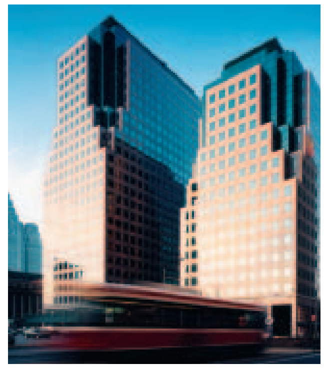
OMERS

Annual Report 2004



OMERS
Plan for the Future

RESPONSIBLE

We are custodians of the pension assets for 355,000 Ontarians. They rely on us to protect their pensions.

ACCOUNTABLE

We measure and report on our performance in increasing the value of these assets and serving our members.

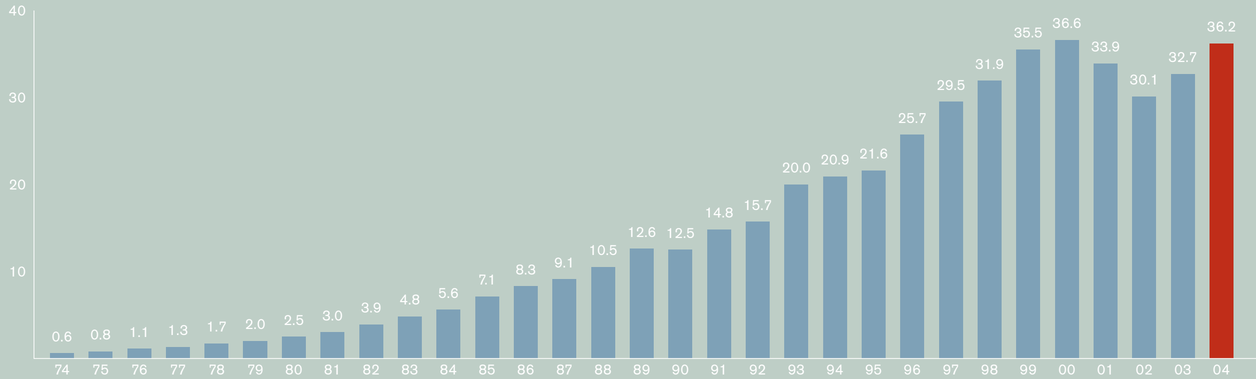
SUSTAINABLE

We take a very long-term view. Everything we do is to enable us to keep our pension commitment to our members.

FINANCIAL HIGHLIGHTS

NET INVESTMENT ASSET GROWTH FROM 1974

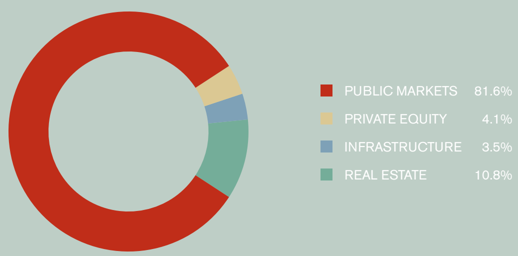
Market Value ($ Billions)



ASSET MIX

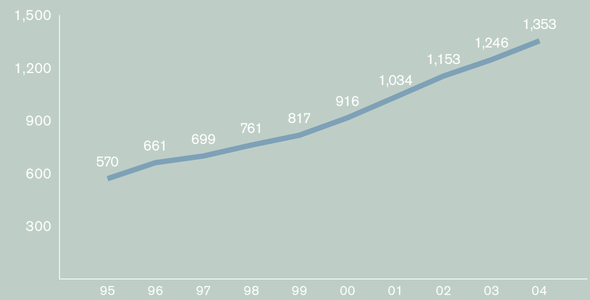
(as at December 31, 2004)

Net Investment Assets



GROWTH IN PENSION PAYROLL

($ Millions)



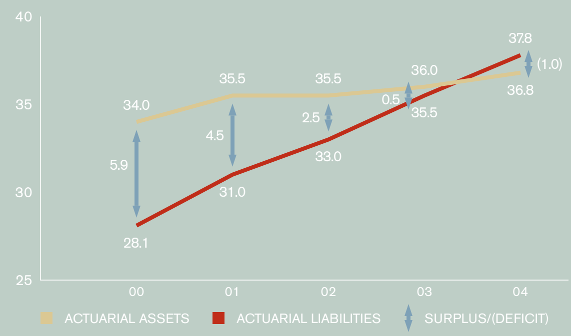
RATE OF RETURN VS. FUNDING OBJECTIVE

(%)

ACTUARIAL ASSETS AND LIABILITIES

(as at December 31)

Market Value ($ Billions)



DEFINING RESULTS

OUR COMMITMENT

At OMERS we have one clear and overriding commitment: paying the pensions of our current and our future retirees. Everything we do is to enable us to keep this commitment. For many of our members, their OMERS pension plan is the largest financial asset they hold. They rely on us to protect and enhance it.

We have nearly 97,000 retirees who receive about $1.4 billion a year in pension payments and we have 258,000 members who depend on us for their future retirement income. Two decades from now, the number of OMERS retirees is expected to increase to about 200,000 and the pension payments they receive will total an estimated $6.4 billion annually. To meet OMERS future obligations, our net assets will need to grow from the current $36 billion to about $124 billion in 2025.

The financial strength we will need to meet these requirements drives our day-to-day focus at OMERS: we must ensure not only that current pensions are paid in full and on time, but constantly work to prepare for the day when today’s new employees become OMERS new retirees.

Over the past two years, we have implemented a number of key steps to put in place the operating principles that will enable us to continue to fulfill our promise over the long-term horizon in which pension plans operate.

OUR OPERATING PRINCIPLES

1
ENSURE THE QUALITY OF OUR BALANCE SHEET.

- Our assets are prudently invested and delivering a return that meets our needs within an appropriate risk profile.
- Our assets match our liabilities.
- Our assets and our liabilities are fairly valued.

2
ENSURE THAT THE RIGHT ORGANIZATIONAL STRUCTURE – WITH CLEAR LINES OF ACCOUNTABILITY – IS IN PLACE TO MEET OUR INVESTMENT AND PENSION OBJECTIVES.

- Our organization is aligned for accountability and clarity of purpose.
- Our organizational structure allows active, hands-on management of our assets.
- Our organizational design provides value for the cost.
- Everyone at OMERS knows what is expected of them and of others.

3
ENSURE THAT OUR CUSTOMERS' NEEDS ARE UNDERSTOOD AND MET.

- We understand the needs of our customers – our active and retired members, employers and stakeholders.
- We deliver what they want, where and when they want it, and at a price that represents value for them.

4
ENSURE WE HAVE THE RIGHT PEOPLE IN THE RIGHT JOBS.

- Our business is organized around our primary asset: individuals making decisions.
- Our people are motivated, engaged and have the knowledge they need to achieve our aims.
- Our compensation programs reward performance.

5
ENSURE WE HAVE ACCESS TO THE RIGHT MANAGEMENT INFORMATION.

- We have the information we need to manage our business.
- Our management information is timely, accurate and actionable.
- This information is universally understood throughout our organization.

OUR INVESTMENT PERFORMANCE IN 2004

Our overall rate of return was 12.1 per cent, exceeding the plan's funding requirement of 6.4 per cent, which is comprised of 4.25 per cent real return plus the rate of inflation. Our net investment earnings of $3.7 billion in 2004 were more than sufficient to meet our funding requirements for the year and net assets grew by $3.6 billion, an increase of 11 per cent, to total $35.7 billion by year-end.

OMERS assets remain secure. We continue to deliver competitive pensions and benefits that provide good value at a reasonable cost.

THE INVESTMENT ENVIRONMENT FOR PENSION FUNDS

With this kind of performance it might seem incongruous that OMERS funding status went from a modest actuarial surplus of about $500 million at the end of 2003 to a funding deficit of just under $1 billion at year-end 2004. The answer lies in the investment environment for pension funds.

A study entitled "Addressing the Pensions Dilemma in Canada," undertaken by the Certified General Accountants Association of Canada, concluded that at year-end 2003, 59 per cent of Canadian defined benefit pension plans were in deficit to a total amount of $160 billion. The average overall funding status of the plans (that is, the value of net assets compared to promised benefits) was 83 per cent, compared to OMERS at 94 per cent.

The main reasons for the deficits, the study concluded, were poor equities market performance in 2001 and 2002 and declining interest rates.

The study also concluded something we at OMERS have already taken action to mitigate – it is very unlikely that stock market returns alone will eliminate the deficit situation in the short term.

LONG-TERM RETURNS AND FORECASTS

%	Long-Term Return 50 Yrs	Return Forecast Short-Term (1 Yr)	Mid-Term (3-5 Yrs)	Long-Term (10 Yrs)
Cash (91 Day T-Bill)	6.77	3.0	3.9	4.0
Scotia Capital Markets Universe Bond Index (1)	9.61	3.0	4.6	5.0
S&P/TSX Composite	11.60	7.8	8.0	8.0
S&P 500 (Cdn$)	13.73	6.0	7.0	8.0
Morgan Stanley Capital International World (Cdn$) (2)	8.06	7.0	7.8	8.0

Forecast Source: Watson Wyatt, Survey of Economic Expectations 2005

Notes:
1) Since 1986 inception date
2) Since 1988 inception date

WHY OMERS HAS A FUNDING DEFICIT

There are a number of factors that have impacted OMERS funding status.

The main factor that has impacted OMERS funding status is the weak equities market from 2000 to 2002. Following the peak reached in 2000, stock markets declined dramatically. The S&P/TSX Composite Index hit a high of 11,389 the first week of September 2000. By October 2002, it had lost 50 per cent of its value and declined to 5,695.

The index ended 2004 at 9,247, a significant recovery, but still nearly 19 per cent below its peak. The Dow Jones, Nasdaq and other major market indices suffered the same fate, bringing pension asset growth down with them.

In addition to underperforming equity markets, OMERS has had to accommodate: changing demographics, as an aging population results in more retirements and a higher pension payroll; $2.2 billion in benefit improvements – including 100 per cent inflation protection – requested by stakeholders following the strong performance by OMERS and equity markets in the late 1990s; and a nearly five-year federally-legislated contribution holiday that cost the Fund more than $5.3 billion.

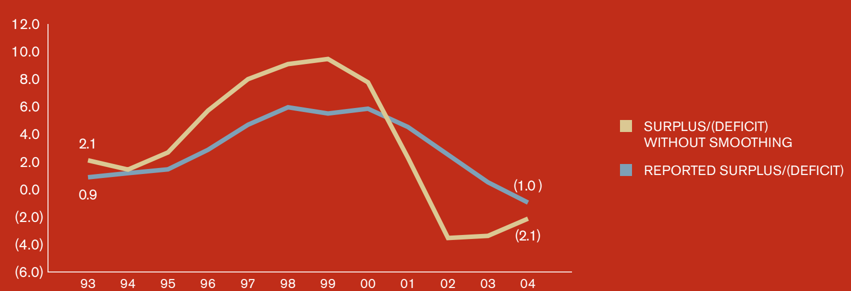
It was this combination of factors that has resulted in the current deficit, but the main factor has been the losses incurred during the market downturn from 2000 to 2002. Like other pension plans, OMERS amortizes the losses and gains of investment returns, to the extent that they vary from the long-term return assumption, over five years to determine the actuarial value of assets. This process is known as actuarial smoothing and is used to moderate the impact of short-term investment return fluctuations on contribution rates.

By the end of 2005, the deficit is expected to be approximately $2.5 billion as losses primarily due to the stock market downturn described above are recognized in the actuarial smoothing process.

SMOOTHING EFFECT ON SURPLUS/(DEFICIT)

(as at December 31)

($ Billions)



OMERS OUTLOOK IS STRONG

The result of all of these factors is the actuarial funding deficiency we currently face. The consequence, especially in light of consensus single-digit average annual return expectations over the medium and long term for public equity and fixed income markets, has been decisive action.

Following a thorough review that began in 2003, OMERS Board concluded that three significant changes were needed to improve our long-term performance and to continue to secure our pension promise.

First, we are making the transition to a new asset mix strategy that relies less on more volatile public markets and more on alternative assets such as infrastructure investments (like bridges and energy companies), private equity and real estate. Within a few years, up to 40 per cent of OMERS assets will be invested in these three asset classes, which are expected to generate the strong, more stable returns and the steady cash flow needed to pay pensions as more and more Baby Boomers reach retirement age. Our exposure to publicly-traded stocks and bonds will decline from 80 per cent to about 60 per cent.

Second, we will take a more owner-oriented approach to our investments, rather than the passive investor approach that we, and many other institutional investors, have taken in the past. This approach has led to the in-house and hands-on business model we now have in place, with management of real estate, infrastructure and private equity under OMERS control.

And third, as a result of the first two changes, it is imperative that we have executives and senior managers with extensive business and investment experience. That new team is now in place.

As you will read in the letters that follow – from our Chair and from the President and CEO – OMERS made considerable progress in implementing these three initiatives in 2004. The result is that OMERS is better positioned to meet its primary commitment of paying pensions.

RESPONSIBLE
ACCOUNTABLE
SUSTAINABLE

MESSAGE FROM THE CHAIR

Fellow OMERS members, it is a pleasure to have the opportunity to report to you about the past year. While my focus will be on 2004, I also want to relate to you some general observations about OMERS from my perspective as a member of the Board since 2000.

This is a unique plan and an equally unique organization. It has evolved and developed into an internationally recognized brand name, a sophisticated investment operation, and most importantly, a highly skilled pension administrator for our 355,000 members. As an example, in June 2004, OMERS hosted a delegation from South Africa who had come to Canada specifically to learn from our staff about how we are able to provide such a high level of service, especially given the varied and extensive number of employee groups and employers that comprise our membership.

OMERS primary purpose, and the foundation on which everything else is built, is our commitment and proven track record of fulfilling the pension promise. Everything else is secondary to ensuring pensions are secure, that they are delivered on time to our retired members, and that the plan is maintained at competitive contribution rates. That is the commitment I saw from my first day as a Board member. As I report to you on the past year, I can assure you that the commitment is equally strong today.

CHANGE TO STRENGTHEN OMERS

As reported to you last year in the Chair's letter, a number of initiatives were implemented in 2004 to strengthen the plan.

First, we acted on our stipulation that the contribution holiday was contingent on maintaining a sufficient surplus. When the surplus began to decline we resumed contributions from members and employers at one-third their normal rate in January 2003 and then in full a year later.

Second, we took steps to ensure the Plan's future health by reducing our reliance on public markets. The lessons from the market retreat from 2000-2002 were well-learned, and in 2004, we determined to shift a larger proportion of our assets into alternative investment classes. These investments, such as infrastructure, private equity and real estate, generally produce more stable returns and the steady cash flow required to pay pensions, regardless of returns in the public markets. By the end of this decade, this new asset mix will see approximately 37 per cent of our investments in alternative classes, about double the previous 18 per cent.

Finally, in recognition of these changes, a new management structure and executive team were put into place. Our Chief Executive Officer, Paul Haggis, reports on the status and initial success of this strategy on the following pages.

GOVERNANCE INITIATIVES

The OMERS Board recognized in 2004 that with the structural changes we had initiated, as well as the increasing complexity of governance in the corporate and pension environments, it was time to examine our own governance practices. We reaffirmed the major principles that guide the Board's work, committing to leading governance practices and focusing on strategic direction, policy, stewardship, and effective disclosure. Decisions made as part of this review process meant that commencing in January 2005, the Board will operate with two new Committees, Governance and Human Resources and Compensation, adding these to the existing Audit, Investment and Pension Committees.

We also re-emphasized our commitment to Board education, a key driver in ensuring Board effectiveness. We made corporate director certification mandatory for all OMERS Board members. A number of OMERS Board members were among the first to graduate from Directors College, jointly administered by the Conference Board of Canada and McMaster University, and now have the designation of Chartered Director. In addition, each newly appointed director must undertake specific training in pension matters. Board members also have a budget to be used to further enhance their development. This allows individual Board members the opportunity to focus their training in specific areas, as well as ensuring we remain current with new investment instruments and pension practices. (More details on our Governance initiatives can be found on page 27.)

CHALLENGES IN THE YEAR AHEAD

Every action we have taken is to build and strengthen OMERS for the challenges ahead.

