-term vitality of the Plan.

Turning vision into reality

While improving the funded status of the Plan continues to be a top priority, it is certainly not the only one. During 2007, we continued to move forward with a number of initiatives aimed at dramatically improving the client service experience. In particular:

- We redefined several staff positions – they will be responsible for helping to develop and implement a new, highly personalized approach to client service. This will allow us to meet the growing service expectations of clients who need more guidance
- We laid the groundwork for a new document and workflow management system that will be launched in 2008. Once in place, this new system will help us to achieve faster turnaround times for key client transactions

We also continued our strong education and advocacy efforts. In 2007, we

- Made a thoughtful and well-received submission to the Ontario Expert Commission on Pensions
- Played a leading role in advancing and developing a ground-breaking divestment transfer agreement. The innovative solution was carefully crafted so that it can be used as a model for future divestments
- Conducted more than 104 client information and pre-retirement sessions (up from 37 in 2006) to help build a greater understanding and appreciation of the PSPP among Plan members, pensioners, and participating employers
- Developed a new policy for handling pension benefits in a marriage breakdown – reducing the time it takes to resolve the many issues surrounding the division of pension assets, saving time and money for the parties involved

The year 2007 was demanding for OPB employees as they implemented new systems and faced new challenges. That said, they did not miss a beat. Their success was clearly reflected in the results of our second annual client survey – which showed strong gains in service satisfaction levels among members and pensioners compared to those of a year earlier.

Heading into 2008, we will continue to monitor and manage the Plan's funded status while moving forward on our action plan to dramatically improve the client service experience.

Successfully managing a large defined benefit pension plan requires vigilance, commitment and vision – three traits that go to the core of OPB and our proven ability to deliver on the pension promise.

Donald D. Weiss, Chief Executive Officer

We deliver!

At OPB, we're committed to delivering the pension promise, protecting the long-term vitality of the Plan and providing a level of client service that meets, if not exceeds, our clients' and stakeholders' expectations.

Given the complex pension environment in which we operate, achieving these objectives requires a clear vision. To turn that vision into successful outcomes, OPB has focused its efforts on the following core strategies:

1. Disciplined and astute investing
2. Better, faster, smarter service
3. Educate and advocate

During 2007, we launched, advanced or completed a wide range of initiatives that support these strategies.

STRATEGY: DISCIPLINED AND ASTUTE INVESTING

Securing the pension promise and addressing the funding shortfall remain top priorities at OPB. That hasn't changed. What has changed is the investment environment in which we operate and the composition of our Plan membership. The number of active members to pensioners has increased, giving us the flexibility to take a longer term view on investments. In recognition of this new reality, we've adjusted our investment approach. We will look to achieve a better alignment between our investment strategy and long-term funding requirements.

OBJECTIVES

Achieve the long-term rates of return needed to meet our growing pension obligations

Ensure that the Plan's investment approach reflects market conditions and long-term funding needs

Continue to grow the Plan's assets within appropriate risk parameters

2007 INITIATIVES AND RESULTS

- Following four years of double-digit returns, the Plan's investment return retreated to a more modest 3.2% in 2007 – reflecting challenging markets. While this figure falls short of our return objective of 6.15% (net of expenses), OPB has a solid track record of successfully navigating through difficult markets to exceed this objective over the longer term. The Plan's average annual rate of return since inception (in 1990) is 10.2%.
- We reviewed our investment strategy and strategic asset allocation. In direct response to these reviews, we are
  - increasing the Plan's allocation to equities by reducing its allocation to cash and fixed income
  - expanding the Plan's investment in select high-growth regions around the world
  - exploring opportunities in other asset classes and strategies; and
  - acquiring the expertise – internal and external – needed to carry out our broader investment approach

  We believe that taking advantage of varied and changing opportunities in equity markets – particularly the global equity market – will better position us to generate value-added returns.
- We intensified our focus on risk management to mitigate any increased risk associated with our expanded investment approach – so that we continue to meet the pension promise for current and future members.

LOOKING AHEAD

- OPB will continue efforts to generate value-added returns aimed at securing the pension promise.
- We will continue to adjust the asset mix as required to strengthen the Plan's funding position and meet our pension obligations.
- Over the next 2 – 3 years, we are introducing additional success benchmarks to monitor our progress in implementing our investment strategy.
- We will continue to be vigilant in the assessment and management of investment risk.

We deliver!

STRATEGY: BETTER, FASTER, SMARTER SERVICE

At OPB, we are committed to service excellence and helping our clients and stakeholders get the most value from their participation in the Plan. In fact, during 2007, OPB's Board of Directors adopted a new vision for service delivery that will enable us to provide our clients and stakeholders with the proactive, highly personalized information and guidance they need to make informed decisions. Efforts to turn that vision into reality are already well underway.

OBJECTIVES	2007 INITIATIVES AND RESULTS	LOOKING AHEAD
Maximize the service experience of our clients	• We laid the groundwork for a new workflow management system, to be launched in 2008. This system will allow us to cut turnaround times for key transactions – and will enable us to respond more quickly to member and pensioner enquiries. • We refocused several client service positions, increasing the staff available to provide clients with the personalized service they need to maximize their rightful entitlements under the Plan. • OPB introduced a new policy for handling pension benefits in a marriage breakdown situation. This new policy simplifies the division of pensions when a marriage breaks down, saving time and money for the parties involved. • OPB played a major role in developing a ground-breaking solution that allows divested police officers who are moving between municipal and provincial forces to consolidate their pensions. OPB recommended this innovative solution to the Ontario Expert Commission on Pensions as a possible model for other divestments.	• We will continue our move towards a service delivery model that provides clients with proactive, highly personalized information and guidance. • We are developing a plan to participate in success benchmarking, to monitor the progress we are making in transforming the client service experience. We expect to implement this benchmarking by the end of 2009.
Managing better by ensuring that our governance practices stand up to leading industry benchmarks	• We had an objective third party conduct an in-depth governance review. This review confirmed that: • our governance practices reflect industry best practices, and • OPB is in compliance with its own governance guidelines.	• OPB will act on the opportunities for improvement identified by the review and continue to monitor its governance practices to ensure they are in-line with industry best practices.
Protect the benefits of our clients by managing risk	• We completed an enterprise-wide risk management review. Based on the results of the review, we developed a risk-based internal audit plan. This plan will help optimize our operations by identifying areas of risk, testing controls, and recommending improvements. • To ensure we are able to continue to serve clients in the event of a municipal or building disaster, OPB tested its business continuity plan. The tests confirmed that OPB will be able to serve members from an alternative recovery site.	• Going forward, we will continue to identify areas that can benefit from internal audits. • We will integrate enterprise risk management into both our operations and strategic planning.

STRATEGY: EDUCATE AND ADVOCATE

At OPB, we believe that the DB pension model is the superior model to provide individuals with security in retirement. We also believe that PSPP clients and stakeholders – and society as a whole – benefit from a pension environment that supports the DB model and encourages broader DB pension plan coverage. And finally, we believe that one of the best ways to protect the long-term health of the Plan is to help our clients and stakeholders understand – through proactive education and advocacy initiatives – the true value, superior benefits and lasting protection provided by DB plans, like the PSPP.

OBJECTIVES	2007 INITIATIVES AND RESULTS	LOOKING AHEAD
Ensure clients and stakeholders fully understand and appreciate the value of the DB model, and the PSPP specifically	• We significantly increased the number of general information and pre-retirement presentations made to members. These presentations explain the merits and value of belonging to the PSPP. • We attended more stakeholder-sponsored events and conducted more presentations on the merits and value of participating in the Plan.	• We will continue to look for opportunities to help clients and stakeholders understand the true value of the PSPP.
Protect the PSPP for future generations by promoting a supportive environment for DB pension plans	• We made a thought-leading submission to the Ontario Expert Commission on Pensions. That submission provided a number of innovative and strategic recommendations for broadening DB coverage. (The number one guiding principle of the Commission is to encourage Ontario's system of DB plans.) • We continued to play an active role in various industry associations, as a strong advocate for the DB model.	• OPB will continue to work with other defined benefit administrators, industry groups, and the Ontario Expert Commission on Pensions to protect and promote the DB model.

Financial review

This financial review looks at the steps taken in 2007 to protect the Plan's funded status. It also looks at the key events – positive and negative – that influenced the Plan's operational results and financial position during the year.

For a high-level summary of the Plan's financial and administrative statistics, refer to the fold-out "highlights" section at the front of the report.

Investment performance

For the year ending December 31, 2007, OPB achieved an overall return on investment (valued with Special Debentures at cost) of 3.2%. This compares to 13.6% in 2006. The modest year-over-year investment return is the result of a challenging investment climate, and reflects the ongoing volatility of the markets.

The Plan's overall investment performance is measured against the expected long-term rate of return needed to meet the Plan's funding requirements. Currently, that rate is 6.15% (net of expenses). While our 2007 return fell short of this figure, it is important to maintain a long-term perspective. Since its launch in 1990, OPB has generated an average annual return of 10.2%.

During 2007, the Plan's net assets grew by $124 million, compared to $1.55 billion in 2006. This modest growth reflects the fact that favourable returns in our Canadian equity and real estate portfolios, as well as modest gains on our fixed income holdings, were offset by losses on our U.S. and global equity holdings.

Investment approach

OPB's primary investment objective is to achieve – within acceptable risk parameters – the returns needed to meet the Plan's current and future benefit obligations. To help achieve this objective, OPB invests in a range of asset classes, such as

- public equities
- real estate, and
- interest-bearing investments (such as cash, short term investments, debentures and marketable bonds).

During 2007, OPB's Board approved an asset allocation strategy that increases the Fund's weighting in equity (versus interest-bearing) investments. The new asset mix target is 60% equities (including real estate) and 40% interest-bearing investments. The previous target was 50%/50%. This change in asset allocation is needed to

- better align the Plan's asset mix with pension obligations, and
- address changes in global investment markets.

During 2008, OPB intends to pursue a more diversified and international approach to investing in order to give the Plan access to more and different investment opportunities and to generate the real returns required to meet the Plan's pension obligations.

An increased emphasis on global investing requires a corresponding emphasis on risk management. In a concerted effort to supplement the breadth of expertise required to generate sufficient and well-diversified investment returns, OPB expanded its complement of internal investment professionals and its roster of external fund managers. (OPB now has 10 external fund managers, up from eight.)

Operating within the mandate set by OPB's Board of Directors – and taking into account various economic, regional, industry, and currency factors – the role of OPB's internal and external professionals is to develop and implement investment decisions that will generate maximum real returns within acceptable risk parameters.

Public equities

Equity investments are a key driver of the Fund's long-term returns. In fact, maintaining stable and affordable contribution rates is largely dependent on quality equity investments that can outpace the returns typically provided by interest-bearing investments.

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. At year-end, the market value of the Plan's Canadian equities stood at $2.15 billion, down from $2.31 billion at year-end 2006.

The Plan's U.S. equities portfolio reported a negative return of -12.4% for the year (down from 16.8% in 2006) and produced a drop of $324 million (all returns are stated in Canadian dollars). As at December 31, 2007, the market value of our U.S. equity assets stood at $2.41 billion, dropping from $2.50 billion a year earlier. This decline is due largely to the impact of a decline in the U.S. dollar relative to the Canadian dollar.

The Plan's non-North American equities portfolio had a negative return for the year of -4.1% and produced a loss of $84 million. This compares with a return of 32.3% in 2006. Once again, the difference is attributable mainly to the decline in value of foreign currencies in Canadian dollar terms. The market value of the Plan's international equities as of December 31, 2007, was $1.95 billion, compared to $1.98 billion at year-end 2006.

Real estate

Although there was a high demand for quality real estate in Canada during 2007, growth in the portfolio's market value was not significantly affected by changes in capitalization rates (in contrast to the positive impact of capitalization rate declines the previous year). The portfolio's net appraisal gain of $72.3 million in 2007 was attributable largely to operating income growth. By comparison, the net appraisal gain was $151.2 million in 2006.

At year-end 2007, the estimated market value of OPB's real estate portfolio stood at $2.35 billion, up from $2.25 billion at year-end 2006 (refer to note 4 in the financial statements). OPB's properties are appraised annually by independent appraisers.

The real estate portfolio's total return for 2007 was 10.4%, 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 (see page 50 for a list of rental properties owned by OPB). Rental income from these properties provides an important source of monthly cash flow for OPB.

OPB's major objectives for its rental properties are:

- continued rental income growth
- enhancing the credit quality of tenants
- capital preservation, and
- diversification.

At year-end 2007, retail properties accounted for 75% of the portfolio's assets (based on estimated market values), compared to 90% at year-end 2004. This shift is the result of a move initiated in 2005 to diversify the portfolio's holdings with the acquisition of quality industrial properties.

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 45% of the Plan's total assets and provide the stable returns that anchor the Fund.

Cash and short-term investments – Cash and short-term holdings at year-end 2007 stood at $0.97 billion, down slightly from $1.10 billion at year-end 2006.

Special Debentures – Special Debentures were issued to the Plan by the Province of Ontario as an initial funding mechanism when the PSPP was established as a separately funded plan in 1990. Over the years, these debentures have provided the Plan with a stable cash flow for paying pensions. In 2007, they provided $536 million in cash flow, compared to $529 million in 2006.

Because OPB intends to hold the Special Debentures until maturity, they are recorded at cost in the financial statements – and rates of return are reported on that basis. For comparative purposes, however, OPB also calculates returns based on a market-equivalent value.

Marketable bonds – During 2007, Canadian bonds returned 3.2% compared to 4.3% in 2006. With a year-end value of $2.87 billion, Canadian marketable bonds made up the biggest slice of OPB's interest-bearing assets. This is up from $2.73 billion at year-end 2006.

Looking beyond our borders, OPB's bond holdings generated a return of negative -4.7% in 2007, due largely to the falling value of international currencies versus the Canadian dollar. In 2006, international bonds generated a return of 14.1%.

Financial position

OPB uses two distinct methods to measure the financial position of the Plan on a going-concern basis: an accounting valuation and a funding valuation. Each valuation method serves a different purpose, and both are performed by an independent actuary appointed by OPB's Board of Directors.

Accounting valuation: Each year, OPB is required to provide a best-estimate of the Plan's accrued pension liabilities (these are the liabilities that correspond to the benefits members have earned to date). This figure is used to prepare the Plan's financial statements. The method used to estimate accrued pension benefits is set by the Canadian Institute of Chartered Accountants (CICA). Under the CICA method,

- the accrued pension liabilities must be based only on service earned by members up to the date of the estimate, and
- the assets can reflect only those contributions received up to the date of the estimate.

This approach is consistent with the purpose of the financial statements, which is to reflect the Plan's financial position as of a specific date.

Funding valuation: The objective of the funding basis valuation is to determine if the Plan will have sufficient assets to meet its future pension obligations (as they come due) based on the Plan's current benefit provisions and contribution levels. This valuation is used to help manage the Plan financially. The method used to prepare the valuation is set by the *Public Service Pension Act*. Unlike the accounting valuation, the funding valuation takes into account

- benefits based on the service that members have earned *up to* the valuation date, and
- benefits based on the service that members are expected to earn *after* the valuation date and projected contributions related to those projected benefits.

Therefore, projected benefits are reflected in the Plan's liabilities and projected contributions are reflected in the Plan's assets.