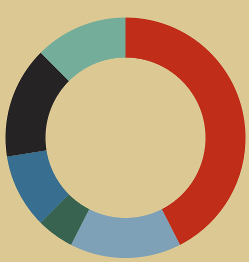
In 2005, the OMERS Board will focus on a number of key issues. First and foremost, similar to other public pension plans, OMERS must contend with growing liabilities. While investment returns in 2003 and 2004 were strong, the Fund must still account for shortfalls in the previous three years. That combined with a number of other factors, means we anticipate an increase in contribution rates will take place, commencing January 2006. This is not a step taken lightly. However, as I stated earlier, our primary purpose is fulfilling the pension promise. The increase is necessary to meet that objective. We are aware of the impact any increase in rates has on our members and employers and we will commit to keep you informed of key developments in this area.

Regulatory issues will remain a priority for the upcoming year, including implementing a number of recent changes to the *OMERS Act and Regulation*. We also continue to engage the Government of Ontario in discussions regarding a change to the *Pension Benefits Act*, to grant OMERS an exemption from current solvency rules, which we feel are unnecessary for public sector pension funds. We will continue to seek legislative and regulatory reforms that enhance our ability to run the plan as responsively and cost-effectively as possible.

The Board will also continue to co-operate fully with the Financial Services Commission of Ontario (FSCO), which in 2004 initiated a review of our compliance with the *Pension Benefits Act* and related regulations. We look forward to receiving the results of this review and bringing the matter to a conclusion. Once the findings have been released by FSCO, we will inform our members of the outcome.

Another issue that may arise during the coming year is a review of the current governance structure for OMERS.

FUTURE ASSET MIX POLICY



PUBLIC MARKETS	
PUBLIC EQUITY	42.5%
INTEREST BEARING	15.0%
REAL RETURN BONDS	5.0%
PRIVATE MARKETS	
PRIVATE EQUITY	10.0%
INFRASTRUCTURE	15.0%
REAL ESTATE	12.5%

Many of our sponsor groups have been advocating changes in the governance of OMERS, essentially seeking a more direct role in determining plan design. This would put OMERS on the same footing as the other large public pension plans in Ontario. Responsibility for any change in the sponsorship role of the Plan lies with the provincial government. We will co-operate in any way we can, and if a decision is made to proceed with changes, we will ensure a smooth transition. We do not believe that in any case there would be a change in the Board's role and responsibilities in overseeing investments and administering the Plan.

POSITIVE OUTLOOK

Your Board of Directors is pleased with the positive change that has been initiated over the past two years. Considerable progress has been made in implementing a new investment strategy, developing management and operational structures, creating a new senior management team and improving our governance practices. We committed to a logical, deliberate and thoroughly considered course of action and we are on target.

Times of change are always difficult and testing for the people closest to the action. Our significant accomplishments of the past year, and our confidence heading into 2005, are a direct result of the efforts and contributions of the dedicated and hard-working employees of OMERS. On behalf of the entire Board, it is my privilege to acknowledge and thank them for their hard work. I would also like to express my appreciation to Nancy Bardecki, Peter Leiss and Dennis Neethling, who left the Board in 2004, for their contributions to OMERS.

OMERS is strong. Our history is proud and exemplary. Our future is founded on protecting yours. The pension promise is – and remains – secure.

Frederick Biro
Chair

RESPONSIBLE
ACCOUNTABLE
SUSTAINABLE

LETTER FROM THE PRESIDENT

OMERS had two main objectives for 2004 – make significant progress in implementing the organizational and strategic changes that we started in 2003 and start to reap the investment return benefits of our new asset mix policy. We exceeded expectations on both counts.

Our investment performance was strong. We earned a 12.1 per cent total fund rate of return, and exceeded our overall benchmark by 2.2 per cent, which means that our investment strategies and capabilities combined to add value to OMERS portfolio beyond the return generated by the markets. After allowing for inflation of 2.1 per cent, our 2004 real rate of return was 10.0 per cent, far exceeding our long-term real return funding requirement of 4.25 per cent.

PENSION DIVISION

One of our operating principles might be described as adopting a "marketing mindset." We want to make sure we understand the needs of our active and retired members, and fulfill them at a cost that represents good value. Our performance in 2004 shows we are doing just that. We have one of the best service records among public sector plans – regular surveys show that we receive between 85 per cent and 90 per cent overall satisfaction rating from our customers. We regularly complete pension claims, quotes or other member-initiated service requests within three days and more than 90 per cent of information requests called into OMERS are fulfilled on first contact.

In 2004, we extended our leadership in providing e-services to our employers. Nearly 70 per cent now use the easier, faster and more accurate e-forms to provide critical information to OMERS.

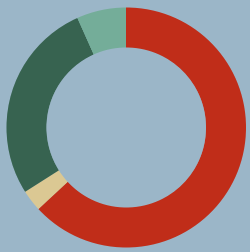
The Pension Division's focus for 2005 and beyond includes making further service improvements by expanding e-access and enhancing our call centre service standards. The division also plays a key role in our actuarial valuation, identifying contribution level and deficit management options, and will continue to advocate changes to solvency and divestment rules so that OMERS can better manage the plan's funding position in future and help to keep contribution rates reasonable.

ACTIVE MEMBERS BY AGE GROUP

	2004	2003
19 AND BELOW	107	140
20 – 24	4,163	3,996
25 – 29	15,715	15,270
30 – 34	22,545	22,052
35 – 39	30,278	31,298
40 – 44	41,527	40,453
45 – 49	41,431	39,951
50 – 54	35,230	33,630
55 – 59	23,302	21,818
60 – 64	9,171	8,672
65 AND ABOVE	316	313
TOTAL	**223,785**	**217,593**

The largest concentration of members is in the 40 to 49 range.

MEMBER PROFILE



ACTIVE	223,785
DEFERRED	10,145
RETIRED/SURVIVOR	96,734
INACTIVE	23,955
TOTAL	**354,619**

Overall, we made tremendous progress on the new investment strategy and business model I outlined in last year's annual report. Perhaps our most important achievement in 2004 was to set the foundation for the future, by implementing the strategies and operating principles that will create the sustainable returns we need to meet our growing pension payroll. In fact, with the excellent returns earned by our private market investments, we are beginning to see tangible evidence that our new asset mix strategy, which will fully play out over the next four to five years, is already working.

Our pension services, which are rated among the best in the public sector, continue to meet the needs and expectations of our members, employers and retirees.

The mandate of OMERS management is clear – generate sufficient returns from our assets to satisfy the pension promise and provide our 355,000 active, retired and former members with cost-effective pension administration and service that meets their needs.

Our objective, however, goes well beyond simply complying with the letter of our mandate. We are committed to creating a well-defined and recognized competitive advantage for OMERS in three principal areas. We will continue to provide first-rate client service and, working with employer partners and members, provide pension services that are cost and feature competitive. In managing the Fund's portfolio, we will earn competitive rates of return for our members. And in our investment activities, we will develop competitive partnership capabilities for co-investors in infrastructure, private equity and real estate projects.

PUBLIC MARKET INVESTMENTS

Although our asset mix will focus more on private market investments in the future, public market investments will continue to make up the majority of assets. Public market investments outperformed its overall benchmark by 0.8 per cent in 2004, reflecting our value investment bias towards companies with strong management, business plans, quality earnings and a sustainable business record.

Public market investments' 2005 priorities are aimed primarily at maintaining our strong investment performance by focusing on higher value added targets (performance above benchmarks) and better performance from our Canadian core fund. We also plan to introduce a concentrated Canadian equity portfolio, improve investment risk management tools and processes, and develop new integrated leverage/debt and currency management policies.

Virtually all of last year was dedicated to implementing the principles outlined on page 3 and making the accompanying necessary internal organizational changes. I'd like to tell you what these changes have meant in practical terms.

THE RIGHT ORGANIZATION WITH ACCOUNTABILITY

We have built a structure around a new corporate strategy, with control of our own investments. We repatriated our infrastructure, private equity and real estate businesses to allow us to act as initiators, active participants and owners of projects, rather than just passive investors. As a result, we now have five operating groups that focus on specific areas with specific expertise – pensions, public market investments, real estate (Oxford Properties Group), private equity (OMERS Capital Partners), and infrastructure (Borealis Infrastructure Corporation).

Each of these operating groups is directly accountable for its results. The Pension Division focuses on administering the plan efficiently and ensuring our retirees continue to receive their pension payments on time every month. OMERS corporate allocates capital to our four investment groups based upon risk-adjusted return expectations and closely monitors their performance; however, the groups are responsible for delivering absolute rates of return that meet our expectations and needs over time.

THE RIGHT PEOPLE WITH THE RIGHT SKILLS

This kind of structure and this kind of active approach to investing require a specific kind of management – managers who are comfortable with multi-currency, multi-subsidiary and multi-national environments, who have public company and market experience, who understand how business and strategic plans are developed, who can contribute positively to the value of an investment, rather than just watching its fortunes rise and fall, and who are prepared to have their compensation tied directly to their performance.

Hiring executives who meet these criteria has been a key achievement of our transition over the past 18 months. The heads of our alternative asset class groups came on board with the purchase of Borealis. During 2004 we added more executives with the skills we need to execute our strategy. Paul G. Renaud was appointed Chief Financial Officer and Senior Vice President, Finance and Administration. Two new executive positions were added to bring greater internal control to our operations. Selma Lussenburg was appointed Senior Vice President and General Counsel and Geoffrey Storms was appointed Vice President, Internal Audit.

OMERS CAPITAL PARTNERS

During 2004, OMERS Capital Partners (OCP), which manages our investments in privately-held companies, earned a 12.5 per cent return, reversing the negative return of 2003.

Historically, OMERS participated in private equity through limited partnerships managed by external firms. In the future, our approach will favour more direct investment.

During 2004, OCP funded nearly $600 million in new investments. This level of investment activity helps us to achieve a strategic imperative for active investors – developing the kinds of relationships that increase our deal flow access and enhance our profile as a major global private equity player.

Our improved performance in 2004, which was essentially a transition year, resulted from favourable market value adjustments to certain investments and a more stable Canadian dollar, which reduced foreign exchange losses.

THE RIGHT INFORMATION AT THE RIGHT TIME

We are an organization that is built around people making decisions. Second in importance only to the quality of the people making the decisions, is the quality of the information they have at hand. Our experienced executives bring critical intelligence from each of their businesses to an environment that shares and acts on that information. The information we share and the due diligence we apply is a competitive advantage that makes for better business opportunities, better business decisions and, in the long run, stronger investments for OMERS.

THE TRANSITION TO OUR NEW STRATEGY AND ASSET MIX

Our shift from public markets to alternative investment classes is progressing well, though the year-end 2004 report on our asset mix breakdown seems to show little movement. The reason is that unexpected strong equity markets over the past two years have increased the value of our public investments and therefore their proportion relative to alternative investments. Also, several large private equity deals were scheduled to close early in 2005. We are confident we will reach our targets by the end of this decade as planned, and that our long-term investment performance will benefit as a result.

The accomplishments of our five operating groups are evidence that our new strategy is already working well.

OUTLOOK FOR OMERS

OMERS biggest challenge for the next few years is to achieve the kind of asset growth we will need to meet future pension liabilities in the face of challenging demographics and moderate expectations for public markets in the medium term.

Over the last two years, the Fund's performance has exceeded our actuarial requirements and this has allowed the Board of Directors to moderate the impact of a contribution rate increase. However, we must achieve returns that significantly exceed our benchmarks over time in order to return OMERS to a neutral actuarial funding position. That is why we are making the changes we've outlined above.

BOREALIS INFRASTRUCTURE CORPORATION

The opportunities for quality infrastructure investments are plentiful – Canada alone currently has a $100 billion infrastructure deficit and there are projects around the globe with strong potential. Infrastructure is a perfect asset class for pension plans, producing stable long-term cash returns from often-regulated and government supported projects.

Borealis had an unusually strong year in 2004, with a return of 31.0 per cent resulting from higher earnings and favourable market value adjustments on several investments. Strong deal flow was also originated, resulting in total investment commitments of approximately $900 million in 2004.

Borealis' 2005 priorities include achieving a minimum 10 per cent return on operating infrastructure assets, doubling net infrastructure investments to $2.4 billion, adding infrastructure projects in Western Europe and securing strategic investment alliances that will allow us to bid on large scale, quality infrastructure assets.

2004 was a year of accomplishment for OMERS. We built the framework for an investment strategy that will capitalize on the strengths of the public markets and the real estate, private equity and infrastructure sectors. Our overall investment management expenses were down 7.0 per cent in 2004 from 2003, largely because we repatriated infrastructure and private equity investment management. We established stronger internal controls and management reporting. And we added investment and financial services expertise that will be a key performance driver going forward.

With the support and encouragement of our Board of Directors and the dedication of our employees, we have raised the bar and we're on time, on plan and on budget – working towards ensuring that our members' pensions remain secure.

Paul G. Haggis
President and Chief Executive Officer

OXFORD PROPERTIES GROUP

Responsibility for OMERS real estate assets has been consolidated under the Oxford banner. With nearly $11 billion in real estate investments under management, including the full value of co-owner properties, Oxford Properties Group earned an 11.0 per cent return in 2004 on its invested capital, well ahead of our benchmark of 7.2 per cent. The improved results were buoyed by strong valuation trends and operational improvements.

In 2004, some adjustments were made to the portfolio, resulting in the sale of some non-core office assets.

Oxford continues to build a global platform for our real estate investments, which we expect to produce a return of 4.25 per cent above Consumer Price Index gains.

MEMBER SERVICES

The most frequent, and arguably most important, day-to-day OMERS contact for most of our stakeholders is Pension Services. In fact, one of our operating principles specifically addresses the importance of understanding the needs of our customers and fulfilling them in an efficient and timely manner.

Our main achievement in 2004 was a broad and important one: our significant enhancement in service turnaround time and quality was sustained and continues to improve, and our satisfaction ratings remain very high. The result is that OMERS is now universally regarded as a service leader in the pension industry.

Over the past five years we have been building the operational structure and technological platform to meet the complex needs of an organization that serves nearly 900 employers and 355,000 members, and to accommodate the growth in plan membership expected over the next two decades.

NEW TECHNOLOGY MEANS BETTER SERVICE

Technological improvements continue to pay dividends. With employer e-tools and a sophisticated pension system, retirement estimates and pension claims are now normally available in one to two days, compared with 20 to 30 days in the late 1990s.

Our e-access program, which is the foundation for sustained efficiency improvements, continues to grow. Nearly 70 per cent of all forms are now submitted by employers online, up from about 55 per cent at the start of 2004.

One of the most important advances was the year-end introduction of an employer e-form critical to our operations. It enables employers to report annual member information easily and securely, and allows us to process members' annual pension reports more quickly. Using this online form, we processed data for 50,000 members in the first six weeks of 2005. Just five years ago, it took seven months to process the same number.

SURVEYS SHOW WE'RE ON TRACK

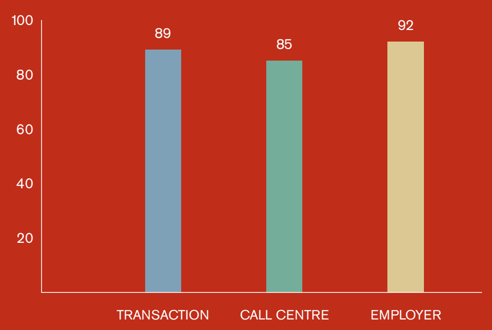
We regularly survey our employers and our active and retired members to get their assessment of how well we are fulfilling their needs and how we might improve.

Our fall 2004 survey told us that employers and members had an overall positive perception in terms of satisfaction with the plan, trust in OMERS to administer the plan, and plan security.

Our service improvements of the last few years are reflected in the very positive perception of members who have recently had a service contact with OMERS. Nearly nine out of ten respondents to our fourth quarter 2004 service survey rated our transaction, call centre and employer service either satisfactory or very satisfactory.