Contribution rates for members and employers are set by the Plan Sponsor. Based on those rates, the value (as of today) of future contributions is less than the value (as of today) of projected benefits earned after the valuation date. This is natural in a defined benefit plan with a level contribution rate and does not reflect a systemic funding problem. In fact, the funding valuation anticipates this shortfall, while the accounting valuation does not.

Funding valuation results

While strong investment returns helped reduce the Plan's funding shortfall in 2006, we saw the reverse in 2007. The gains from the strong returns achieved in 2006 were given back in 2007 due to a weak investment climate – causing the funding shortfall to rise.

The full extent of the Plan's year-end funding shortfall will not be known until a funding valuation prepared as at December 31, 2007, has been completed (in mid-2008). However, it is expected to rise above the $587 million shortfall reported at the end of 2005.

It's important to remember that pension plans are designed to operate over the long term. Some year-to-year fluctuation in funded status is to be expected. The goal is to ensure that the Plan remains fully funded over the long term.

OPB has successfully managed through funding shortfalls in the past. That said, we will continue to be vigilant and take the steps necessary to protect the long-term vitality of the Plan.

During 2007, the Plan Sponsor continued an earlier commitment to help reduce the Plan's funding shortfall by making a $59 million Special Payment. The special payments are part of a 15-year plan to pay down the shortfall identified in the 2005 valuation.

Accounting valuation results

The Statement of Accrued Pension Benefits and Excess (Deficit) (on page 28) shows a deficit of $67 million as of December 31, 2007, compared to an excess of $915.0 million at year-end 2006. As with the funding valuation, lower investment returns and a change in assumptions contributed to the deficit. However, the accounting valuation does not take into account the amount by which the value (as of today) of projected benefits earned after the valuation date exceeds the value (as of today) of future contributions. As a result, the funding shortfall and accounting deficit can be significantly different.

Contributions

Although contribution rates remained stable throughout 2007, the amount of contributions continued to climb. Contributions for the year totalled $452 million, up from $425 million in 2006. The increase can be attributed to a 3.2% increase in Plan membership, as well as salary increases. As noted above, the Plan Sponsor continues to make annual Special Payments of $59 million towards the funding shortfall reported as at December 31, 2005.

Pensions paid

As of December 2007, monthly pension payments were virtually unchanged from a year earlier ($65.3 million in 2007 compared to $65.6 million in 2006). The cost of providing a 2.3% Escalation Factor (inflation protection adjustment) on January 1, 2007, was offset by a decrease in the number of pensioners during the year.

Approximately 75% of the cash flow required to pay pensions comes from the Plan's Province of Ontario Special Debentures and its real estate holdings; the remainder comes from contributions.

Operating costs

The total cost of operating the Plan includes

- investment fees (for fund management, transactions, and custody), which are deducted from total investment income, and
- operating expenses (the expenses incurred by OPB to operate and manage the Plan).

Investment fees

Investment management and custodial fees for 2007, excluding the transaction costs noted below, totalled $22.7 million, up from $19.4 million in 2006. This increase is attributable primarily to the addition of two new investment management firms with specialized mandates.

In 2007, OPB adopted a new accounting policy that required investment transaction costs (fees and commissions on securities' trades, real estate closing costs) to be expensed. Prior to 2007, these costs were added to the cost value of the investment. This policy has no impact on net investment income, as realized and unrealized gains increase by the same amount as the expenses. The policy also has no effect on our reported investment values, as our traded investments are recorded at fair value. As the policy is applied without restatement of prior years, the result is an increase in both investment expenses and investment gains of $9.4 million in 2007, and zero in 2006. Total investment fees including the transaction costs were $32.1 million in 2007.

Operating expenses

Operating expenses for 2007 totalled $27.0 million, up from $22.2 million in 2006. This increase can be attributed to

- approximately $3.6 million in software and system development costs for the new document and workflow management system;
- the filling of new and vacant staff positions, and the redesign of other positions;
- consulting, legal and actuarial support for education and advocacy initiatives as well as an investment strategic asset allocation review; and
- increased spending in internal audit to ensure our new systems environment is meeting best practices in privacy, security, and financial controls.

To facilitate the multi-year action plan of transitioning our investment portfolio, improving client service, and continuing our education and advocacy efforts, OPB has invested in information systems, professional expertise, and human capital (redefined positions and increased staff development and support) in 2007, and will continue to do so for the next few years. We are confident the investments we're making in dramatic process and service improvements are in the best interest of all clients and stakeholders. These are investments that need to be made to protect the long-term vitality of the Plan and ensure all clients and stakeholders receive full value from their participation in the Plan.

The total cost of operating the Plan (investment fees plus operating expenses) in 2007 was $59.2 million – or 37 cents for every $100 of assets, compared to $41.6 million – or 26 cents per $100 of assets in 2006. Our expenses increased during 2007 as a result of strategic investments in information systems development, human resources and training and development to successfully implement our vision that provides the best value for our clients and stakeholders. These expense ratios are still well within range of peer public sector plans in Ontario. Our management and Board of Directors are monitoring costs closely and will continue to monitor expense ratios against those of our peers.

Five-Year Review

(in millions of dollars)	**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%

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 (“PSPP”):

- An actuarial valuation as at December 31, 2006 on a funding basis, as described in Note 7 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, 2007 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 PSPP as at December 31, 2006 on a funding basis was based on membership data provided by OPB as at December 31, 2006.

Using the same data as provided by OPB for the funding valuation of the PSPP, we have prepared a valuation of the liabilities as of December 31, 2006 on the basis of the accounting methodology required by the Canadian Institute of Chartered Accountants Handbook, Section 4100, as disclosed in Note 7, and extrapolated the liabilities to December 31, 2007. The valuation as at December 31, 2007 was based on assumptions that reflect OPB’s best estimates 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 OPB as of December 31, 2006 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

Allan H. Shapira
Fellow, Canadian Institute of Actuaries

February 29, 2008

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 are 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 OPB.

The Board of Directors ("Board") is ultimately responsible for the consolidated financial statements of OPB. 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
Chief Executive Officer

Karen Kojima, CA
Treasurer & Director, Finance

February 29, 2008

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 excess (deficit) of Ontario Pension Board ("OPB") as at December 31, 2007, and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in excess (deficit) for the year then ended. These consolidated financial statements are the responsibility of 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 OPB as at December 31, 2007 and the results of its operations and the changes in its financial position, accrued pension benefits and excess (deficit) for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
February 29, 2008

Chartered Accountants
Licensed Public Accountants

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

As at December 31
(in thousands of dollars)

	2007	2006
Assets		
Investments (Note 4)	**$ 15,974,366**	$ 16,148,351
Investment-related receivables (Note 4)	**34,160**	60,662
Contributions receivable (Note 5)	**40,564**	37,510
Capital assets (Note 6)	**1,211**	1,265
Total assets	**16,050,301**	16,247,788
Liabilities		
Investment-related liabilities (Note 4)	**136,293**	475,870
Accounts payable and accrued charges	**33,634**	15,627
Income taxes withheld on pension payments	**10,104**	9,802
Contributions payable	**1,176**	1,210
Total liabilities	**181,207**	502,509
Net assets available for benefits	**15,869,094**	15,745,279
Actuarial asset value adjustment (Note 7)	**379,153**	487,337
Actuarial value of net assets available for benefits	**$ 16,248,247**	$ 16,232,616

Accrued pension benefits and excess (deficit)		
Accrued pension benefits (Note 7)	**$ 16,315,393**	$ 15,317,628
Excess (deficit) (Note 8)	**(67,146)**	914,988
Total accrued pension benefits and excess (deficit)	**$ 16,248,247**	$ 16,232,616

See accompanying notes

On behalf of the Board:

M. Vincenza Sera
Chair

J. Urban Joseph
Vice Chair

Consolidated Statement of Changes in Net Assets Available for Benefits

For the Year Ended December 31 *(in thousands of dollars)*	**2007**	2006
Increase in net assets		
Net investment income (Note 9)	**$ 472,986**	$ 1,887,015
Contributions (Note 10)	**451,858**	424,909
Transfers from other plans	**81,754**	85,337
Increase in net assets	**1,006,598**	2,397,261
Decrease in net assets		
Pension payments	**788,798**	766,144
Termination payments and transfers	**66,969**	55,476
Operating expenses (Note 11)	**27,016**	22,190
Decrease in net assets	**882,783**	843,810
Net increase in net assets for the year	**123,815**	1,553,451
Net assets, at beginning of year	**15,745,279**	14,191,828
Net assets, at end of year	**$ 15,869,094**	$ 15,745,279

See accompanying notes

Consolidated Statement of Changes in Accrued Pension Benefits

For the Year Ended December 31 *(in thousands of dollars)*	**2007**	2006
Accrued pension benefits, at beginning of year	**$ 15,317,628**	$ 14,674,380
Increase in accrued pension benefits		
Interest on accrued pension benefits	**931,575**	892,289
Benefits accrued		
Service accrual	**420,594**	394,872
Transfer of service from other plans	**81,754**	85,337
Past service buybacks	**13,296**	10,200
Experience losses	**134,755**	82,170
Changes in actuarial assumptions (Note 7)	**271,558**	–
Total increase	**1,853,532**	1,464,868
Decrease in accrued pension benefits		
Benefits paid	**855,767**	821,620
Total decrease	**855,767**	821,620
Net increase in accrued pension benefits	**997,765**	643,248
Accrued pension benefits, at end of year	**$ 16,315,393**	$ 15,317,628

Consolidated Statement of Changes in Excess (Deficit)

For the Year Ended December 31 *(in thousands of dollars)*	**2007**	2006
Excess, at beginning of year	**$ 914,988**	$ 123,971
Net increase in net assets available for benefits	**123,815**	1,553,451
Change in actuarial asset value adjustment	**(108,184)**	(119,186)
Increase in actuarial value of net assets available for benefits	**15,631**	1,434,265
Net increase in accrued pension benefits	**(997,765)**	(643,248)
Net increase (decrease)	**(982,134)**	791,017
Excess (deficit), at end of year	**$ (67,146)**	$ 914,988

See accompanying notes

Notes to the 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 ("PSPP" or the "Plan") are stated in Schedule 1 to the *PSPAct*. Ontario Pension Board ("OPB") is the administrator of the PSPP.

Note 2 Description of PSPP

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

a) General

The PSPP is a contributory defined benefit pension plan. Membership is mandatory for most employees who satisfy the eligibility requirements provided in the *PSPAct*. Under the PSPP, both the members and the employers make contributions. The PSPP 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 PSPP 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.

Ontario Provincial Police ("OPP") officers are required to contribute to the PSPP 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 that exceeds *Income Tax Act* limits is 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 PSPP 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 PSPP to provide for an enhanced early retirement opportunity for members of the Plan whose age and service in the Plan total at least 80 years ("Factor 80"). The Factor 80 program ended on March 31, 2002. The PSPP was again amended to permit those members who are deemed to be surplus by their employer to retire upon attaining Factor 80. To qualify, certain conditions must be satisfied by both the employer and the member. The surplus program expired March 31, 2006. OPP officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

d) Death Benefits

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

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 PSPP. The amount of the disability pension is dependent on years of credit and average salary.

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 transfer to another pension plan, or to purchase a life annuity.

Notes to the Consolidated Financial Statements (continued)

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

Basis of Presentation

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

a) Use of Estimates

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, including accrued income. For traded investments, fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. For investments with fixed redemption and maturity which OPB intends to hold to maturity, fair value is cost.

Fair value of investments is determined as follows:

(i) Short-term money market securities are recorded at cost, which, together with accrued interest or discount earned, approximates fair value.

(ii) Bonds and real estate debt are valued at quoted market prices where available. For those instruments where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

(iii) Special Province of Ontario Debentures (the "Special Debentures"), which are non-marketable, are recorded at cost.

(iv) Equities are valued at quoted market prices at closing.

(v) Real estate, consisting primarily of income-producing properties, is valued at estimated fair value determined annually by independent appraisals. The purchase price approximates the fair value of properties acquired and held for less than six months.

(vi) Participating mortgages are recorded at cost, subject to an annual assessment of recoverable value based on independent appraisals of the securitized properties.

Investment transactions are recorded as of the trade date, which is the date upon which the substantial risks and rewards have been transferred. Interest and real estate income from operations are recognized on an accrual basis. Since real estate is valued on a fair value basis, depreciation and amortization are not charged to income. Dividend income is recognized on the ex-dividend date. Income from participating mortgages is accrued at the rate stated in the instrument, and any participation income is recorded when realized. Net investment income also includes realized gains and losses from the sale of investments and unrealized gains and losses determined from the change in the difference between cost and fair value at year-end, including appraisal adjustments on real estate valuations and fair value adjustments on real estate debt.

In accordance with “EIC-168: Accounting by Pension Plans for Transaction Costs” issued by the Canadian Institute of Chartered Accountants (“CICA”), OPB changed its accounting policy for investment transaction costs, whereby beginning in 2007 investment transaction costs are expensed as incurred. Prior to 2007, transaction costs were included in investment cost on purchases, and netted against realized gains and losses on sales. The impact of the change is a decrease in cost of equities and real estate, as noted in Notes 4(d) and 4(e), and an increase in investment expenses, realized gains and unrealized gains, as set out in Notes 9(c) and 9(d). The change in accounting policy has been applied retrospectively, without restatement of prior periods.

d) Actuarial Asset Value Adjustment

The actuarial asset value adjustment reflects the amount required to adjust the Special Debentures to an actuarial value. The amount is the difference between the recorded value of the Special Debentures, at cost, and an actuarial value determined by discounting cash flows at the same investment return rate assumed in the Plan’s accounting basis valuation. OPB does not use asset smoothing.

e) Accrued Pension Benefits

The value of accrued pension benefits is based on an actuarial valuation prepared by an independent firm of actuaries. This valuation uses the projected benefit method pro-rated on services and management’s best estimate of various economic and non-economic assumptions.

f) Contributions

Contributions due to the PSPP at year-end are recorded as receivable. Transfers and purchases of prior service are recorded after cash is received and the case is processed.

g) Pension Payments

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

h) Capital Assets

Capital assets are carried at cost less accumulated depreciation. Depreciation 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

i) 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 values of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

j) Future Accounting and Reporting Changes

The CICA has issued new accounting standards in 2007: “Section 3862: Financial Instruments – Disclosure” and “Section 3863: Financial Instruments – Presentation”. These standards require expanded disclosures related to OPB’s risk management practices related to financial instruments. The new standards apply to annual financial statements relating to fiscal years beginning on or after October 1, 2007. OPB intends to adopt these standards effective January 1, 2008.