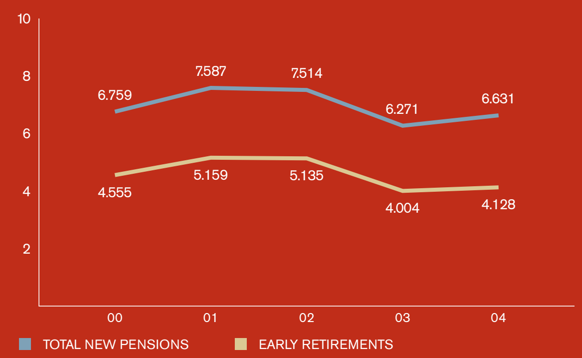
SATISFACTION SURVEYS

Percentage of respondents who rated OMERS 4/5 or 5/5 for service excellence



NUMBER OF RETIREMENTS IN PAST FIVE YEARS

(thousands)



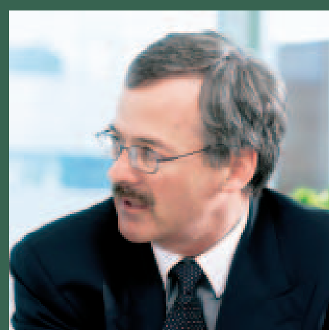
OMERS SENIOR EXECUTIVE MANAGEMENT TEAM

FLO PALADINO – Vice President, Human Resources

JENNIFER BROWN – Acting Senior Vice President, Pension Division

GEOFFREY STORMS – Vice President, Internal Audit

MICHAEL NOBREGA – President and CEO, Borealis Infrastructure Corporation



PAUL G. RENAUD – Senior Vice President and CFO

MICHAEL LATIMER – President and CEO, Oxford Properties Group

DEBBIE OAKLEY – Senior Vice President, Corporate Affairs

PAUL PUGH – Senior Vice President, Public Market Investments

IAN COLLIER – President and CEO, OMERS Capital Partners Inc.

SELMA LUSSENBURG – Senior Vice President and General Counsel

PAUL HAGGIS – President and CEO

RESPONSIBLE
ACCOUNTABLE
SUSTAINABLE

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section contains management's analysis of the Plan's financial condition, operational results, and the environment in which it operates and should be read in conjunction with the consolidated financial statements. In addition to historical information, this section contains forward-looking statements with respect to management's strategy, objectives, outlook and expectations. Forward-looking statements are preceded by words such as "believe", "expect", "may", "could", "intend", "continue" and "estimate". By their very nature, those statements are subject to risks and uncertainties, which may cause actual results to differ from the expectations expressed in the forward-looking statements. Forward-looking statements made in this section represent management's views at the date of this report and OMERS does not undertake to update or revise any forward-looking statements as a result of new information, future events, or otherwise.

OUR OBJECTIVES

Two overall objectives govern our actions:

(i) generating sufficient returns, through the investment of the Fund's assets, to satisfy the pension promise to our members; and

(ii) providing cost effective pension administration services that meet our members' needs, the most important of which is to pay monthly pensions.

Over the long term, employee/employer contributions fund approximately 30 cents of every dollar paid in benefits with the balance coming from the returns generated on the Fund's assets.

OUR PLAN

OMERS is a multi-employer pension plan whose members are mainly employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees, and by investment earnings of the Fund. The Plan has approximately 355,000 active, former and retired members.

Benefits under the Plan are calculated by multiplying two per cent of the member's average earnings for the highest paid five consecutive years times years of credited service, to a maximum of 35 years. OMERS pension is integrated with the Canada Pension Plan and the OMERS formula includes a bridge benefit paid to age 65. Inflation protection, survivor benefits and early retirement options are also excellent features of the Plan.

In addition to the Basic Plan for all members, OMERS maintains a Full Earnings Plan through the use of a Retirement Compensation Arrangement (RCA), which provides supplementary pension benefits for members whose benefits under the Basic Plan are limited by the maximum legislative ceilings imposed by the *Income Tax Act.* An RCA provides a means to enable retirement savings and contributions on members' total earnings.

FUND PERFORMANCE

OMERS earned a 12.1 per cent total fund rate of return in 2004, compared with a 12.7 per cent total fund rate of return in 2003. After allowing for inflation of 2.1 per cent, the real rate of return was 10.0 per cent, which significantly exceeded our long-term real return funding requirement of 4.25 per cent. Net investment income totaled $3,694 million in 2004, versus $3,542 million a year earlier.

Net assets grew by $3,562 million, or 11.1 per cent, to $35,655 million in 2004 compared with an increase of $2,588 million or 8.8 per cent last year. The factors driving the increase were the strong net investment income resulting from the continued recovery in public equity markets, the income growth from private market investments and the Plan's return to full contributions in 2004, at a slightly increased rate.

Investment management expenses were $147 million in 2004, compared to $158 million in 2003, a decrease of 7.0 per cent. A significant factor contributing to the reduction was the restructuring of part of our investment organization in February 2004 to realize our new business model, with the result that origination and management of private market investments are now under OMERS stewardship. Pension administrative expenses were $43 million for the year, compared with $44 million last year.

Performance Overview

We measure the performance of each of our investment portfolios against an objective benchmark that acts as the proxy for each market. Our goal is to earn returns that exceed these benchmarks. For the year, total fund returns exceeded the total fund benchmark of 9.9 per cent by 220 basis points. When we exceed the benchmark, we add value to the portfolio above the return generated by the markets. This concept of value added is important even when we have negative returns. We develop a benchmark for the total fund by aggregating and weighting the individual benchmarks proportionately with our asset mix policy.

Public markets generated net investment income of $2,928 million compared with $3,998 million a year earlier, and a return of 10.3 per cent, exceeding the benchmark return of 9.5 per cent. The reduction in net investment income is attributable to lower returns in public equity markets in 2004 compared with the strong market recovery in 2003 where our Canadian public equities returned almost 27 per cent.

Interest bearing investments, excluding real return bonds, produced income before investment management expenses of $568 million, a slight reduction from 2003. The return for interest bearing investments, excluding real return bonds, was 7.5 per cent compared with 6.8 per cent for the benchmark and 7.0 per cent a year earlier. The gain of 70 basis points over the benchmark primarily reflected the performance of our core active bond portfolio and mortgage portfolio, both of which had gains from changes in interest rates. Real return bonds produced $165 million in income and had solid returns of 17.6 per cent, compared with 17.5 per cent for the benchmark and 13.4 per cent in 2003.

Public equity investments generated income before investment management expenses of $2,270 million, $1,007 million from the Canadian market and $1,263 million from global markets. Canadian public equities valued at $6,638 million plus Canadian equity derivative exposure earned a return of 14.2 per cent for the year, compared with a 26.8 per cent return in 2003 and the 2004 benchmark return of 14.4 per cent. Non-Canadian public equities valued at $8,570 million, and non-Canadian equity derivative exposure earned a return of 11.5 per cent in 2004, compared with 10.7 per cent for the benchmark and a 20.0 per cent return in 2003. Although mitigated by our currency-hedging program, the non-Canadian public equity return was reduced after conversion into Canadian dollars. U.S. portfolios make up about half of non-Canadian public equities and, as such, returns were affected by the continued strengthening of the Canadian dollar compared to the U.S. dollar.

Private equity investments generated net investment income of $104 million, compared with a loss of $212 million last year. The 2004 return on total investment income was 12.5 per cent compared with a negative 13.8 per cent return in 2003 and a 2004 benchmark return of 1.8 per cent. The improvement in performance stems from better returns on both fund and direct investments and the reversal of $25 million in market value adjustments recorded against certain direct investments in 2003.

Infrastructure investments generated net investment income of $292 million, compared with a loss of $69 million a year earlier. The 2004 return on total investment income was 31.0 per cent, compared with a negative 6.5 per cent return in 2003 and a 2004 benchmark return of 1.8 per cent. The increase in investment income and returns reflect favorable market value adjustments on several investments.

Benchmarks for private equity and infrastructure were established based on initial plans to make development investments in these asset classes. That phase of the investment has been completed and revised benchmarks going forward have been established. For 2005 the benchmarks are 7.6 per cent and 11.8 per cent, respectively, for private equity and infrastructure.

Real estate generated net investment income of $436 million, including operating income of $445 million after interest expense. This compared with a net investment loss of $124 million a year earlier on operating income of $400 million after interest expense. The 2003 income and returns were affected by negative market value adjustments to the carrying value of the properties and debt, a write-down in goodwill and other real estate provisions totaling $431 million. The real estate portfolio (partially funded by $2,395 million in mortgages and other debt) had an 11.0 per cent return in 2004, compared with a negative 3.7 per cent return in 2003 and a 2004 benchmark return of 7.2 per cent.

Long-Term Returns

OMERS annualized four-year return (a standard measure in the pension fund industry) was 3.2 per cent, well below the 6.4 per cent four-year funding requirement. The four-year period from 2001 through 2004 included losses suffered during the worst stock market collapse since 1929. Applying a longer horizon, our 10-year return to the end of 2004 was 9.1 per cent, versus 6.3 per cent for the funding requirement. Since first implementing an active investment policy in 1974, the Fund has a 10.2 per cent compounded annual return, compared to a funding requirement of 8.7 per cent.

OUR PLAN'S FUNDING STATUS

Each year, an independent actuary determines the Plan's funding status by comparing the estimated actuarial value of invested assets to the present value of all pension benefits that members have earned to date. On December 31, 2004, the estimated actuarial accrued pension obligation for all members including survivors (excluding the net liabilities of the Full Earnings Plan) was $37,774 million, compared with $35,466 million a year earlier. OMERS Basic Plan had actuarial net assets of $36,811 million in 2004, compared with $35,975 million in the prior year, resulting in a funding deficit of $963 million as at December 31, 2004, compared with a $509 million surplus as at December 31, 2003.

The Full Earnings Plan had an estimated funding deficit of $137 million at December 31, 2004, compared with a deficit of $63 million last year.

CHANGES IN SURPLUS/(DEFICIT)

(Millions)	2004	2003
BASIC PLAN		
Surplus, beginning of year	**$ 509**	$ 2,514
Increase in net assets available for benefits	**3,556**	2,587
Change in actuarial valuation adjustment	**(2,720)**	(2,160)
Increase in actuarial value of net assets available for benefits	**836**	427
Less: net increase in accrued pension benefits	**(2,308)**	(2,432)
(Deficit)/Surplus, end of year	**$ (963)**	$ 509
FULL EARNINGS PLAN		
Deficit, beginning of year	**$ (63)**	$ (58)
Change in net assets	**6**	1
Less: change in net liability	**(80)**	(6)
Deficit, end of year	**$ (137)**	$ (63)

The significant factors that have contributed to the funding deficit in the Basic Plan include the following:

Enhanced Pension Benefits

The cost to the Plan of benefit improvements, implemented between 1998 and 2000, including inflation protection of up to 6.0 per cent per year, improved spousal benefits and a change to the CPP offset formula, was $2,200 million.

Contribution Holiday

A full contribution holiday was triggered by the large surplus that existed in 1998. Under federal law at that time, a contribution holiday was mandatory when actuarial assets exceeded 110 per cent of liabilities. Actuarial asset values peaked at 127 per cent of liabilities in 1998, resulting initially in reduced contributions, followed by a contribution holiday for employers and plan members that began in August 1998 and lasted until December 2002. More than $5,300 million in contributions that would normally have been made during this period did not flow into the Plan and were not available for investment because of the full contribution holiday. In 2003, contributions restarted at approximately 33 per cent of the normal level and returned to normal levels in 2004.

In 2003, the federal government amended the *Income Tax Act* in response to requests by OMERS and other public sector plans. Under current legislation, a partial contribution holiday is triggered when actuarial assets reach 110 per cent of liabilities, and a full contribution holiday is not required until actuarial assets reach 125 per cent of liabilities. This change will allow OMERS to better manage contribution rates and improve funding stability for future generations of members.

Recognition of Losses Carried in the Actuarial Valuation Adjustment Reserve

The 2004 Basic Plan funding deficit was also impacted by the recognition of losses that were deferred and amortized in the actuarial valuation adjustment reserve as a result of returns below the long-term actuarial rate of return assumptions in 2000 through 2002. In arriving at the surplus/deficit, the fair value of net assets is smoothed to reduce the volatility that can be caused by a single year's investment returns. Smoothing is a common practice accepted by the actuarial profession and pension regulators to reduce the effect of short-term market fluctuations on pension plan funding. The process "smoothes out" the peaks and valleys of market volatility by deferring and amortizing returns that are above/below the long-term actuarial rate of return assumption, to actuarial assets over a five-year period. The adjustment is based on the difference between actual returns and the long-term return expectation (inflation plus 4.25 per cent equivalent to 7.25 per cent) for the current year plus the four preceding years. This is in keeping with the long-term nature of the Plan, and assists OMERS in our objective of maintaining stable contribution rates rather than frequently adjusting them to keep pace with the year-over-year performance of the Fund.

Investment returns were positive in 2003 and 2004 as public equity markets, particularly in Canada, performed well. OMERS also achieved improved results across its private investments. As a result, as at December 31, 2004, the actuarial valuation adjustment account representing unrecognized losses now totals $1,168 million compared to $3,888 million in 2003 and well below its peak of $6,048 million in 2002.

The estimated present value of accrued liabilities for the Basic Plan at year-end 2004 was $37,774 million, a 6.5 per cent increase from $35,466 million in 2003 due to interest on accrued benefits, additional pension benefits earned by plan members, certain plan amendments and member salary increases that were higher than expected.

Funding Outlook

Based on current economic conditions, the actuary estimates that the funding deficit for the Basic Plan will increase to approximately $2,500 million by the end of 2005. Ontario provincial regulations require the Plan to take steps to eliminate a funding deficit within 15 years, typically through increased contributions or a change in the benefits offered upon filing an actuarial valuation with the regulatory authority. As a result, the Board has decided that contribution rates will be increased and intends to communicate its decision on the rate increase in the spring of 2005.

The 2004 base contribution rate was 6.0 per cent of salary up to $40,500 and 8.8 per cent for salary above that level. For police officers and firefighters, who have a normal retirement age of 60 and represent about 12 per cent of OMERS members, the 2004 rate for salary up to $40,500 was 7.3 per cent and 9.8 per cent for earnings above that level.

In calculating the funding deficit, the actuary makes various long-term economic and demographic assumptions. Assumptions about investment returns affect the projected value of assets. Assumptions about inflation and salary increases affect the projected value of future benefits. The actuary's assumptions which are reviewed by the Board are summarized as follows:

- First, the Plan's annual nominal rate of return and discount rate is assumed to be 7.25 per cent, which includes annual inflation of 3.0 per cent.
- Second, it is assumed that members' earnings will increase annually by approximately 4.5 per cent. This rate is based on inflation plus an age-related factor; and where applicable, a service-related factor.

Full Earnings Plan

As a consequence of the pay-as-you-go funding policy adopted for the Full Earnings Plan, its assets will remain small relative to its liability. However, our actuary estimates that if contributions to the RCA continue, the annual cash inflow will be sufficient to cover benefit payments and the RCA's assets will continue to grow for the foreseeable future. The actuarial liability for the Full Earnings Plan increased from $69 million in 2003 to $149 million at the end of 2004. The increase was mostly attributable to a change in the estimation of anticipated returns to incorporate the effect of the 50 per cent refundable tax applicable to RCA plans.

Pension Benefits and Contributions

OMERS ended 2004 with approximately 97,000 retired members and survivors receiving pension benefits. Benefits paid in 2004 were $1,498 million, an increase of $142 million over 2003. The increase reflected new retirements and the adjustment of benefits for inflation. Contributions for 2004 were $1,409 million compared with $446 million in 2003. The increase was a result of contributions returning to full rates in 2004, following 2003 when they were at one-third of full rates and the period from August 1998 to December 2002 when there was a full contribution holiday. For 2004, pension benefit payments exceeded contributions by $89 million.

THE ASSET MIX POLICY

In order to meet our pension obligations to our members, the Plan must earn a 4.25 per cent real return (that is, after inflation) on its investments over the long term. In developing an asset mix policy, we identify the asset classes that collectively are most likely to meet our pension obligation. We weigh the risk/reward profile of each asset class to ensure that we are reasonably compensated for risk, and we invest in different asset classes and geographic markets to disperse portfolio risk and reduce the volatility of total returns.

We believe that over the long term, an asset mix with greater exposure to private market investments is better positioned to generate sufficient returns to meet the Plan's funding requirements. As we announced in 2003, we intend to reduce the percentage of the Fund exposed to interest bearing investments and public equities over the next two to four years while increasing investments in private markets, particularly infrastructure and private equity. Our asset mix policy is supported by sophisticated investment strategies, such as absolute return strategies, foreign currency management and derivatives.