Notes to the Consolidated Financial Statements (continued)

Note 4 Investments

As at December 31 *(in thousands of dollars)*	**Fair Value**	**2007** **Cost**	Fair Value	2006 Cost
Cash and short-term investments				
Canada	**$ 930,843**	**$ 930,862**	$ 803,403	$ 802,758
United States and other international	**35,088**	**34,947**	299,175	297,929
	965,931	**965,809**	1,102,578	1,100,687
Fixed income				
Special Province of Ontario Debentures	**2,466,519**	**2,466,519**	2,713,358	2,713,358
Bonds				
Canada	**2,870,522**	**2,869,678**	2,726,915	2,689,671
United States and other international	**785,290**	**802,736**	517,545	489,528
	6,122,331	**6,138,933**	5,957,818	5,892,557
Equities				
Canada	**2,153,459**	**1,372,607**	2,308,650	1,369,074
United States	**2,407,898**	**2,479,347**	2,502,621	2,188,605
Other international	**1,948,138**	**1,833,275**	1,979,987	1,546,920
	6,509,495	**5,685,229**	6,791,258	5,104,599
Real estate	**2,350,035**	**1,797,173**	2,253,108	1,771,809
Participating mortgages	**26,574**	**26,574**	43,589	43,589
Total investments	**15,974,366**	**14,613,718**	16,148,351	13,913,241
Investment-related receivables				
Pending trades	**8,244**	**8,244**	60,662	60,662
Forward exchange contracts, net	**25,916**	**–**	–	–
	34,160	**8,244**	60,662	60,662
Investment-related liabilities				
Real estate debt	**127,294**	**124,505**	133,082	129,404
Pending trades	**8,999**	**8,999**	308,087	308,087
Forward exchange contracts, net	**–**	**–**	34,701	–
	136,293	**133,504**	475,870	437,491
Net investments	**$ 15,872,233**	**$ 14,488,458**	$ 15,733,143	$ 13,536,412

a) Asset Mix

On December 4, 2007, OPB's long-term asset mix policy was amended. Investments are allocated to and maintained in major asset classes within acceptable ranges, with target allocation as follows:

	Effective December 4, 2007		Prior to December 4, 2007	
	Range	**Target**	Range	Target
Cash and short-term	0–10%	2%	0–10%	5%
Bonds	33–43%	38%	35–65%	45%
Total interest-bearing instruments	n/a	40%	35–65%	50%
Equity				
Canadian	6–15%	11%	10–20%	15%
International	15–50%	36%	20–30%	25%
Total equity	30–50%	47%	n/a	n/a
Canadian real estate	10–17%	13%	5–15%	10%
Total equity and real estate	n/a	60%	35–65%	50%

Investments in certain other asset classes are allowable, subject to Board approval.

b) Investment Risk

The Plan is subject to risks that could impact its cash flows, income, and assets available to meet benefit obligations. Investment risk management is the process of understanding the risks associated with the Plan and its operating environment, and the strategies for dealing with those risks.

OPB has adopted a Statement of Investment Policies and Procedures, which prescribes the asset mix policy, diversification requirements, performance expectations, limits on individual investments, valuation standards, and guidelines for the management of the Plan.

(i) Interest Rate Risk – Interest rate risk refers to the effect on the fair value of the Plan's assets and liabilities due to fluctuations in market interest rates. The value of the Plan's investments is affected by short-term changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates and inflation. The Plan has established an asset mix policy that balances interest-sensitive investments with other investments and addresses the impact on benefit obligations. Duration and weighting for the fixed income portfolio are actively managed. See the schedule of Fixed Income Maturities for further information.

(ii) Credit Risk – The Plan is exposed to the risk of loss arising from a default or insolvency of a securities issuer. As at December 31, 2007, the Plan's greatest credit exposure is with the Province of Ontario, with Special Debentures valued at $2.467 billion (2006 – $2.713 billion) and bonds and short-term investments valued at $408 million (2006 – $361 million). At December 31, 2007, 98% (2006 – 98%) of bonds held had at least an "A" rating.

(iii) Foreign Currency Risk – Foreign currency exposure arises from the Plan holding foreign exchange denominated investments and entering into contracts that provide exposure to currencies other than the Canadian dollar. Fluctuations in the value of the Canadian dollar against these foreign currencies can have an impact on the fair value of investments. The Plan hedges a portion of its foreign currency exposure through the use of foreign exchange forward contracts. Total currency exposure, impact of foreign exchange forward contracts and the net currency exposure are as follows:

As at December 31 *(in thousands of dollars)*			**2007**	2006
	Total Exposure	**Net Hedge**	**Net Exposure**	Net Exposure
Canadian dollar	**$ 10,825,217**	**$ 1,223,181**	**$12,048,398**	$ 11,712,235
United States dollar	**2,586,109**	**(1,439)**	**2,584,670**	2,798,899
Euro	**1,375,634**	**(798,457)**	**577,177**	528,767
Japanese yen	**242,163**	**–**	**242,163**	256,188
British pound sterling	**557,215**	**(338,005)**	**219,210**	253,490
Swiss franc	**140,803**	**(34,747)**	**106,056**	109,560
Other	**119,176**	**(24,617)**	**94,559**	74,004
	$ 15,846,317	**$ 25,916**	**$15,872,233**	$ 15,733,143

The total fair value of contracts payable is $1.697 billion (2006 – $1.676 billion) and the total fair value of contracts receivable is $1.723 billion (2006 – $1.641 billion).

(iv) Liquidity Risk – Liquidity risk is the risk that the Plan has insufficient cash flows to meet its pension obligations and operating expenses as they become due. Cash sources include investment income, proceeds of sales of investments, and member and employer contributions. The largest sources of cash were the interest and principal payments from the Special Province of Ontario Debentures, which provided $536 million (2006 – $529 million) to the Plan.

c) Cash and Short-Term Investments

As at December 31 *(in thousands of dollars)*	**2007 Fair Value**	**2007 Cost**	2006 Fair Value	2006 Cost
Canada				
Cash	**$ 4,554**	**$ 4,554**	$ 90,207	$ 90,207
Short-term notes and treasury funds	**907,547**	**907,566**	666,275	665,666
Term deposits	**14,435**	**14,435**	44,186	44,150
Accrued interest	**4,307**	**4,307**	2,735	2,735
	$ 930,843	**$ 930,862**	$ 803,403	$ 802,758
United States and other international				
Cash	**$ 5,791**	**$ 5,791**	$ 46,537	$ 46,537
Short-term notes and treasury funds	**16,100**	**16,025**	32,049	31,872
Term deposits	**13,131**	**13,065**	60,153	60,153
Pooled funds	**–**	**–**	160,334	159,265
Accrued interest	**66**	**66**	102	102
	$ 35,088	**$ 34,947**	$ 299,175	$ 297,929

d) Fixed Income and Equities

The Special Debentures are recorded at their aggregate cost of $2.467 billion (2006 – $2.713 billion). By discounting cash flows based on year-end market yields of comparable bonds, a value of $3.010 billion (2006 – $3.420 billion) could be determined. There are currently seven Special Debentures maturing over the next seven years with a weighted average interest rate of 11.70% (2006 – 11.96%).

In 2007, the cost of equities was reduced by transaction costs, in accordance with the change in accounting policy described in Note 3(c). The impact on the cost of equities as at December 31, 2007 was a decrease equal to the unrealized gain set out in Note 9(d).

Included in the fixed income and equities totals are the following amounts related to pooled funds:

As at December 31		2007		2006
(in thousands of dollars)	**Fair Value**	**Cost**	Fair Value	Cost
Bonds – Canada	**$ 352,572**	**$ 365,424**	$ 252,759	$ 255,222
Equities – Canada	**121,018**	**62,979**	117,139	62,288
Equities – United States	**2,756**	**2,841**	–	–
Equities – Other international	**75,487**	**94,826**	–	–

See the schedules of Fixed Income Maturities and Investments over $20 Million for further information.

e) Real Estate

As at December 31		2007		2006
(in thousands of dollars)	**Fair Value**	**Cost**	Fair Value	Cost
Real estate properties	**$ 2,302,364**	**$ 1,749,502**	$ 2,215,108	$ 1,733,809
Other assets, net	**47,671**	**47,671**	38,000	38,000
Total assets	**2,350,035**	**1,797,173**	2,253,108	1,771,809
Debt on real estate properties	**(127,294)**	**(124,505)**	(133,082)	(129,404)
Net investment in real estate	**$ 2,222,741**	**$ 1,672,668**	$ 2,120,026	$ 1,642,405

In 2007, the cost of real estate was reduced by transaction costs, in accordance with the change in accounting policy described in Note 3(c). The impact on the cost of real estate as at December 31, 2007 was a decrease equal to the unrealized gain set out in Note 9(d).

Debt includes mortgages and other secured debt with various terms to maturity up to 2018 and a weighted average interest rate of 6.56% (2006 – 6.56%). A specific asset secures each debt instrument.

Notes to the Consolidated Financial Statements (continued)

The following schedule shows the total principal payments related to this debt:

For the Year Ended December 31 *(in thousands of dollars)*		
2008	$	11,174
2009		33,735
2010		7,646
2011		16,843
2012		2,551
2013 and thereafter		52,556

f) Securities Lending

At year-end, $1.536 billion (2006 – $1.476 billion) of OPB's securities were on loan to third parties. Pursuant to a securities lending agreement, OPB's custodian arranges the loans and OPB earns a fee. The custodian follows strict lending criteria and over-collateralizes the loans with comparable securities.

Note 5 Contributions Receivable

As at December 31 *(in thousands of dollars)*		**2007**		2006
Members	**$**	**16,110**	$	15,181
Employers		**24,454**		22,329
Total contributions receivable	**$**	**40,564**	$	37,510

Note 6 Capital Assets

As at December 31 *(in thousands of dollars)*		**Cost**		**Accumulated Depreciation**		**2007 Net Book Value**		2006 Net Book Value
Computer equipment	**$**	**3,084**	**$**	**2,414**	**$**	**670**	$	490
Leasehold improvements		**2,136**		**1,992**		**144**		329
Furniture and fixtures		**1,168**		**771**		**397**		446
Total capital assets	**$**	**6,388**	**$**	**5,177**	**$**	**1,211**	$	1,265

Note 7 Accrued Pension Benefits

a) Accounting Basis

The value of accrued pension benefits of $16.315 billion (2006 – $15.318 billion) is an estimate of pension benefit obligations accrued to date for members and pensioners. The accounting valuation uses the projected benefit method (pro-rated on service), which is required under Canadian generally accepted accounting principles. Under this method, the accrued pension benefits are based on service earned up to the reporting date. The accrued pension benefits as at December 31, 2007 are computed by extrapolating data used for the December 31, 2006 funding valuation.

(i) Actuarial Assumptions – The actuarial assumptions used in determining the value of accrued pension benefits reflect management's best estimate of future economic and non-economic events. The primary economic assumptions, as at December 31, are:

	2007	2006
Investment return	**6.15%**	6.15%
Inflation	**2.50%**	2.50%
Real rate of return	**3.65%**	3.65%
Salary increases	**3.50% +promotional scale**	3.50% +promotional scale

The non-economic assumptions include mortality, withdrawal and retirement rates. In 2007, the change in actuarial assumptions, made based on an experience study, includes a change in the termination rates (the rates were lowered) and a change in mortality rates (the rates for males were lowered across all ages and the rates for females were increased for certain ages).

(ii) Actuarial Asset Value Adjustment – The Special Debentures discounted at the assumed investment return rate are valued at $2.846 billion (2006 – $3.201 billion), resulting in an actuarial asset value adjustment of $379 million (2006 – $487 million).

b) Funding Basis

The funding valuation of the PSPP 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 PSPP be completed, and filed with the regulatory authorities, at least every three years. The most recent filing was a funding valuation as at December 31, 2005, which disclosed a funding shortfall of $587 million.

The funding valuation is used as a basis for funding and plan design decisions.

A funding valuation was prepared for management purposes as at December 31, 2006. That valuation disclosed a funding shortfall of $300 million.

Note 8 Excess (Deficit)

The primary difference between the accounting and funding valuations is the cost allocation method that is prescribed for each. The accounting valuation reflects only the accrued pension benefits on service earned, as well as assets accumulated, up to the reporting date. By contrast, the funding valuation also considers future service. The funding valuation includes the amount by which the present value of liabilities for future service accruals exceeds the present value of future contributions, whereas the accounting valuation does not reflect this additional funding obligation of the Plan.

In these financial statements, the amount by which the actuarial value of net assets available for benefits is less than the accrued pension benefits based on accounting valuation is represented by the deficit, which as at December 31, 2007 was $67 million (2006 – $915 million excess).

Notes to the Consolidated Financial Statements (continued)

Note 9 Net Investment Income

For the Year Ended December 31 *(in thousands of dollars)*	**Investment Income[1]**	**Realized Gain (Loss)**	**Unrealized Gain (Loss)**	**2007 Total**	Investment Income[1]	Realized Gain (Loss)	Unrealized Gain (Loss)	2006 Total
Cash and short-term investments								
Canada	**$ 33,818**	**$ (3,698)**	**$ (663)**	**$ 29,457**	$ 30,993	$ (1,532)	$ 323	$ 29,784
United States and other international	**4,967**	**27,972**	**59,512**	**92,451**	5,469	(44,713)	(39,171)	(78,415)
	38,785	**24,274**	**58,849**	**121,908**	36,462	(46,245)	(38,848)	(48,631)
Fixed income								
Special Province of Ontario Debentures	**288,749**	**–**	**–**	**288,749**	320,089	–	–	320,089
Bonds								
Canada	**139,861**	**(12,260)**	**(36,400)**	**91,201**	130,789	2,663	(25,758)	107,694
United States and other international	**27,820**	**2,775**	**(45,463)**	**(14,868)**	20,410	(5,670)	41,121	55,861
	456,430	**(9,485)**	**(81,863)**	**365,082**	471,288	(3,007)	15,363	483,644
Equities								
Canada	**44,769**	**323,062**	**(158,724)**	**209,107**	44,136	301,982	44,895	391,013
United States	**57,164**	**4,037**	**(385,465)**	**(324,264)**	40,962	51,861	262,751	355,574
Other international	**61,298**	**173,406**	**(318,205)**	**(83,501)**	43,938	156,981	231,125	432,044
	163,231	**500,505**	**(862,394)**	**(198,658)**	129,036	510,824	538,771	1,178,631
Real estate	**137,135**	**4,529**	**72,452**	**214,116**	133,014	–	157,915	290,929
Participating mortgages	**2,685**	**–**	**–**	**2,685**	1,817	–	–	1,817
Total investment income	**$ 798,266**	**$ 519,823**	**$ (812,956)**	**$ 505,133**	$ 771,617	$ 461,572	$ 673,201	$1,906,390
Investment fees				**(32,147)**				(19,375)
Net investment income				**$ 472,986**				$1,887,015

[1] Investment income includes interest on cash and short-term investments, fixed income and participating mortgages, dividend income on equities, and real estate operating income.

a) Interest Income

For the Year Ended December 31 *(in thousands of dollars)*	2007	2006
Cash and short-term investments		
Canada		
Cash	**$ 1,924**	$ 1,577
Short-term notes and treasury funds	**30,867**	28,123
Term deposits	**1,027**	1,293
	$ 33,818	$ 30,993
United States and other international		
Cash	**$ 185**	$ 163
Short-term notes and treasury funds	**1,830**	3,527
Term deposits	**2,952**	1,779
	$ 4,967	$ 5,469

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

Canadian bond interest includes $15.473 million (2006 – $11.295 million) from pooled bond funds.

b) Dividend Income

Canadian dividend income includes $2.473 million (2006 – $1.853 million) from pooled equity funds. United States dividend income includes $26 thousand (2006 – $118 thousand) from pooled equity funds. Other international dividend income includes $8.786 million (2006 – nil) from pooled equity funds.