In 2004 we increased the market value of our net investment assets in private equity and infrastructure by $782 million and our net real estate investment assets increased marginally. However, due to strong public equity markets and the timing of the closing of some large private market investments, on a percentage basis the transfer of our exposure to private markets did not meet our 2004 year-end target. In 2005 we anticipate significant increases in both infrastructure and private equity investments.

ASSET MIX

	December 31, 2004		Long-Term
	Actual	Target	Target
PUBLIC MARKETS			
Interest bearing	19.4%	15.0%	15.0%
Real return bonds	3.5%	5.0%	5.0%
Public equity	58.7%	58.5%	42.5%
	81.6%	78.5%	62.5%
PRIVATE MARKETS			
Private equity	4.1%	9.0%	10.0%
Infrastructure	3.5%		15.0%
Real estate	10.8%	12.5%	12.5%
	18.4%	21.5%	37.5%

In determining OMERS asset mix exposure, the market value of net investment assets per the consolidated financial statements is adjusted to allocate cash, derivative backing assets and other investment related assets and liabilities to the asset classes where OMERS is ultimately exposed. Net investment assets based on the holdings per the consolidated financial statements and after all allocations are as follows:

	December 31, 2004			December 31, 2003		
	Financial Statement	Asset Mix		Financial Statement	Asset Mix	
(Millions)	Holdings	Exposure	%	Holdings	Exposure	%
PUBLIC MARKETS						
Interest bearing	$ 13,809	$ 6,990	19.4%	$ 15,912	$ 7,255	22.2%
Real return bonds	1,266	1,266	3.5%	872	872	2.7%
Total Interest bearing	15,075	8,256	22.9%	16,784	8,127	24.9%
Public equity	15,208	21,255	58.7%	13,384	18,764	57.3%
	30,283	29,511	81.6%	30,168	26,891	82.2%
PRIVATE MARKETS						
Private equity	1,460	1,484	4.1%	914	912	2.8%
Infrastructure	2,314	1,283	3.5%	1,426	1,029	3.1%
Real estate	6,898	3,904	10.8%	6,920	3,877	11.9%
	10,672	6,671	18.4%	9,260	5,818	17.8%
Investment related assets	665	–	–	793	–	–
Investment related liabilities	(5,438)	–	–	(7,512)	–	–
Net Investment Assets	$ 36,182	$ 36,182	100.0%	$ 32,709	$ 32,709	100.0%

Managing the Asset Mix

The asset mix is reviewed daily by our investment specialists to ensure compliance with the approved policy. Recommended changes to react to market conditions are reviewed by the senior investment management team. Interest bearing or equity-based derivative contracts are purchased or sold to adjust the asset mix in the short term. Our policy of regular rebalancing is part of our risk management and also ensures sufficient liquidity to meet pension and operating obligations.

PUBLIC MARKETS

Public market investments include OMERS investments in bonds, other interest bearing assets and publicly traded equities. Due to the strong public equity returns, particularly in the last month of 2004, the Plan's exposure to public markets was reduced only modestly compared to last year (81.6 per cent compared to 82.2 per cent). Our goal is to move toward a target exposure of approximately 62.5 per cent over the next two to four years.

Actively Managed Interest Bearing Investments

Interest bearing investments are a natural fit for a pension plan seeking reliable low-risk returns that offset the more volatile nature of publicly traded equities. At December 31, 2004, interest bearing investments totaled $15,075 million. Of this total, $6,990 million (which includes $834 million of funds provided to, or allocated between other asset categories) was invested with exposure to Canadian bonds and debentures, mortgages, private debt and short-term investments, $1,266 million was invested in real return bonds and $5,985 million was backing assets for derivatives programs that provide exposure to public equity markets.

As at December 31, 2004, interest bearing investments consisted of federal bonds, provincial bonds, mortgages with a mix of commercial, industrial and multi-residential loans, real return bonds issued by governments, corporate bonds of institutional investment grade, private placements, and short-term cash equivalent securities. Approximately 18 per cent of mortgage and private placement loans are guaranteed by government agencies such as Canada Mortgage and Housing Corporation.

In the past 10 years, interest bearing investments, excluding real return bonds, have earned an annualized return of 9.0 per cent, including capital gains, in a declining interest rate environment. We are now in a more modest yield environment where these assets are not expected to yield these returns.

Debt issued in prior years to other institutional investors through OMERS real estate operations includes $500 million issued in November 2002 and $500 million issued in April 2003 in debentures and our $285 million commercial paper program. These issues, together with other credit facilities, are backed by our triple "A" credit ratings from leading credit rating agencies and provide stable, low-cost financing for our real estate assets in the infrastructure and real estate portfolios.

Public Equities

OMERS $6,638 million invested in Canadian public equities and $8,570 million in non-Canadian public equities include both actively managed and quantitatively managed portfolios. Exposure to public equities also includes $5,908 million of exposure through the use of derivatives and the allocation of $139 million of investment-related assets and liabilities.

Actively Managed Equity Portfolios

The actively managed Canadian equity portfolio totaled $5,769 million in 2004 and contained approximately 200 publicly traded companies. We select companies with strong management and a clear business plan, avoiding more volatile investments that may do well in the short term but lack staying power.

Our investment professionals are value investors who buy the shares of well-managed, profitable companies that can produce reliable long-term returns. They select, for example, companies that should gain value from synergistic acquisitions or that have a competitive advantage in their industry. Within approved asset allocation guidelines, staff can take advantage of short-term trading opportunities to generate added value. On average, we trade as much as 20 per cent of the portfolio annually.

Up to 10 per cent of our core actively managed portfolio can include U.S. equities. This enables us to add companies in economic sectors that are underrepresented in Canada, such as pharmaceuticals, or regional U.S. banks that have different valuation multiples and performance profiles than Canadian banks.

Outside Canada, we had $6,958 million invested in the equities of approximately 1,300 companies in the United States, United Kingdom, Europe, the Far East and emerging markets. Participation in various global economies increases our portfolio diversification and lowers overall risk.

Our non-Canadian equity portfolios are actively managed by 17 investment firms that specialize in regional and national markets. Our shift towards a global mandate enables managers to make larger allocations by country, sector or capitalization where they believe higher returns are possible. During the year, we engaged two new global managers and increased funding to several managers retained in prior years.

RETURNS AND BENCHMARKS

	2004		2003	
	Rate of Return	**Benchmark**	Rate of Return	Benchmark
Canadian interest bearing	**7.5%**	**6.8%**	7.0%	6.5%
Real return bonds	**17.6%**	**17.5%**	13.4%	13.3%
Canadian public equities	**14.2%**	**14.4%**	26.8%	27.5%
Non-Canadian public equities	**11.5%**	**10.7%**	20.0%	19.0%
Private equity	**12.5%**	**1.8%**	-13.8%	4.6%
Infrastructure	**31.0%**	**1.8%**	-6.5%	4.6%
Real estate	**11.0%**	**7.2%**	-3.7%	7.1%
Total Fund	**12.1%**	**9.9%**	12.7%	15.5%

Quantitative Managed Equity Portfolios

Our investment professionals earn enhanced and less volatile returns from market indices by employing actively managed low-risk strategies that include index-based swaps, arbitrage and the anticipation of changes in index composition. Using technical analysis and computer modeling, these strategies, referred to as quantitative management, are applied to:

- a $568 million actively managed portfolio plus a $1,015 million derivative portfolio that target the S&P/TSX Composite Index on the Toronto Stock Exchange and provide broad exposure to Canadian firms;
- a $301 million actively managed portfolio plus a $106 million derivative portfolio that provide exposure to the S&P/TSX 60 index consisting of Canada's 60 most liquid stocks, representing 75 per cent of the Toronto Stock Exchange's capitalization;
- a $1,256 million actively managed Russell 1000 index portfolio of U.S. companies diversified by capitalization value and economic sector;
- a $356 million actively managed S&P 500 portfolio and a $2,585 million derivative portfolio covering the largest and most liquid U.S. equities; and
- various derivative portfolios totaling $2,202 million that provide diversified exposure to major equity indices throughout the world.

PRIVATE MARKETS

Private markets include private equity, infrastructure and real estate investments. Consistent with our asset mix policy, we have increased our exposure to private markets to about 18 per cent of total investments in 2004 and we are progressing toward a target exposure of approximately 37.5 per cent over the next four years.

To facilitate this shift in our asset mix, we have restructured parts of our investment organization to bring origination and management services of private market investments under OMERS. Prior to February 2004, infrastructure and real estate investments were managed by Borealis Capital Corporation, in which OMERS had a minority interest. In February 2004, we acquired the interest in Borealis Capital Corporation we did not already own for a total cost of $49.9 million. After adjusting for cash and other assets acquired from the transaction, the net cost will be recovered approximately one year from the date of purchase through the elimination of third party asset management fees, overhead cost synergies and increased revenue. We have included the results of Borealis Capital Corporation's operations from the date of purchase in the consolidated financial statements.

Following the acquisition, OMERS reorganized internally to ensure the optimal management of resources for our private markets asset classes – Private Equity, Infrastructure and Real Estate. OMERS Capital Partners was created to manage private equity investments; Borealis Infrastructure will focus on its original mission as Canada's leading infrastructure asset manager; and Oxford Properties Group assumed responsibility for all real estate operations.

Private Equity

Private equity is the ownership of equity or equity-like securities in companies that do not generally trade publicly. These investments appeal to OMERS because history shows that they generate higher long-term returns than public equity portfolios over time and are generally held for five to ten years.

Our private equity investment strategy takes two forms. One involves investing as a limited partner in a fund managed by external specialists, who have demonstrated the ability to consistently outperform their peers over time in selecting investee companies. Generally, the relationships that we establish also permit a co-investment strategy, whereby we can make an additional direct investment in an investee company alongside the investment being made by the partnership. These investments as a limited partner and/or co-investor are generally less than $100 million and exclude early stage venture capital. Our objective with this program is to ensure that OMERS is viewed as a preferred partner by top-tier fund managers, resulting in increased returns to OMERS. Examples of these types of investments include investments in funds managed by Texas Pacific Group, General Motors Investment Corp. and TD Capital.

Our second private equity strategy involves direct investments with other institutional investors, with OMERS staff identifying the opportunities, conducting the due diligence, structuring the transaction and generally leading or co-leading the investor consortium. These investments in later stage companies are generally less than $200 million and exclude early stage venture capital commitments.

Currently $1,460 million, or 4.0 per cent of our total net investment assets, is invested in private equity, with 50 per cent managed by approximately 40 external fund managers in Canada, the United States and Western Europe. The remaining 50 per cent is directly invested in companies. Our goal is to build private equity to approximately 10 per cent of total Fund assets over the next three to four years.

During 2004, private equity investments increased from $914 million to $1,460 million due to increased investments in funds plus direct investments in Affinia Group, Maax Holdings, Faiveley Transport, Honsel International Technologies and Cookie Jar Group (formerly Cinar).

Infrastructure

Infrastructure investments, especially in government-regulated sectors, can generate reliable returns that exceed those of the public markets. Individual investments generally require capital commitments for a minimum of 15 to 20 years. These investments typically generate consistent annual cash flows, a perfect fit in meeting our long-term pension obligations.

Through Borealis Infrastructure, OMERS has become a Canadian leader in the infrastructure sector. Our assets include majority or minority positions alongside other pension, corporate and government investors. At December 31, 2004, we had invested $2,314 million in infrastructure with additional commitments of approximately $900 million.

Our largest investment, representing approximately 30 per cent of our infrastructure investments, is a 31 per cent limited partnership interest in the Bruce Power nuclear facilities that supply about 15 per cent of Ontario's electricity. We have also invested in a pipeline system that exports crude oil from Alberta to the United States and serves refineries in six western and midwestern states. We own an interest in Confederation Bridge linking Prince Edward Island and New Brunswick under a concession agreement with the federal government until 2032. We have provided funding for the Detroit River Tunnel in the expectation of redeveloping it as a high-speed environmentally friendly Canada/U.S. train and truckway trade transportation corridor at the Windsor/Detroit border, the largest trade corridor in the world. We also have significant interest in Enwave Energy Corporation, which owns the largest deep lake water cooling service in the world and provides environmentally friendly air conditioning to Toronto's downtown office core.

In August 2004, a consortium including OMERS along with Ontario Teachers Pension Plan and Scottish and Southern Electric was selected to acquire the Scotland and the South of England gas distribution networks from National Grid Transco plc. OMERS holds a 25 per cent interest in the consortium. The total value of this investment will be approximately $7.5 billion (£3.162 billion). OMERS will invest approximately $700 million (£280 million). Third party debt will finance approximately two-thirds of the total investment. The combined Scotland and South of England network comprises approximately 73,000 kilometres of gas lines serving approximately 5.6 million customers. This transaction is expected to close in mid-2005.

Real Estate

Oxford Properties Group is responsible for executing our strategy of developing a global enterprise in the real estate sector. The strategy focuses on the ownership and management of high-quality and large-scale assets, diversified by property type and geographic market. Real estate investments of this nature generate reliable cash flows, facilitating our ability to meet current benefit obligations. Furthermore, properly maintained real estate generally appreciates in value over time in step with inflation, which offsets the inflation exposure of our pension liabilities.

At December 31, 2004, our portfolio consisted of 91 properties in Canada (62 office, 13 retail, 7 industrial, 6 multi-family residential and 3 sites where land is held for development) with a total area of 47 million square feet and 2,380 housing units, and with a current market value of $6,618 million. This equates to a weighting based on market value of 64 per cent for office, 28 per cent for retail, 3 per cent for industrial, 4 per cent for residential, and 1 per cent for property held for development. In addition, Oxford manages a portfolio of private and public real estate securities and funds valued at $280 million. The real estate portfolio is financed with $2,395 million of long-term debt.

Oxford's office portfolio is diversified geographically in Canada across seven major urban markets. The largest concentration is in Toronto (representing approximately 60 per cent of the market value of the office portfolio) and includes the following properties – Royal Bank Plaza, BCE Place (50 per cent owned), Metro Centre and Waterpark Place. The other major urban centres are Calgary, Vancouver, Edmonton, Winnipeg, Ottawa and Montreal.

The retail portfolio comprises 13 shopping centres, primarily super regional and regional shopping centres, totaling 12.5 million square feet, located across Canada but predominantly in Toronto. The more significant properties include 50 per cent ownership interests in Yorkdale Shopping Centre, Square One Shopping Centre, Scarborough Town Centre and the Oshawa Centre.

OTHER INVESTMENT STRATEGIES

To better manage risk and enhance returns for the total fund, we employ a number of investment strategies that are designed to improve returns by mitigating uncompensated risks. These include managing exposure to foreign exchange fluctuations and use of derivatives.

Foreign Currency Management

OMERS uses foreign exchange forward contracts to manage our exposure to currencies other than the Canadian dollar, to hedge currency exposure and for active trading to generate returns. At December 31, 2004, approximately $14,100 million or 39 per cent of OMERS net investment assets were exposed to foreign exchange risk before foreign currency management. Our largest foreign currency management strategy hedges 50 per cent of exposure to 13 major currencies, narrowing their volatility relative to the Canadian dollar. Our currency management programs produced income of $280 million in 2004, a decrease of $483 million from 2003, as the appreciation of the Canadian dollar against the U.S. dollar and other currencies was significantly less in 2004 compared with 2003.

Active Derivative Programs

As part of our total derivative program, we manage a $4,926 million dedicated core portfolio, notionally representing about 13.6 per cent of net investment assets, which uses derivative contracts to replicate non-Canadian equity index returns. This exposure to non-Canadian equities complements the global equities portfolios managed both internally and by external specialists. We also buy and sell equity options to improve the returns and mitigate the risk of our actively managed Canadian equity portfolio.

When appropriate in the search for higher returns, we enter into financial contracts, such as swaps, that provide the return from a bond, equity or other reference index in place of cash investments. The money required to support the contract is invested in a debt instrument that earns income in excess of the amount earned on the swap instrument.

Derivatives are a cost-effective and risk-efficient means of putting to work money allocated for eventual investment in major assets, such as real estate, infrastructure or private equities. Derivatives also enable us to rebalance the total fund asset mix, or the asset mix within a class, on short notice to adjust for market shifts.