Notes to the Consolidated Financial Statements (continued)

c) Real Estate

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

For the Year Ended December 31 *(in thousands of dollars)*		2007		2006
Revenue				
Rental	$	253,042	$	246,317
Other income		5,975		5,534
		259,017		251,851
Expenses				
Operating expenses		95,807		93,481
General, administrative and other		19,331		18,286
		115,138		111,767
Operating income, before interest		143,879		140,084
Interest expense		8,232		9,148
Net operating income		135,647		130,936
Unrealized Gain				
Appraisal adjustment		72,295		151,196
Fair value adjustment on debt		889		6,719
		73,184		157,915
Realized gain		2,233		–
Transaction costs (Note 9(d))		(412)		–
Net income of OPB Realty Inc.	$	210,652	$	288,851

d) Investment Fees

For the Year Ended December 31 *(in thousands of dollars)*		2007		2006
Portfolio fund management	$	18,606	$	15,836
Transaction costs		8,800		–
Custody		2,181		1,872
Real estate		1,880		1,354
Consulting		680		313
	$	32,147	$	19,375

Transaction costs include commissions and fees on trades but exclude costs incurred on real estate transactions. As noted in Note 3(c), beginning in 2007 investment transaction costs are expensed as incurred. Prior to 2007, transaction costs were included in investment cost on purchases, and netted against realized gains and losses on sales. The change in accounting policy has been applied retrospectively, without restatement of prior periods. As a result, there is no comparative restatement of 2006 transaction costs. The effect of the new accounting treatment for the year ended December 31, 2007 was to increase income from equities as follows:

(in thousands of dollars)	Realized gain	Unrealized gain	2007 Total
Equities – Canada	$ 870	$ 693	$ 1,563
Equities – United States	674	803	1,477
Equities – Other international	1,940	3,820	5,760
	$ 3,484	$ 5,316	$ 8,800

Real estate transaction costs are included in real estate fees, as follows:

(in thousands of dollars)	Realized gain	Unrealized gain	2007 Total
OPB Realty Inc.	$ 180	$ 232	$ 412
Other	159	–	159
	$ 339	$ 232	$ 571

Total transaction costs in 2006 were $6.68 million for equities, and $59 thousand for real estate.

Note 10 Contributions

For the Year Ended December 31

(in thousands of dollars)	2007	2006
Members		
Current service	$ 191,376	$ 178,521
Prior service	8,825	7,082
	200,201	185,603
Employers		
Current service		
Regular contributions	191,953	180,943
PSSBA transfer	(10,177)	(10,010)
Long Term Income Protection	6,020	4,740
	187,796	175,673
Prior service	4,471	3,117
Special Payments	59,390	60,516
	251,657	239,306
Total contributions	$ 451,858	$ 424,909

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

Members who are receiving benefits on Long Term Income Protection ("LTIP") have their contributions to the PSPP paid by their employers.

The Province contributes Special Payments towards the funding shortfall identified in the filed funding valuation as at December 31, 2005.

Note 11 Operating Expenses

For the Year Ended December 31 *(in thousands of dollars)*	**2007**	2006
Staffing	**$ 13,327**	$ 11,297
Information technology and project management	**5,448**	3,891
Office premises and operations	**3,470**	3,293
Professional services	**2,106**	1,294
Staff development and support	**964**	891
Communication	**626**	649
Depreciation	**568**	508
Audit	**338**	213
Board remuneration	**169**	154
Total operating expenses	**$ 27,016**	$ 22,190

Fees for services provided by the firm of Ernst & Young LLP include:

For the Year Ended December 31 *(in thousands of dollars)*	**2007**	2006
Audit and related services provided to Ontario Pension Board	**$ 82**	$ 175
Audit and related services provided to OPB Realty Inc.	**123**	149
Total fees	**$ 205**	$ 324

Note 12 Compensation

Compensation to the senior management team includes base salary, bonuses, insured benefits and supplementary retirement incentives. Compensation totals, excluding retirement benefits, for the President & CEO and all positions reporting directly to the President & CEO:

For the Year Ended December 31	Year	Base Salary	Incentives[1]	Taxable Benefits & Allowances[2]	Total
Donald D. Weiss, President & CEO	2007	$ 358,672	$ 128,250	$ 16,188	$ 503,110
	2006	333,742	125,625	15,915	475,282
Mark J. Fuller, Executive Vice-President & COO	2007	332,648	117,992	11,304	461,944
	2006	299,032	112,551	13,561	425,144
Anne-Marie Thomas, Senior Vice-President, Investments	2007	297,470	97,960	11,357	406,807
	2006[3]	82,213	36,231	2,833	121,277
Linda J. Bowden, Senior Vice-President, Corporate Services	2007	258,617	85,180	10,009	353,806
	2006	232,976	87,715	9,965	330,656

[1] Incentives earned in 2006 were paid during 2006. Incentives earned in 2007 are to be paid in March 2008.

[2] Includes life insurance, car allowance and parking.

[3] Start date of September 18, 2006.

Compensation for the President & CEO is approved by the Board. Compensation for the Executive and Senior Vice-Presidents is approved by the Human Resources Committee of the Board. Incentives are performance-based.

The above-noted individuals are entitled to benefits from both the PSPP and the PSSBA.

The President & CEO, the Executive Vice-President & COO, the Senior Vice-President, Corporate Services and the Senior Vice-President, Investments also participate in a Supplemental Executive Retirement Plan ("SERP") that provides additional retirement benefits equal to 1.5% of the best five-year average annual base salary for each year of service with the Ontario Pension Board. All the other provisions of the SERP mirror the provisions of the PSPP, including the exclusion of incentives from the pension entitlement calculation. The SERP is an unregistered arrangement that is non-contributory and not funded.

Note 13 Comparative Figures

Certain comparative figures have been restated to conform with the financial statement presentation adopted in 2007.

Fixed Income Maturities

As at December 31 *(in thousands of dollars)*	**Fair Value**	**2007 Effective Yield %**	Fair Value	2006 Effective Yield %
Special Province of Ontario Debentures				
0–1 year	**$ 198,385**	**12.89**	$ 163,772	15.38
1–5 years	**1,267,373**	**10.38–13.33**	1,157,406	11.55–13.33
5–10 years	**860,616**	**11.10–11.19**	1,235,096	10.38–11.19
Accrued interest	**140,145**		157,084	
	2,466,519		2,713,358	
Bonds				
Canada				
0–1 year	**92,770**	**3.55–5.71**	34,774	3.01–6.74
1–5 years	**830,292**	**3.60–8.27**	682,711	3.58–8.22
5–10 years	**730,911**	**3.89–7.53**	959,483	3.93–7.41
> 10 years	**842,535**	**4.31–6.89**	771,704	4.04–6.32
PH&N Bond Fund: 1–29 years	**352,572**	**5.53**	252,759	4.62
Accrued interest	**21,442**		25,484	
	2,870,522		2,726,915	
United States and other international				
0–1 year	**–**	**–**	84,575	2.64–7.12
1–5 years	**351,220**	**2.87–5.94**	163,281	3.08–6.00
5–10 years	**261,527**	**3.68–6.82**	211,082	2.81–6.80
> 10 years	**158,577**	**4.33–6.70**	49,589	4.30–5.28
Accrued interest	**13,966**		9,018	
	785,290		517,545	
	$ 6,122,331		$ 5,957,818	