The credit risk exposure for derivatives is the unpaid amount receivable from counterparties. We follow extremely prudent risk management policies, with our credit risk exposure limited to less than five per cent of total fund net assets. At year-end 2004, the credit risk exposure was 0.5 per cent, or $194 million with all counterparties required to have a minimum “A” credit rating.

FACTORS AFFECTING FUTURE RESULTS

There are many factors that will impact future returns of the Plan. It is anticipated that the most significant will be general business conditions, monetary policy of central banks and changes in laws and regulations impacting OMERS investments.

General Business and Economic Conditions in the Regions in which We Invest

We invest in Canada, the United States, and other countries. Our earnings are significantly affected by the general business and economic conditions in the geographic regions in which we invest. These conditions include short-term and long-term interest rates, inflation, fluctuations in the debt and capital markets, exchange rates, the strength of the economy, and the level of investment we have in a specific region.

Monetary Policy

Monetary policies of central banks impact the general business conditions in the regions where we invest. We are most affected by the monetary policies of the Bank of Canada and the Federal Reserve System in the United States. Changes in the general level of interest rates directly affect investment income through the interest we earn on new interest bearing investments as well as the value of existing holdings. The valuation of our actuarial liability is also impacted by changes to long-term interest rates. Changes in monetary policy and in the financial markets are beyond our control and difficult to predict or anticipate.

Changes in Laws and Regulations

Laws and regulations have been put in place by various governments and regulators to protect the financial and other interests of OMERS members. Changes to laws and regulations, including changes in their interpretation or implementation, could affect OMERS by limiting or improving our ability to make investments and collect contributions.

The February 2005 Federal Budget proposed to eliminate the 30 per cent limit on foreign property held by pension funds. If enacted, this would allow OMERS the flexibility of adding value by participating to a greater extent in investment opportunities outside Canada.

CORPORATE GOVERNANCE – OUR EXPECTATIONS OF OTHERS

OMERS strives for best governance practices in its own operations, consistent with the expectations it has of companies in which it invests.

OMERS beneficially owns shares in over 2,000 publicly traded companies around the world and prefers to invest in companies governed by directors who understand that their primary duty is to represent the best interests of the shareholders by ensuring management has a well thought out strategy for growing the business, running it efficiently and achieving long-term profitability. OMERS believes that companies that have strong corporate governance are generally more capable of creating value for shareholders.

The proxy vote is an important asset of a pension fund. OMERS exercises its ownership rights by voting proxies diligently in order to optimize the long-term value of its investments. Our Proxy Voting Guidelines set out OMERS policy on corporate governance matters and indicate how we will likely vote on individual issues. We consider the quality of a company's overall governance in deciding whether to vote for or against specific proposals. Votes are cast against those proposals we feel would dilute shareholder value.

The Proxy Voting Guidelines and our voting record on major proposals for Canadian companies can be found on our web site, www.omers.com.

GOVERNANCE CONCERNS

During 2004, OMERS voted a total of 17,821 ballots covering 2,280 shareholder meetings globally. In Canada, OMERS cast 2,031 ballots in 287 shareholder meetings. Outside of Canada, OMERS cast 15,790 ballots in 1,993 shareholder meetings.

Some of the more notable corporate concerns we voted on in 2004 included:

Stock Option Plans

Attempts by corporate managers to expand their stock option plans, to re-price existing options where the strike price is too high for them to make money in the short term, and the granting of options to directors were opposed. Excessive stock options dilute the value of our holdings, are prone to enrichment abuse by executives, and in the case of directors, align their interests with those of management, not with shareholders. OMERS voted against almost 80 per cent of the stock option plan proposals in 2004.

Independent Directors

The lack of fully independent directors on audit, compensation and nominating committees continues to be a governance concern. OMERS withheld its votes on several occasions where nominees to these committees were not independent of management.

Auditors

Accounting firms retained to audit the financial statements continue to receive a high ratio of fees from consulting work. This is an unacceptable practice and we expressed our concern by withholding votes from many directors sitting on audit committees, or by voting against the ratification of the external auditor proposed by the company.

Inadequate Attendance

OMERS withheld its vote from directors on several occasions because of inadequate attendance at board meetings. Directors should spend sufficient time on management oversight and other fiduciary duties by attending all regular board meetings.

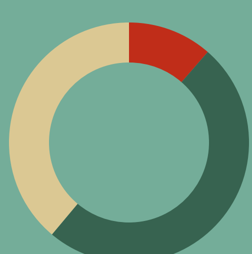
Better Disclosure

OMERS believes that shareholders have a right to know about the activities of their companies and how these might impact shareholder value. We supported several shareholder proposals in 2004 calling for more disclosure by companies. These proposals were wide-ranging, and included requests for greater disclosure regarding senior management compensation arrangements, pension benefits or improved environmental disclosure.

Shareholder Proposals on Compensation

OMERS also supported shareholder proposals regarding compensation. These proposals generally required that incentive compensation be tied to performance. OMERS believes that incentive compensation should be structured to reward the achievement of predetermined performance benchmarks over a period of several years and should not be used to reward mediocrity, failure or short-term performance.

2004 PROXY VOTING RECORD



CANADA	2,031
UNITED STATES	8,865
NON-NORTH AMERICAN	6,925
TOTAL	**17,821**

BOARD GOVERNANCE

A HISTORY OF LEADERSHIP IN PENSION PLAN GOVERNANCE

Over our 43-year history, OMERS has continuously evolved and improved its governance practices. Effective pension plan governance is the best method of ensuring that our four-decade record of keeping the pension promise will be extended. In recent years, OMERS has put in place many new governance practices, including the measures listed below.

- OMERS directors receive mandatory orientation in board operations and governance, attend relevant seminars and conferences, and have an annual education budget.
- The Board established Audit and Governance sub-committees in 1998 and 1999 respectively, which met as required.
- Five years ago, the Board initiated a self-evaluation program, using independent advisors, to review its own effectiveness and identify areas for improvement. Surveys were conducted in 1999, 2001 and 2003. As a result of the program, several governance improvements have been implemented at OMERS:
  - An Enterprise Risk Management Framework to identify, manage and monitor risk.
  - A Corporate Governance and Oversight Framework outlining the Board's role in approving strategies and policies for each core business line, and specifying the reports it must receive to ensure appropriate Board oversight.
  - In 2002, OMERS was one of the first organizations to adopt strict auditor independence guidelines by separating the audit and non-audit functions. The accounting firm that provides financial statement audit services is prohibited from providing other consulting services.
  - In 2003, the Board approved a Code of Ethics and Professional Conduct, consolidating existing policies and adding new requirements, that applies to OMERS staff and Board members, who are required to affirm their compliance each year.

GOVERNANCE INITIATIVES IN 2004

At the Board's direction, OMERS added internal executive legal and audit positions to enhance reporting and accountability.

The Board established an Ad Hoc Board Committee to examine its own governance structure and processes. The Committee work focused on increasing the effectiveness of the use of the Board's time to allow more fulsome discussions of key strategic issues and to clarify and define the roles and mandates of the Board, standing committees, and OMERS staff.

The Committee's report and recommendations were approved in November 2004 and led to the Board adopting the following governance practices:

- Establishment of new Human Resources and Governance committees and adopting membership guidelines for each of the five standing committees.
- Extending the Board education program to include mandatory corporate director certification from The Directors College, operated in conjunction with The Conference Board of Canada and McMaster University. The course encompasses areas such as guiding strategic direction and risks; monitoring financial strategy, risks and disclosure; guiding human performance; and enterprise risk management.
- Enacting a provision to allow the election of Board chairs and vice chairs to a second term to facilitate better continuity.

Board Mandate

As a fiduciary, the OMERS Board acts in good faith, taking into account the best interests of the plan as a whole. The Board's authority is set out in the *OMERS Act and Regulation*. Responsibilities include:

- setting OMERS strategic direction,
- allocating financial resources,
- recommending plan design changes (subject to provincial government approval),
- determining investment asset mix, approving contribution rates, monitoring organizational effectiveness, and establishing executive compensation policy.

OMERS BOARD OF DIRECTORS


RICK MILLER


BILL RAYBURN


PETER ROUTLIFF


MARIANNE LOVE


BRIAN O'KEEFE


JOHN SABO

ADVISORS TO THE BOARD

Actuary
Watson Wyatt Worldwide

Auditors
PricewaterhouseCoopers LLP

Legal Advisor
Osler, Hoskin & Harcourt LLP

Master Custodian
State Street Canada Inc.

Medical Advisor
Dr. D. Lewis

EMPLOYER REPRESENTATIVES JANUARY 2005

Bill Rayburn
County of Middlesex

Marianne Love
Association of Municipalities of Ontario

Frederick Biro, Chair
Peel Police Services Board

John Sabo
York Catholic District School Board

Michael Power
Municipality of Greenstone

Ann Mulvale
Mayor, Town of Oakville


DAVID CARRINGTON


DAVID KINGSTON


DICK MCINTOSH


FREDERICK BIRO


MICHAEL POWER


ANN MULVALE

EMPLOYEE REPRESENTATIVES JANUARY 2005

Rick Miller
Ontario Professional Fire Fighters Association

Brian O'Keefe
Canadian Union of Public Employees

David Carrington
Canadian Union of Public Employees

Dick McIntosh
Retired Member

David Kingston
York Regional Police

Peter Routliff
International Brotherhood of Electrical Workers

GOVERNMENT OF ONTARIO REPRESENTATIVE

Vacant

Board Membership
OMERS is governed by 13 directors – six employee representatives, including one retired member, six employer representatives and one provincial government representative.

Board members are appointed by the Ontario government, normally for a maximum of two three-year terms.

This model is effective since employers and employees are equally responsible for plan contributions, as well as sharing funding gains and losses. Board representatives focus on what is important – investment returns that ensure reliable pension income for our members, competitive benefits at reasonable cost, and responsive pension services.

Board Attendance
Board attendance in 2004 was 96 per cent.

Board Independence
The Board appoints the CEO, who is not a member of the Board, and reviews his/her performance annually. Day-to-day management of OMERS is delegated to the CEO.

The Board also appoints the external auditor, master custodian and actuary, and has access to independent legal advice. The Board has regular *in camera* meetings without management present. The Board holds two strategic planning sessions each year and requires management to develop a multi-year plan for which they are held accountable. The Board seeks advice from outside experts in plan administration and fund investment to assist Board members in their oversight responsibilities.

Accountability and Disclosure
OMERS is active in reporting to plan members and employers on how their contributions are managed and invested. The Board holds two meetings a year with plan members and maintains frequent contact through consultations with stakeholder groups on key issues, the annual report, web site, regular newsletters, benefit statements, presentations and correspondence. As part of its commitment to open disclosure, in 2005, the Board will provide more information on Board governance on OMERS web site, including a summary of the Board's decisions following each Board meeting.

Board Committees
As of January 1, 2005, the Board has five standing committees:

Investment Committee (Committee of the Whole)
Approves asset mix policy, reviews and approves investment policy and goals, reviews and approves major investment decisions.

Pension Committee
Reviews actuarial valuations, ensures stability of contribution rates, reviews plan benefit changes and oversees pension administration policy.

Audit Committee
Meets with the internal and external auditors and approves their annual audit plans. Reviews the audited financial statements and the effectiveness of OMERS system of internal controls.

Human Resources and Compensation Committee
Reviews human resources policies, and executive compensation and performance.

Governance Committee
Reviews the mandate of the Board and its committees, evaluates Board orientation and education programs, reviews the composition and qualifications for Board members.

OMERS Sponsor Governance Model
OMERS is a multi-employer, multi-union/association plan, with the Government of Ontario serving as the plan sponsor. In 2002, OMERS provided the government with a recommendation that the governance of the plan be devolved from the government to a new Sponsors' Committee comprised of representatives of the plan's sponsors, with authority over plan design. The Board would continue in its role as plan administrator, overseeing investments and plan administration in the best interests of all beneficiaries.

While the government has not yet acted on this recommendation, OMERS and many of its stakeholders continue to support a change to the plan's overall governance model. Any decision on a change to OMERS governance remains up to the government. In the meantime, OMERS Board continues to administer the plan in the best interests of its members.

ACTUARIAL OPINION

ACTUARIAL OPINION AS AT DECEMBER 31, 2004
FOR THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System (the "Basic Plan") was conducted as at December 31, 2004 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purposes of the valuation were to determine the funded status of the Basic Plan as at December 31, 2004 and to examine the adequacy of the ongoing contribution structure to maintain the Basic Plan in a satisfactory actuarial and financial position.

The results of the actuarial valuation of the Basic Plan disclosed total going concern Actuarial Liabilities of $37,774 million in respect of benefits accrued for service to December 31, 2004. The Actuarial Assets at that date were $36,811 million, indicating a going concern Actuarial Deficit of $963 million. In our opinion, based on the current benefit provisions, the anticipated rates of contributions as prescribed in the OMERS Regulations, together with existing assets and the assumed future investment earnings, will likely fall short of what is needed to provide for all future benefits under the Basic Plan. If actuarial surplus is not available to offset the existing deficit and to subsidize future contributions, increases in the contributions will be required in the future.

We have considered the funded position of the Basic Plan, assuming it had been wound up on December 31, 2004. In our opinion, the value of the Plan assets would have been equal to 75 per cent of the actuarial liabilities if the Plan had been wound up on that date.

Full earnings pension benefits are benefits provided (using a Retirement Compensation Arrangement ("RCA")) in excess of the maximum pension benefits under the Basic Plan and are not fully pre-funded. The Actuarial Deficit in respect of the full earnings pension plan at December 31, 2004 (determined using assumptions consistent with those used for the Basic Plan except that the discount rate is adjusted to approximate the effect of the 50 per cent refundable tax under the RCA) was $137 million. Contributions, based on the top-tier Basic Plan contribution rates, are payable to the RCA on the excess of earnings over the maximum contributory earnings recognized under the Basic Plan. It is expected that if contributions to the RCA continue, the annual cash inflow will be more than sufficient to cover the annual benefit payments for the foreseeable future.

The actuarial valuation of OMERS as at December 31, 2004 was conducted using membership data as at December 31, 2003 and financial information as at December 31, 2004 supplied by the Board. The December 31, 2003 membership was adjusted for the following:

- membership movements to November 30, 2004,
- actual inflationary increases to pensions in payment for 2004, and
- the estimated increase in earnings for 2004.

We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

- the data are sufficient and reliable for the purposes of the valuation,
- the assumptions adopted are, in aggregate, appropriate for the purposes of the valuation, and
- the methods employed in the valuation are appropriate for the purposes of the valuation.

Nonetheless, the future experience of OMERS may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.

The valuation was prepared and our opinions given in accordance with accepted actuarial practice.

Respectfully submitted

WATSON WYATT & COMPANY

Ian Markham

Ian Markham
Fellow, Canadian Institute of Actuaries
February 24, 2005

Andrew K. Fung, F.S.A.
Fellow, Canadian Institute of Actuaries

RESPONSIBILITIES OF MANAGEMENT, THE ACTUARY AND EXTERNAL AUDITORS

The consolidated financial statements of the Ontario Municipal Employees Retirement System (OMERS or the System) have been prepared by management and approved by the Board. Management is responsible for the contents of the consolidated financial statements and the financial information contained within the Annual Report.

OMERS maintains systems of internal control and supporting procedures to ensure the integrity and fairness of the data presented, that transactions are duly authorized and that assets are adequately safeguarded. These controls include clear divisions of responsibilities, accountability for performance, timely communication of policies and procedures throughout the organization and high standards in the hiring and training of employees. In addition an internal audit function, reporting directly to the Audit Committee, has been established to review and support OMERS system of internal control.

The Board is responsible for approving the annual consolidated financial statements. The Audit Committee, which is comprised of directors who are not officers or employees of OMERS, assists the Board in executing this responsibility. The Audit Committee meets regularly with management and the internal and external auditors to review the scope and timing of their respective audits as well as to review any internal control or financial reporting issues and their resolution. The Audit Committee reviews and approves the annual consolidated financial statements and recommends them to the Board for approval.

The actuary is appointed by the Board. It is the actuary's responsibility to carry out annual valuations of the actuarial liabilities of the System in accordance with accepted actuarial practice and to report thereon to the Board. The results of the actuary's valuation are set out in the Actuarial Opinion. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality, turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are also appointed by the Board. Their responsibility is to report to the Board whether the consolidated financial statements present fairly, in all material respects, the net assets, actuarial liabilities and surplus/(deficit) of the Fund and the changes in its net assets for the financial year, in accordance with Canadian generally accepted accounting principles. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings arising from their audit related to the integrity of the financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The external auditors rely on the work of the actuary for the actuarial liabilities disclosed in the notes to the consolidated financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

Based on my knowledge, the Annual Report does not contain any untrue statement of a material fact, or omit to state a material fact, that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual report.

Based on my knowledge, the annual financial statements, together with the other financial information included in the Annual Report, fairly present in all material respects the net assets, changes in net assets and actuarial liabilities of OMERS as of the date and for the periods presented in the Annual Report.

Paul G. Haggis
President and Chief Executive Officer

Paul G. Renaud
Senior Vice President
and Chief Financial Officer

Toronto, Canada
February 24, 2005

AUDITORS' REPORT

TO THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

We have audited the consolidated statement of net assets and the consolidated statement of application of net assets to actuarial liabilities and surplus/(deficit) of the Ontario Municipal Employees Retirement Fund (the Fund) as at December 31, 2004 and the consolidated statement of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of the Fund'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 net assets and actuarial value of net assets over actuarial liabilities of the Fund as at December 31, 2004 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada
February 24, 2005

CONSOLIDATED FINANCIAL STATEMENTS

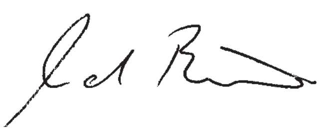
CONSOLIDATED STATEMENT OF NET ASSETS

(Millions)

As at December 31,	2004	2003
ASSETS		
Investments (note 3)	$ 40,955	$ 39,428
Amounts due from pending trades	228	344
Other assets (note 6)	579	493
Total Assets	41,762	40,265
LIABILITIES		
Investment liabilities (note 5)	5,219	7,178
Due to administered pension funds	553	496
Amounts payable from pending trades	219	334
Other liabilities	116	164
Total Liabilities	6,107	8,172
NET ASSETS	$ 35,655	$ 32,093

Guarantees, commitments and contingencies are discussed in note 15.
The accompanying notes to the consolidated financial statements are an integral part of this statement.

Signed on Behalf of the Board



Member

Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(Millions)

For the year ended December 31,	2004	2003
CHANGES DUE TO INVESTMENT ACTIVITIES		
Net investment income (note 9)	$ 3,694	$ 3,542
CHANGES DUE TO PENSION ACTIVITIES		
Contributions (note 11)	1,409	446
Benefits (note 12)	(1,498)	(1,356)
Pension administrative expenses (note 13)	(43)	(44)
	(132)	(954)
TOTAL INCREASE	3,562	2,588
Net assets at beginning of year	32,093	29,505
NET ASSETS AT END OF YEAR	$ 35,655	$ 32,093

The accompanying notes to the consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF APPLICATION OF NET ASSETS TO ACTUARIAL LIABILITIES AND SURPLUS/(DEFICIT)

(Millions)

As at December 31,	2004	2003
BASIC PLAN (note 7)		
Actuarial liabilities	$ 37,774	$ 35,466
Actuarial valuation adjustment of net assets	(1,168)	(3,888)
(Deficit)/Surplus	(963)	509
NET ASSETS IN BASIC PLAN	35,643	32,087
RETIREMENT COMPENSATION ARRANGEMENT (note 8)		
Actuarial liabilities	149	69
Deficit	(137)	(63)
NET ASSETS IN RETIREMENT COMPENSATION ARRANGEMENT	12	6
NET ASSETS	$ 35,655	$ 32,093

The accompanying notes to the consolidated financial statements are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2004

NOTE 1 – DESCRIPTION OF THE PLAN

The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan set up and administered under the *Ontario Municipal Employees Retirement System Act and Ontario Regulation 890 (OMERS Act)*. The Ontario Municipal Employees Retirement Fund (the Fund) is continued pursuant to Section 5 of the *OMERS Act*. The System provides pensions for various groups including, but not limited to, employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Plan is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency. The Plan is registered under the *Pension Benefits Act* (PBA) of Ontario, Registration #0345983.

a) **Funding** – The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. Contributions are determined in accordance with the *OMERS Act*, the *Income Tax Act* (Canada) *(Income Tax Act)* and the PBA, according to the actuarial needs of the Plan.

b) **Pensions** – The normal retirement age (NRA) is 65 years for all OMERS members except police officers and firefighters, who generally have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest sixty months of consecutive earnings. The OMERS pension is integrated with the Canada Pension Plan.

c) **Death Benefits** – Death benefits are available to a surviving spouse or designated beneficiary upon the death of a member or in some cases a pensioner. Depending upon eligibility requirements, the benefit may be paid in the form of a survivor pension, lump sum payment or both.

d) **Withdrawals from the Plan** – Subject to lock-in provisions, a member that has terminated employment prior to retirement age has the option to withdraw his/her benefit from OMERS.

e) **Escalation of Pensions** – Pension benefits are protected from inflation through an annual adjustment equal to 100 per cent of the Consumer Price Index (CPI) of the prior year. This is subject to a limit of six per cent in any one year. If the CPI exceeds the six per cent limit, any excess is carried forward to future years.

f) **Income taxes** – OMERS is a Registered Pension Plan as defined in the *Income Tax Act* and as such is not subject to income taxes for contributions or investment income received. The operations of certain entities holding private equity, infrastructure or real estate investments may be taxable where OMERS has taken over control of a previously taxable entity.

g) **Retirement Compensation Arrangement** – The Retirement Compensation Arrangement (RCA) was established by OMERS for the full earnings plan to provide supplementary pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*. The determination of the value of these benefits is made on the basis of a periodic actuarial valuation. The net assets available for benefits and the accrued liabilities of the RCA are valued separately from the OMERS actuarial valuation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund including the Retirement Compensation Arrangement as a separate financial reporting entity independent of the employers and plan members.

Certain comparative data has been restated to conform with the current year presentation.

Consolidation

The consolidated financial statements include the assets, liabilities and the changes in net assets of OMERS and its subsidiaries, as well as its proportionate share of the assets, liabilities, and changes in net assets of entities where there is joint ownership.

Intercompany transactions and balances are eliminated in arriving at the consolidated financial statements.

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 in the consolidated statement of net assets, the consolidated statement of changes in net assets and the consolidated statement of application of net assets to actuarial liabilities and surplus/(deficit). Actual results could differ from these estimates.

Investments
All investment transactions are recorded at the point when the risks and rewards of ownership are transferred. Purchases and sales of publicly traded investments are recorded as of the trade date.

Investments are stated at fair value. Fair value represents the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Where a public market price is not available for an investment asset or liability, a suitable method of valuation is used including the use of: discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. External appraisers may be used to provide independent valuations or verify the reasonableness of internal valuations. At a minimum, for private market investments external valuations will be performed once every three years.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since original acquisition. The change in the difference between fair value and cost of investments at the beginning and end of each year is the unrealized appreciation/depreciation in the fair value of investments and is reflected in net investment income/loss in the consolidated statement of changes in net assets.

Fair values of investments are determined as follows:

i) Short-term deposits are recorded at cost, which together with accrued interest income approximates fair value.

ii) Canadian bonds and debentures, real return bonds, absolute return investments, and public equities are valued at year-end quoted market prices where available. For these instruments and for mortgages and private debt where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, independent asset appraisals, and financial analysis.

iii) Private markets investments include investments in private equity either directly or as a limited partner through a limited partnership, infrastructure and real estate assets. For private market investments the completion of a purchase or sale of an identical or similar investment is often the most objective determination of fair value. Other third party events can also provide input. While not exact, appraisal or valuation procedures are able to provide estimates or identify likely ranges that a reasonable counterparty would pay for such assets. OMERS private markets investments are valued as follows:

   The fair value of investments that have reasonably predictable future revenue streams or that derive their value based on property or commodity values is equal to the appraised amount.

   The fair value of non-operating and/or start-up private markets investments is equal to cost until there is external evidence to support a change in valuation or the investment is judged to have reasonably predictable future revenue streams.

   The fair value of private markets investments acquired within the current fiscal year is equal to cost, unless an independent appraisal/valuation is conducted or unless there is a specific and objectively verifiable reason to change the value of an investment.

   The fair value of a private fund investment where OMERS ability to access information on underlying individual fund investments is prescribed, such as under the terms of a limited partnership agreement, is equal to the value provided by the fund's General Partner unless there is a specific and objectively verifiable reason that management becomes aware of to change the value of the investment.

iv) Derivatives, including swap, futures, option and forward contracts, are valued at quoted market prices, where available, or discounted cash flows using current market yields, where quoted market prices are not available.

Investment Income/Loss
Investment income/loss includes interest, dividends and operating income/loss from consolidated investment entities, which is recorded on the accrual basis, gains and losses that have been realized on disposal of investments, as well as the unrealized appreciation and depreciation in the fair value of investments.

Where OMERS is able to exercise significant influence over the operations of a private market investment, then net income is recognized on the equity basis. For private investments where OMERS is not able to exercise significant influence, income is recognized as dividends or distributions are declared.

Investment Liabilities

Investment liabilities include debentures, mortgages and other debt obligations, primarily related to investments in real estate and infrastructure and securities lending collateral. The fair value of investment liabilities is estimated using discounted cash flows based on current market yields, except for items that are short-term in nature that are carried at their cost amount.

Amounts Due/Payable from Pending Trades

For securities transactions, the fair value of amounts due from pending trades and amounts payable from pending trades approximate their carrying amounts due to their short-term nature. For derivative contracts unrealized gains and losses are included in amounts due/payable from pending trades.

Foreign Currency Translation

Certain OMERS investments are denominated in foreign currencies. The fair values of such investments are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in net gain/loss on investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss based on the settlement is recognized in realized gains/losses on disposal of investments.

Other Assets

Other assets are comprised of contributions and other receivables, accounts receivables from the operations of the Plan, accrued income, infrastructure and real estate operational accounts receivable and goodwill.

Goodwill is calculated as the difference between the acquisition cost of an investment and the fair value of tangible and intangible net assets acquired and represents the cost of assuming control of those net assets. Goodwill is not amortized but, at each year-end subsequent to the acquisition, the value is reassessed and impairment, if any, is reflected in investment income/loss.

Future Income Taxes

Future income taxes which arise in taxable investment entities are calculated by applying the expected future tax rate to the difference between the fair value of assets and liabilities and the related tax basis.

Due to Administered Pension Funds

The administered pension plans which form part of the Fund are administered on behalf of The Board of Trustees of the Ryerson Polytechnic University, the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and the Transit Windsor Fund and are credited with income/loss based upon their proportionate share of the fair value of the investments of the Fund. OMERS is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

The value of amounts due to administered pension funds reflect the contractual liability of OMERS as at the financial statement date.

Other Liabilities

Other liabilities include amounts received from employers for supplementary benefits that are now part of the basic plan and other payables relating to the operation of the Plan. The supplementary benefit amounts share in investment income and may be used by the employer to fund current year contributions.

Accrued Pension Benefits

The value of accrued pension benefits is based on an actuarial valuation prepared by an independent firm of actuaries. This obligation is measured using actuarial assumptions and methods adopted by the Board for the purpose of establishing the long-term funding requirements of OMERS.

Actuarial Asset Value Adjustment

The actuarial value of assets has been determined by amortizing the annual investment returns above or below the actuarial long-term rate of return assumption over a five-year period.

Contributions

Basic contributions from employers and members due to the Plan as at the end of the year are recorded on an accrual basis. Service purchases that include but are not limited to leaves of absence, conversion of normal retirement age and contract adjustments and transfers from other pension plans are recorded when the purchase amount is received.

Benefits

Benefit payments to retired members are recorded as they are due. Commuted value payments and transfers to other pension plans are recorded in the period in which they are paid. Accrued benefits for active members are recorded as part of accrued actuarial liabilities.

NOTE 3 – INVESTMENTS

Investments before allocating the effect of derivative contracts and investment related assets and liabilities are as follows:

(Millions)	2004 Fair Value	2004 Cost	2003 Fair Value	2003 Cost
PUBLIC MARKET INVESTMENTS				
INTEREST BEARING INVESTMENTS				
Cash and short-term deposits	$ 6,411	$ 6,411	$ 9,193	$ 9,193
Canadian bonds and debentures	5,836	5,625	5,121	4,932
Real return bonds	1,266	1,028	872	736
Mortgages and private debt	1,562	1,472	1,598	1,511
	15,075	14,536	16,784	16,372
PUBLIC EQUITY				
Canadian public equities	6,638	4,202	6,090	4,112
Non-Canadian public equities (1)	8,570	7,603	7,294	6,689
	15,208	11,805	13,384	10,801
TOTAL PUBLIC MARKET INVESTMENTS	30,283	26,341	30,168	27,173
PRIVATE EQUITY				
Canadian private equities (2)	611	610	450	545
Non-Canadian private equities	849	928	464	607
	1,460	1,538	914	1,152
INFRASTRUCTURE INVESTMENTS	2,314	2,332	1,426	1,532
REAL ESTATE INVESTMENTS	6,898	7,077	6,920	7,037
TOTAL INVESTMENTS	40,955	37,288	39,428	36,894
INVESTMENT RELATED ASSETS				
Amounts due from pending trades	228	34	344	74
Other investment assets (note 6)	437	500	449	449
	665	534	793	523
INVESTMENT RELATED LIABILITIES				
Investment liabilities (note 5)	(5,219)	(5,196)	(7,178)	(7,072)
Amounts payable from pending trades	(219)	(1)	(334)	(28)
	(5,438)	(5,197)	(7,512)	(7,100)
NET INVESTMENT ASSETS	$ 36,182	$ 32,625	$ 32,709	$ 30,317

(1) Includes absolute return investments.

(2) Includes resource properties with a fair value of $134 million (2003 – $94 million).

OMERS participates in a securities lending program whereby it lends securities it owns to others. For securities lent, OMERS receives a fee and holds cash or securities of higher value as collateral. As at December 31, 2004, securities with an estimated fair value of $2,162 million (2003 – $4,246 million) were loaned out, while collateral held had an estimated fair value of $2,267 million (2003 – $4,408 million) of which $1,250 million (2003 – $3,765 million) was cash collateral invested in short-term interest bearing investments.

At December 31, the Fund held the following investments, each having a fair value or cost exceeding one per cent of the fair value or cost of net investment assets.

(Millions)	2004 Aggregate Number of Investments	2004 Aggregate Fair Value	2004 Aggregate Cost	2003 Aggregate Number of Investments	2003 Aggregate Fair Value	2003 Aggregate Cost
Public market investments	**2**	**$ 693**	**$ 678**	2	$ 733	$ 741
Private market investments	**4**	**2,008**	**1,837**	3	1,362	1,223
	6	**$ 2,701**	**$ 2,515**	5	$ 2,095	$ 1,964

The public market investments where the individual issue has a cost or fair value exceeding one per cent of the cost or fair value of net investment assets are interest bearing securities issued by the Government of Canada. Private market investments having a cost or fair value exceeding one per cent of the cost or fair value of net investment assets include a limited partnership interest in Bruce Power, a Royal Bank of Canada structured note and real estate ownership interests in the Royal Bank Plaza and Yorkdale Shopping Centre properties, both of which are located in Ontario.