Investments over $20 Million

As at December 31, 2007 *(in thousands of dollars)*	Maturities	Coupon %	Fair Value[1]
Cash and short-term investments			
Canada			
Government of Canada			$ 569,561
Province of Ontario			63,162
Toronto-Dominion Bank			37,578
Bon TRQC			36,663
Province of British Columbia			32,219
Alberta Treasury			31,078
Bank of Nova Scotia			27,133
Financement			23,589
Fixed income			
Special Province of Ontario Debentures[2]	2008–2014	10.38–13.38	2,326,373
Bonds			
Canada			
Government of Canada	2008–2037	3.55–10.35	884,095
Phillips, Hager & North High Grade Corporate Bond Fund	2009–2036	3.75–7.78	352,572
Province of Ontario	2009–2037	4.30–9.50	349,141
Province of Quebec	2010–2036	4.50–6.25	103,608
Royal Bank of Canada	2010–2053	4.45–7.10	86,384
Toronto-Dominion Bank	2009–2106	4.25–7.60	65,659
Bank of Nova Scotia	2008–2017	3.99–6.63	51,678
Canadian Imperial Bank of Commerce	2009–2016	3.75–5.89	47,066
Sun Life Financial Inc.	2015–2036	4.80–6.65	42,351
Power Corporation	2011–2067	5.69–6.75	41,574
Manulife Financial Corporation	2012–2041	4.67–6.70	40,831
Province of British Columbia	2012–2037	4.70–8.75	40,688
Merrill Lynch	2009–2037	4.17–6.79	37,073
Bank of Montreal	2009–2021	4.30–6.90	31,867
GE Capital	2009–2037	4.38–6.25	31,038
Woodbine Entertainment Group	2011	8.58	29,629
Wells Fargo Financial	2009–2015	3.60–6.05	28,622
Enbridge Inc.	2010–2036	5.00–6.90	27,863
Ontario Hydro	2014–2025	8.50–10.00	23,952
Province of New Brunswick	2010–2039	4.50–6.75	23,925
Greater Toronto Airports Authority	2011–2017	4.40–6.25	23,477
Loblaw Companies Limited	2010–2036	5.90–7.10	22,980
Province of Manitoba	2008–2038	4.60–6.50	22,452
United States and other international			
Government of France	2009–2025	3.00–6.00	318,086
U.K. Treasury	2009–2014	5.00–8.00	179,780
Federal Republic of Germany	2009–2034	4.50–5.63	101,179
Kingdom of Belgium	2015	8.00	54,730
Santander International Debt	2011	4.89	20,116

As at December 31, 2007

(in thousands of dollars)	Maturities	Coupon %	Fair Value[1]
Real estate			
OPB Realty Inc. (holding company, 100% owned)			$ 2,302,364
Participating mortgages	2019	5.00	20,855

(in thousands)	Shares/Units[3]	Fair Value[3]
Equities		
Canada		
Royal Bank of Canada	2,421	$ 122,845
Manulife Financial Corporation	2,772	112,447
EnCana Corporation	1,558	105,182
Potash Corporation of Saskatchewan, Inc	723	103,708
Toronto-Dominion Bank	1,442	100,214
Bank of Nova Scotia	1,991	100,124
Sceptre Small Cap Fund	718	96,882
Suncor Energy Inc.	742	80,104
Rogers Communications Inc.	1,737	78,139
Petro-Canada	1,009	53,708
Canadian Imperial Bank of Commerce	741	52,292
Power Corporation of Canada	1,236	50,178
Nexen Inc.	1,532	49,189
Canadian National Railway Company	1,031	48,109
TransCanada Corp.	1,104	44,775
TELUS Corporation	823	40,041
Bank of Montreal	599	33,718
Talisman Energy Inc.	1,821	33,485
Agrium Inc.	461	33,008
Canadian Natural Resources Limited	446	32,350
Great-West Lifeco Inc.	871	30,993
Shaw Communications Inc.	1,295	30,605
Cameco Corporation	761	30,125
BCE Inc.	728	28,852
Canadian Pacific Railway Ltd.	428	27,487
Shoppers Drug Mart Corporation	514	27,381
Goldcorp Inc.	804	27,172
Husky Energy Inc.	588	26,197
Thomson Corporation	614	24,739
Brookfield Asset Management Inc.	676	23,975
Teck Cominco Limited	612	21,677
Research In Motion Limited	189	21,313
Jarislowsky Fraser Special Equity Fund	907	21,201
SNC-Lavalin Group Inc.	423	20,341

Investments over $20 Million (continued)

As at December 31, 2007
(in thousands)

	Shares/Units[3]	Fair Value[3]
United States		
General Electric Co.	1,958	$ 71,634
Johnson & Johnson	976	64,269
Pfizer Inc.	2,843	63,774
ConocoPhillips Pfizer Inc.	713	62,171
Exxon Mobil Corp.	672	62,115
Chevron Corporation	604	55,680
Procter & Gamble Co.	612	44,334
Microsoft Corp.	1,149	40,388
Wal-Mart Stores Inc.	857	40,220
Cisco Systems, Inc	1,466	39,155
CVS Corp	958	37,572
AT&T Inc.	898	36,835
Alcoa Inc.	1,003	36,163
Berkshire Hathaway Inc.	8	36,155
Illinois Tool Works Inc.	683	36,075
American International Group, Inc.	621	35,744
Emerson Electric Co.	593	33,149
The Allstate Corporation	635	32,744
Intel Corp.	1,218	32,048
Altria Group, Inc.	390	29,095
PepsiCo, Inc.	381	28,534
Wells Fargo & Co.	941	28,050
Colgate-Palmolive Company	337	25,937
Bank of America	608	24,767
JPMorgan Chase & Co.	573	24,698
The Hartford Financial Services Group, Inc.	264	22,741
Wachovia Corp	603	22,650
Kimberly-Clark Corporation	330	22,577
Comcast Corporation	1,256	22,545
Anheuser-Busch Cos., Inc.	425	21,949
McDonald's Corporation	373	21,700
Tim Hortons Inc.	556	20,368
Abbott	366	20,277
Valero Energy Corporation	290	20,018

As at December 31, 2007
(in thousands)

	Shares/Units[3]		Fair Value[3]
Other international			
Leith Wheeler International Pool Fund	4,658	$	75,487
Total S.A.	588		48,252
Vodafone Group	11,712		43,213
Roche Holdings	227		38,720
E.ON AG	184		38,613
BNP Paribas	318		34,095
Siemens	215		33,790
Nokia	881		33,706
Nestlé	73		33,144
Bayer	347		31,319
Royal Bank of Scotland	3,122		27,233
sanofi-aventis	288		26,168
Mitsubishi UFJ Financial Group	2,781		25,724
Royal Dutch Shell	611		25,360
HBOS	1,392		20,103
BASF SE	137		20,062

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

[2] At cost.

[3] Includes all share classes and American Depository Receipts.

Real Estate Properties

All properties are 100% owned by Ontario Pension Board through its subsidiary OPB Realty Inc.

As at December 31, 2007
(in thousands of square feet)

	Location	Area
Retail		
Hillside Centre	Victoria	425
Brentwood Town Centre	Burnaby	516
Lougheed Town Centre	Burnaby	657
Aberdeen Village Centre	Kamloops	104
Christy's Corner	Edmonton	111
Marlborough Mall	Calgary	510
Portland Place	Calgary	149
Gaetz Avenue Crossing	Red Deer	177
St. Vital Centre	Winnipeg	926
Pen Centre	St. Catharines	1,007
Pickering Town Centre	Pickering	890
Carlingwood Shopping Centre	Ottawa	511
Halifax Shopping Centre	Halifax	526
Halifax Shopping Centre Annex	Halifax	419
2003 Gottingen Street	Halifax	25
215 Chain Lake Drive	Halifax	65
		7,018
Office		
Marlborough Professional Bldg.	Calgary	51
One Queen Street East/20 Richmond Street East	Toronto	502
Halifax Office Complex	Halifax	114
		667
Industrial		
Mississauga Industrial	Mississauga	2,885
Burnside Industrial Park	Halifax	498
Wright Place	Halifax	107
		3,490
Total properties		11,175

Corporate Directory

Donald D. Weiss
Chief Executive Officer

Mark J. Fuller[1]
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

[1]appointed as President effective January 1, 2008

Your Pension. Our Promise.

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