OMERS net investment assets by major asset class are as follows:

(Millions) As at December 31, 2004	Public Markets Interest Bearing	Public Markets Public Equity	Private Equity	Infrastructure	Real Estate	Total
Investment assets	**$ 15,075**	**$ 15,208**	**$ 1,460**	**$ 2,314**	**$ 6,898**	**$ 40,955**
Allocation of cash and short-term deposits	**(205)**	**86**	**–**	**62**	**57**	**–**
Investment related assets	**66**	**244**	**22**	**50**	**283**	**665**
Investment related liabilities	**(1,259)**	**(220)**	**(8)**	**(1,135)**	**(2,816)**	**(5,438)**
Net investment assets	**$ 13,677**	**$ 15,318**	**$ 1,474**	**$ 1,291**	**$ 4,422**	**$ 36,182**

(Millions) As at December 31, 2003	Public Markets Interest Bearing	Public Markets Public Equity	Private Equity	Infrastructure	Real Estate	Total
Investment assets	$ 16,784	$ 13,384	$ 914	$ 1,426	$ 6,920	$ 39,428
Allocation of cash and short-term deposits	(184)	53	38	8	85	–
Investment related assets	65	362	5	19	342	793
Investment related liabilities	(3,768)	(337)	(10)	(417)	(2,980)	(7,512)
Net investment assets	$ 12,897	$ 13,462	$ 947	$ 1,036	$ 4,367	$ 32,709

Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate, market and credit risk. OMERS has set formal policies and procedures that establish a target asset mix among interest bearing, absolute return, public equity, private equity, infrastructure and real estate investments. OMERS policies also require diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks (note 4).

Foreign Currency Risk

Foreign currency exposure arises from the Fund holding investments and entering into derivative contracts that provide exposure to currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. OMERS has put in place a currency overlay program whereby a portion of OMERS foreign currency exposure is hedged through the use of foreign exchange forward contracts. The Fund also takes active trading positions in foreign currencies with the objective of adding value. The Fund's total currency exposure, impact of the currency overlay program (hedging and trading) and the net currency exposure as at December 31 are as follows:

Currency Exposure

(Millions Cdn dollar equivalent)	2004 Fair Value Total Exposure	2004 Currency Overlay Hedging	2004 Currency Overlay Trading	2004 Net Exposure	2003 Fair Value Total Exposure	2003 Currency Overlay Hedging	2003 Currency Overlay Trading	2003 Net Exposure
Canada	$ 22,053	$ 5,962	$ (9)	$ 28,006	$ 20,489	$ 5,185	$ (94)	$ 25,580
United States	7,490	(3,188)	(136)	4,166	6,363	(2,705)	(465)	3,193
Euro Countries	2,116	(924)	(79)	1,113	1,862	(838)	21	1,045
United Kingdom	1,153	(667)	26	512	1,246	(608)	76	714
Japan	1,313	(628)	53	738	1,029	(515)	163	677
Other Pacific	861	(345)	52	568	737	(208)	35	564
Other Europe	672	(150)	32	554	616	(256)	55	415
Emerging Markets	524	(60)	61	525	367	(55)	209	521
	$ 36,182	$ –	$ –	$ 36,182	$ 32,709	$ –	$ –	$ 32,709

The above table allocates the total and net currency exposure of Canadian assets backing derivatives to the currency of the underlying asset or index from which the derivative contract derives its value.

Interest Rate Risk

Interest rate risk refers to the effect on the market value of the Fund's investments due to fluctuations in interest rates. The risk arises from the potential impact of different interest rates on fair values of the Plan's assets and liabilities. Due to the indexing of benefit entitlements and the relatively long-term nature of pension benefits (notes 7 and 8), OMERS liabilities are influenced by inflation and long-term rates of return. Alternatively, asset values are mostly affected by equity markets and short-term changes in interest rates. The interest bearing portfolio has guidelines on duration and distribution, which are designed to mitigate the risk of interest rate volatility.

The term to maturity classifications of interest bearing investments, based upon the contractual maturity of the securities, are as follows:

(Millions)	2004 Term to Maturity Within 1 Year	2004 Term to Maturity 1 to 5 Years	2004 Term to Maturity Over 5 years	2004 Total	2004 Average Effective Yield	2003 Total	2003 Average Effective Yield
Cash and short-term deposits	$ 6,411	$ –	$ –	$ 6,411	2.30%	$ 9,193	2.08%
Canadian bonds and debentures	1,398	1,625	2,813	5,836	3.80%	5,121	4.34%
Real return bonds	–	–	1,266	1,266	2.04%	872	2.78%
Mortgages and private debt	45	676	841	1,562	5.11%	1,598	5.09%
	$ 7,854	$ 2,301	$ 4,920	$ 15,075	3.15%	$ 16,784	3.09%

Average effective yield represents the weighted average rate required to discount future contractual cash flows to current market value.

After giving effect to the derivative contracts and investment related assets and liabilities a 1 per cent increase/decrease in nominal interest rates would result in an approximate decrease/increase in the value of interest bearing investments of 6.1 per cent (2003 – 6.1 per cent). Similarly, a 1 per cent increase/decrease in real interest rates would result in an approximate decrease/increase in the value of real return bonds of 12.5 per cent (2003 – 11.1 per cent).

Canadian bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt of $2,229 million (2003 – $1,630 million) comprises 31.4 per cent (2003 – 27.2 per cent) of the fair market value of Canadian bonds and debentures (including real return bonds).

Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. OMERS invests in a diversified portfolio of investments, based on Board approved policies, and utilizes derivative financial instruments, to mitigate the impact of market risk.

Credit Risk

The Fund is exposed to credit-related risk in the event a security counterparty defaults or becomes insolvent. OMERS has established investment criteria, which are designed to manage the Fund's credit risk by establishing limits to credit exposure from individual corporate entities. Credit risk arising from derivative financial instruments is discussed in note 4.

NOTE 4 – DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or indices. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets.

The Fund uses derivative financial instruments, when appropriate, to manage its asset mix and to assist in the management of financial risks, including interest rate and foreign exchange risks. In certain circumstances, derivatives are also used to increase returns or to replicate investments synthetically.

Types of contracts currently entered into by OMERS include:

Interest Rate Swaps
Interest rate swaps involve contractual agreements between two counterparties to exchange fixed and floating interest payments based on notional amounts. Interest rate swaps are used by OMERS to manage its interest rate exposure.

Bond and Equity Index Swaps
Bond and equity index swaps involve contractual agreements between two counterparties to exchange a series of cash flows based on changes in value of indices. OMERS uses bond and equity index swaps to manage its exposure to specific bond or equity indices without actually purchasing or selling the securities.

Bond and Equity Options
Bond and equity options are contractual agreements where the seller (writer) gives the right but not the obligation to a counterparty to buy (call option) or sell (put option) a specified quantity of a financial instrument on or before a specified future date at a predetermined price. The financial instruments may include a basket of bonds or equities, a bond or equity index or a single issue bond or equity instrument. The seller receives a premium from the counterparty for this right. Options may be exchange traded or transacted in the over-the-counter market. Exchange traded options are subject to daily cash settlement of changes in fair value. Options are used by OMERS to manage the market risk exposure of financial instruments without directly purchasing or selling the securities.

Equity Index Futures Contracts
Futures contracts are agreements to either buy or sell specified equity indices at a specified price and date in the future. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash settlement of changes in fair value. OMERS uses equity index futures to modify exposures without directly purchasing or selling the underlying assets.

Bond Forward Contracts
Bond forward contracts are contractual agreements to buy or sell a basket of bonds, a bond index or a single issue bond at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. OMERS uses bond forward contracts to modify exposures without directly purchasing or selling the underlying assets.

Foreign Exchange Forward Contracts
Foreign exchange forward contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future. OMERS uses foreign exchange forward contracts to provide exposure to currencies other than the Canadian dollar, to hedge currency exposure and for active trading to add value to the Fund.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;
- enters into derivatives only on an unlevered basis; and
- arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or periodic prepayments of the fair value of the contract on all derivative transactions.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

The following table summarizes OMERS derivative portfolio and related credit exposure:

- **Notional value:** represents the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows, and is therefore not recorded in the consolidated financial statements.

- **Fair value:** Unrealized gains or losses from derivative contracts are recorded in the consolidated statement of net assets based on the fair value of the derivative contract. Fair value represents the cost of replacing all outstanding contracts under current market conditions. Contracts with a positive fair value are recorded as part of amounts due from pending trades. Contracts with a negative fair value are recorded as part of amounts payable from pending trades.
- **Credit risk replacement cost:** represents the loss to which OMERS is exposed should counterparties fail to perform under the derivative contracts. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral, which may be held.

	2004			2003		
		Fair Value			Fair Value	
(Millions)	Notional Value	Assets (1)	Liabilities	Notional Value	Assets (1)	Liabilities
INTEREST RATE CONTRACTS						
Interest rate swap contracts	$ 1,283	$ 19	$ (23)	$ 1,152	$ 14	$ (10)
Bond index swap contracts	480	4	–	594	7	–
Bond options – purchased	111	–	–	200	6	–
Bond forward contracts	–	–	–	80	–	–
	1,874	23	(23)	2,026	27	(10)
EQUITY CONTRACTS						
Equity index futures contracts	5,045	1	(5)	4,720	12	–
Equity index swap contracts	985	27	–	849	30	–
Equity options written	70	–	(1)	42	–	(1)
	6,100	28	(6)	5,611	42	(1)
FOREIGN EXCHANGE FORWARD CONTRACTS	13,250	143	(189)	18,093	270	(306)
TOTAL	$ 21,224	$ 194	$ (218)	$ 25,730	$ 339	$ (317)

(1) The credit risk replacement cost is equal to the fair value of the assets.

The term to maturity based on notional value is as follows:

	2004				2003			
(Millions)	Interest Rate Contracts	Equity Contracts	Foreign Exchange Contracts	Total	Interest Rate Contracts	Equity Contracts	Foreign Exchange Contracts	Total
Under 1 year	$ 1,381	$ 6,100	$ 13,250	$ 20,731	$ 1,345	$ 5,611	$ 18,093	$ 25,049
1 to 5 years	427	–	–	427	361	–	–	361
Over 5 years	66	–	–	66	320	–	–	320
	$ 1,874	$ 6,100	$ 13,250	$ 21,224	$ 2,026	$ 5,611	$ 18,093	$ 25,730

NOTE 5 – INVESTMENT LIABILITIES

(Millions)	2004	2003
Long-term debt (a)	$ 3,312	$ 2,730
Payable under securities lending program (b)	1,250	3,765
Deferred revenue	249	261
Payables	237	207
Future income taxes (c)	171	215
	$ 5,219	$ 7,178

(a) Long-term debt is as follows:

(Millions)	2004 Fair Value	2004 Cost	2004 Weighted Average Interest Rate	2003 Fair Value	2003 Cost	2003 Weighted Average Interest Rate
Real estate (d)						
Secured debt (i)	$ 1,060	$ 989	5.18%	$ 1,192	$ 1,125	5.67%
Series A debentures (ii)	530	500	4.57%	516	500	5.02%
Series B debentures (iii)	517	500	3.60%	514	500	4.05%
Commercial paper (iv)	285	285	2.54%	285	285	2.71%
Unsecured debt	3	3	7.52%	4	4	7.51%
	2,395	2,277		2,511	2,414	
Infrastructure (v)	917	902	6.05%	219	210	6.57%
Total (e)	$ 3,312	$ 3,179	4.85%	$ 2,730	$ 2,624	5.01%

(i) Includes mortgages and other secured debt with various terms to maturity up to 2027 with each debt instrument secured by a specific asset.

(ii) OMERS Realty Corporation Series A 5.48 per cent Debentures issued November 27, 2002, maturing December 31, 2012.

(iii) OMERS Realty Corporation Series B 4.69 per cent Debentures issued April 25, 2003, maturing June 2, 2008.

(iv) OMERS Realty Corporation Commercial Paper with maturities as at December 31 up to March 15, 2005.

(v) Includes mortgages and other secured debt with various terms to maturity up to 2031 with each debt secured by a specific infrastructure asset.

(b) As part of the securities lending program, OMERS receives cash collateral that it invests in short-term interest bearing investments and OMERS is obligated to return the cash collateral upon termination of the arrangement.

(c) Future income taxes relate primarily to the acquisition of Oxford Properties.

(d) The rights of OMERS Realty Corporation debenture and commercial paper holders are subordinate to the claims of OMERS pension liabilities.

(e) Scheduled principal repayments for each of the five years subsequent to December 31, 2004 and thereafter are as follows:

(Millions)	
2005	$ 381
2006	58
2007	159
2008	770
2009	165
Thereafter	1,646
	$ 3,179

NOTE 6 – OTHER ASSETS

(Millions)	2004	2003
Investment receivables	$ 205	$ 190
Goodwill (i)	175	215
Other	57	44
Other investment assets	437	449
Other non-investment assets	142	44
	$ 579	$ 493

(i) Goodwill relates primarily to the acquisition of Oxford Properties. In 2004 goodwill was reduced in conjunction with reduced future income tax liabilities.

NOTE 7 – ACTUARIAL LIABILITIES AND SURPLUS/(DEFICIT) – BASIC PLAN

The excess of actuarial value of net assets over actuarial liabilities is calculated net of the liability of the full earnings pension benefits. The full earnings pension benefit was set up within the *OMERS Act* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*. These excess benefits are partially funded through the use of a Retirement Compensation Arrangement (note 8).

Actuarial Value of Net Assets

The actuarial value of net assets is established such that investment returns above or below the long-term return assumption (currently set as 7.25 per cent) are deferred and are amortized over 5 years into actuarial assets. For the year, $1,097 million of investment income was credited to the actuarial valuation adjustment resulting from the investment return being in excess of the long-term rate of return assumption. As a result, at December 31, 2004, OMERS has $1,168 million (2003 – $3,888 million) in investment losses in an actuarial valuation adjustment reserve which will be amortized as follows:

(Millions)	Actuarial Valuation Adjustment as at 12/31/2004	Unrecognized Investment Returns to be Recognized in 2005	2006	2007	2008	Actuarial Valuation Adjustment as at 12/31/2003
2000	$ –	$ –	$ –	$ –	$ –	$ (119)
2001	(983)	(1,054)	–	–	–	(1,832)
2002	(2,207)	(1,184)	(1,269)	–	–	(3,087)
2003	925	331	354	380	–	1,150
2004	1,097	294	316	339	363	–
	$ (1,168)	$ (1,613)	$ (599)	$ 719	$ 363	$ (3,888)

Accrued Pension Benefits

The actuarial present value of accrued benefits is a calculation of the value of pension and other benefit obligations of OMERS in respect of benefits accrued to date for all active and inactive members of OMERS. This obligation is measured using the same actuarial assumptions and methods adopted by the Board for setting the long-term funding target. Since there is no intention of terminating the obligations for the foreseeable future, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, the actuarial basis may also change, which could cause a material change in the actuarial present value of accrued benefits.

The projected accrued benefit method (pro-rated on service) is used for the actuarial valuation. Under this method, the cost of providing benefits to an individual member will increase as the individual member ages and gets closer to retirement. However, for a group with a stable demographic profile, annual costs will tend to remain stable when expressed as a percentage of the group's earnings.

The following actuarial assumptions have been used in the actuarial valuation of OMERS:

	2004	2003
Assumed rate of inflation	**3.0%**	3.0%
Assumed rate of pensionable earnings increases (Based on inflation plus an age-related increase)	**4.5%**	4.5%
Assumed actuarial rate of return on plan assets and discount rate	**7.25%**	7.25%

As a pension plan which provides 100 per cent inflation protection, OMERS accrued benefit obligation is particularly sensitive to changes in the assumed real rate of pensionable earnings increases which impacts future benefits and the assumed real rate of return on plan assets which is also used in the discounting of these future benefits. A 50 basis point change in the real rates for a particular assumption (with no change in other assumptions) would have the following approximate effects on the accrued benefit obligation:

50 basis point decrease/increase	Effect on Accrued Benefit Obligation
Real pensionable earnings assumption	-/+2.4%
Real return on plan assets and discount rate	+/-8.5%

The accrued benefit obligation to December 31, 2004, which follows, takes account of known changes in the Plan membership up to November 30, 2004, actual inflationary increases to pension payments as at December 31, 2004, and the estimated pensionable earnings increase for 2004 which is based on actual 2004 inflation plus assumed wage increases.

(Millions)	2004	2003
Fair value of net assets of the Basic Plan at end of year	$ 35,643	$ 32,087
Actuarial value adjustment	1,168	3,888
Actuarial value of net assets at end of year	36,811	35,975
Accrued benefit obligation at beginning of year	35,466	33,034
Interest accrued on benefits	2,615	2,388
Benefits accrued	1,351	1,266
Benefits paid (note 12)	(1,496)	(1,355)
Plan amendments	69	–
Experience and other losses/(gains)	(231)	133
Accrued benefit obligation at end of year	37,774	35,466
(Deficit)/Surplus of actuarial value of net assets over actuarial liabilities	$ (963)	$ 509

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits are presented above on the going concern basis. Under the *Pension Benefits Act*, a solvency (hypothetical windup) valuation must be performed on the plan, even though the risk of it being wound up is remote. This special valuation is performed for the Basic Plan only and assumes a liquidation scenario. As permitted by the *Pension Benefits Act*, the solvency valuation uses the fair value of assets and a liability discount rate based on long-term nominal bond yields at the valuation date. Under this method, no allowance is made for the costs associated with future cost of living increases.

The actuarial present value of accrued pension benefits under the solvency valuation, excluding the full earnings pension benefits, was estimated to be $32,099 million as at December 31, 2004 (2003 – $28,547 million). As at December 31, 2004, the fair value of net assets, excluding the full earnings assets and allowing for a provision for expenses on windup, was $35,583 million (2003 – $32,026 million).

NOTE 8 – ACTUARIAL LIABILITIES AND SURPLUS/(DEFICIT) – RETIREMENT COMPENSATION ARRANGEMENT

The Retirement Compensation Arrangement (RCA) was established by OMERS to provide full earnings pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act* with respect to service after 1991.

The full earnings pension benefits are not fully funded but are operated on a modified pay-as-you-go basis in order to minimize the impact of the 50 per cent refundable tax applicable to RCA plans. Contributions under the full earnings plan (based on the top-tier Basic Plan contribution rates) are payable to the RCA on the excess of earnings over the maximum contributory earnings recognized under the Basic Plan – $105,335 for 2004 (2003 – $99,577). Benefits in excess of the maximum allowed by the *Income Tax Act* will be paid from the RCA.

Due to the funding policy adopted, the RCA assets will remain small relative to the liabilities of the full earnings pension benefits. However, based on the contribution rates effective January 1, 2004, and the assumption that contributions to the RCA will continue, it is expected that the annual cash inflow will be more than sufficient to cover the annual benefit payments and that the RCA assets will continue to grow in the foreseeable future. A relatively small increase in the number of terminations and retirements at the higher income levels, however, can increase actual benefit payments from and decrease actual contributions to the RCA. The Board has the latitude of increasing the contributions to the RCA if the current rate is projected to be insufficient to sustain the payments of the full earnings pension benefits.

Determination of the value of these excess benefits is made on the basis of a periodic actuarial valuation. The actuarial assumptions used are consistent with those used for the Basic Plan except that beginning in 2004 the discount rate is 3.63 per cent, which has been adjusted to approximate the effect of the 50 per cent refundable tax under the RCA. Such adjustment is made to reflect what would be the actual obligation of the full earnings pension benefits if they are to be fully funded using an RCA. The net assets available for benefits and the accrued liabilities of the RCA are valued separately from the OMERS actuarial valuation.

(Millions)	2004	2003
Fair value of net assets at end of year	$ 12	$ 6
Accrued benefit obligation at beginning of year	69	63
Increase in benefit obligation due to RCA taxation	68	–
Interest accrued on benefits	5	4
Benefits accrued	7	4
Benefits paid (note 12)	(2)	(1)
Experience and other losses/(gains)	2	(1)
Accrued benefit obligation at end of year	149	69
Deficit of actuarial value of net assets over actuarial liabilities	$ (137)	$ (63)

NOTE 9 – NET INVESTMENT INCOME

OMERS investments are managed by the following major asset classes: Public Markets (which includes OMERS investments in interest bearing investments, absolute return investments and public equities); Private Equity; Infrastructure; and Real Estate.

Income from assets backing derivative financial instruments is reported in the particular investment category by major asset class. Realized and unrealized income from derivative financial instruments is $698 million (2003 – $1,343 million).

OMERS investment income for each major asset class is as follows:

	2004				
(Millions)	Investment Income (i)	Net Gain/(Loss) on Investments and Derivatives (ii)	Total Investment Income/(Loss)	Investment Management Expenses (note 13)	Net Investment Income/(Loss)
Public markets (iii)	$ 851	$ 2,152	$ 3,003	$ (75)	$ 2,928
Private equity (iii)	41	110	151	(47)	104
Infrastructure	236	73	309	(17)	292
Real estate (iv)	445	(1)	444	(8)	436
	$ 1,573	$ 2,334	$ 3,907	$ (147)	$ 3,760
Income credited to administered pension funds and supplementary retirement benefits					(66)
Net investment income					$ 3,694

	2003				
(Millions)	Investment Income (i)	Net Gain/(Loss) on Investments and Derivatives (ii)	Total Investment Income/(Loss)	Investment Management Expenses (note 13)	Net Investment Income/(Loss)
Public markets (iii)	$ 818	$ 3,246	$ 4,064	$ (66)	$ 3,998
Private equity (iii)	75	(245)	(170)	(42)	(212)
Infrastructure	58	(104)	(46)	(23)	(69)
Real estate (iv)	400	(497)	(97)	(27)	(124)
	$ 1,351	$ 2,400	$ 3,751	$ (158)	$ 3,593
Income credited to administered pension funds and supplementary retirement benefits					(51)
Net investment income					$ 3,542

(i) Includes total interest on real estate investment liabilities of $138 million (2003 – $170 million) and infrastructure investment liabilities of $15 million (2003 – $11 million).

(ii) Includes total net realized gain of $1,169 million (2003 – $803 million).

(iii) Total investment income/(loss) for Public markets and Private equity are as follows:

(Millions)	2004 Investment Income	2004 Net Gain/(Loss) on Investments and Derivatives	2004 Total Investment Income/(Loss)	2003 Investment Income	2003 Net Gain/(Loss) on Investments and Derivatives	2003 Total Investment Income/(Loss)
PUBLIC MARKETS						
INTEREST BEARING INVESTMENTS						
Short-term deposits	$ 112	$ –	$ 112	$ 125	$ –	$ 125
Canadian bonds and debentures	288	53	341	296	30	326
Mortgages and private debt	110	5	115	106	14	120
	510	58	568	527	44	571
Real return bonds	32	133	165	30	78	108
	542	191	733	557	122	679
PUBLIC EQUITY						
Canadian equities	116	891	1,007	108	1,364	1,472
Non-Canadian equities	193	1,070	1,263	153	1,760	1,913
	309	1,961	2,270	261	3,124	3,385
	$ 851	$ 2,152	$ 3,003	$ 818	$ 3,246	$ 4,064
PRIVATE EQUITY						
Canadian private equities	30	24	54	75	(139)	(64)
Non-Canadian private equities	11	86	97	–	(106)	(106)
	$ 41	$ 110	$ 151	$ 75	$ (245)	$ (170)

(iv) Total investment income/(loss) for real estate is further detailed below:

(Millions)	2004	2003
REVENUE		
Rental	$ 1,096	$ 1,156
Investment	60	40
	1,156	1,196
EXPENSES		
Property operating and other expenses (i)	573	626
Operating income	583	570
Interest expense	(138)	(170)
	445	400
NET GAIN/(LOSS) ON INVESTMENTS AND DERIVATIVES		
Properties	53	(341)
Goodwill (ii)	–	(90)
Debt	(23)	(55)
Other	(31)	(11)
	(1)	(497)
Total investment income/(loss)	$ 444	$ (97)

(i) Includes audit costs of $1.5 million (2003 – $1.7 million) and legal costs of $2.5 million (2003 – $2.1 million).

(ii) In 2003 goodwill losses represent writedowns of $90 million to reflect permanent impairment in value.

NOTE 10 – INVESTMENT RETURNS (i)

	2004	2003
Canadian interest bearing (ii)	**7.5%**	7.0%
Real return bonds	**17.6%**	13.4%
Canadian public equities	**14.2%**	26.8%
Non-Canadian public equities (iii)	**11.5%**	20.0%
Private equity	**12.5%**	-13.8%
Infrastructure	**31.0%**	-6.5%
Real estate	**11.0%**	-3.7%
Total Fund	**12.1%**	12.7%

(i) Investment returns have been calculated in accordance with the acceptable methods set forth by the CFA Institute (formerly, the Association for Investment Management and Research) and the Pension Investment Association of Canada and are based on total investment income/(loss) as determined in note 9.

(ii) Canadian interest bearing investments include short-term deposits, Canadian bonds and debentures, mortgages and private debt.

(iii) Non-Canadian public equities include the results of the currency overlay program.

NOTE 11 – CONTRIBUTIONS

(Millions)	2004	2003
Basic (i)	**$ 1,363**	$ 404
Transfers from other pension plans	**22**	19
Other contributions (ii)	**24**	23
	$ 1,409	$ 446

(i) In 2004 the base contribution rate is 6.0 per cent of salary up to $40,500 and 8.8 per cent of salary for earnings above that level. For NRA 60 members the contribution rate is 7.3 per cent of salary up to $40,500 and 9.8 per cent of salary for earnings above that level. For the year 2003, contributions were made at approximately one-third of the 2004 contribution rates.

(ii) Other contributions include amounts for leaves of absence, conversion of normal retirement age and contract adjustments.

NOTE 12 – BENEFITS

(Millions)	2004	2003
Members' pensions	**$ 1,353**	$ 1,246
Commuted value payments and members' contributions plus interest refunded	**111**	81
Transfers to other pension plans	**34**	29
	$ 1,498	$ 1,356

In 2004 total benefit payments for the Basic Plan were $1,496 million (2003 – $1,355 million) and for the RCA $2 million (2003 – $1 million).

NOTE 13 – PENSION ADMINISTRATIVE AND INVESTMENT MANAGEMENT EXPENSES

(a) Pension Administrative Expenses

(Millions)	2004	2003
Personnel services	$ 22	$ 19
System development and other purchased services	12	16
Premises and equipment	6	6
Professional services (i)	2	2
Travel & communication	1	1
	$ 43	$ 44

(b) Investment Management Expenses

	2004					2003				
(Millions)	Public Markets	Private Equity	Infra-structure	Real Estate	Total	Public Markets	Private Equity	Infra-structure	Real Estate	Total
Personnel services	$ 19	$ 10	$ 8	$ 1	$ 38	$ 18	$ 2	$ –	$ 2	$ 22
System development and other purchased services	12	–	1	–	13	11	–	–	1	12
Premises and equipment	5	1	1	–	7	4	–	–	–	4
Professional services (i)	2	1	1	–	4	1	–	–	–	1
Travel & communication	1	1	1	–	3	1	–	–	–	1
Investment management expenses	36	34	5	7	82	31	40	23	24	118
	$ 75	$ 47	$ 17	$ 8	$ 147	$ 66	$ 42	$ 23	$ 27	$ 158

(i) Total professional services expenses include actuarial costs of $1.0 million (2003 – $0.5 million), audit costs of $0.7 million (2003 – $0.3 million) and legal costs of $2.8 million (2003 – $0.9 million).

NOTE 14 – EXECUTIVE COMPENSATION

The compensation amounts for 2004 and 2003 are included under personnel services in note 13. The table below represents disclosure of base earnings, annual incentive plan, long-term incentive plan and other compensation earned in 2002, 2003 and 2004 by the President and Chief Executive Officer (CEO), individuals holding the office of the Senior Vice President and Chief Financial Officer (CFO) and the other individuals reporting directly to the CEO in 2004.

Name and Principal Position	Year	Base Earnings	Annual Incentive Plan (i)	Long-Term Incentive Plan (i)	Other (ii)	Taxable Benefits (iii)
Paul G. Haggis	2004	$ 363,462	$ 206,446	$ –	$ –	$ 17,108
President and CEO	2003	100,962	–	–	49,971	532
Paul G. Renaud (iv)	2004	$ 55,385	$ 50,000	$ –	$ –	$ 2,027
Senior Vice President and CFO						
Finance and Administration						
Wayne Gladstone (v)	2004	$ 90,381	$ –	$ 174,042	$ 489,350	$ 4,379
Senior Vice President and CFO	2003	230,080	64,397	–	21,907	13,440
Finance and Administration	2002	217,846	69,828	–	10,577	13,511
Michael Beswick (vi)	2004	$ 240,387	$ 68,897	$ 220,978	$ 181,446	$ 11,478
Senior Vice President	2003	226,042	65,287	–	6,562	15,488
Pensions	2002	211,846	72,028	–	10,577	16,768
Paul Pugh (vii)	2004	$ 242,308	$ 256,800	$ –	$ –	$ 1,605
Senior Vice President						
Investments						
Debbie Oakley	2004	$ 202,144	$ 57,936	$ 74,329	$ 17,596	$ 1,053
Senior Vice President	2003	190,080	53,944	–	10,000	1,056
Corporate Affairs	2002	189,385	59,644	–	9,600	837
Selma Lussenburg (viii)	2004	$ 163,942	$ 137,500	$ –	$ 5,600	$ 741
Senior Vice President						
General Counsel and						
Corporate Secretary						
Floretta Paladino	2004	$ 153,282	$ 55,918	$ 34,975	$ 10,000	$ 814
Vice President						
Human Resources						
R. Michael Latimer (ix)	2004	$ 510,000	$ 480,000	$ –	$ 25,577	$ 17,158
President and CEO						
OPGI Management GP Inc.						
Michael Nobrega (ix)	2004	$ 346,154	$ 600,000	$ –	$ 35,839	$ 37,179
President and CEO						
Borealis Capital Corporation						
(Infrastructure)						
Ian Collier (ix)	2004	$ 346,154	$ 400,000	$ –	$ 35,577	$ 30,244
President and CEO						
Borealis Capital Corporation						
(Private Equity)						

(i) The Annual and Long-Term Incentive Plans are based on achieving corporate and individual objectives, including investment performance targets and pension service standards. The annual incentive plan amount relates to the year it was earned. The long-term plan is awarded based on meeting investment and pension objectives over a four-year period with the initial performance period running from 2001 to 2004.

(ii) Includes vacation cash-in, hiring and retiring allowances, car and other allowances.

(iii) Includes insurance, car and fitness benefits.

(iv) Joined OMERS on November 8, 2004.

(v) Retired from OMERS on May 10, 2004.

(vi) Retired from OMERS on December 31, 2004.

(vii) Joined OMERS on April 26, 2004.

(viii) Joined OMERS on May 31, 2004.

(ix) Employment commenced on February 21, 2004.

NOTE 15 – GUARANTEES, COMMITMENTS AND CONTINGENCIES

As part of normal business operations, OMERS enters into commitments and guarantees related to the funding of investments. Future commitments to fund investments may include but are not limited to investments in mortgages, infrastructure, real estate and private equity limited partnership agreements. As at December 31, 2004, these future commitments totaled $2.5 billion (2003 – $2.8 billion). The maximum amount payable under guarantees and standby letters of credit provided as part of investment transactions was $524 million at December 31, 2004.

NOTE 16 – RELATED PARTY TRANSACTIONS

Prior to February 2004 OMERS was party to an asset management services agreement with an investee (the "Asset Manager") in the asset management business, in which OMERS owned a minority interest. Effective February 2004, OMERS purchased the shares of the asset manager that it did not already own for cash consideration of $49.9 million.

Prior to the purchase of shares, payments to the Asset Manager during 2004 were $7 million (2003 – $42 million); in December 2003 $4 million was due to the Asset Manager and was included in other investment liabilities.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10 YEAR REVIEW OF FINANCIAL DATA

($ Millions)	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
NET ASSETS (i)										
Public markets (ii)	30,283	30,168	23,823	27,755	30,941	30,303	28,026	26,173	22,744	18,533
Private equity	1,460	914	1,021	1,031	1,128	849	508	474	422	353
Infrastructure	2,314	1,426	349	279	–	–	–	–	–	–
Real estate	6,898	6,920	7,747	8,181	4,707	4,126	3,995	2,729	2,450	2,391
	40,955	39,428	32,940	37,246	36,776	35,278	32,529	29,376	25,616	21,277
Other investment assets	665	793	1,017	998	698	493	297	244	270	381
Investment liabilities (ii)	(5,438)	(7,512)	(3,824)	(4,323)	(921)	(280)	(916)	(102)	(156)	(96)
Net investment assets	36,182	32,709	30,133	33,921	36,553	35,491	31,910	29,518	25,730	21,562
Non investment assets/(liabilities)										
Supplementary agreements	(86)	(143)	(172)	(165)	(148)	(131)	(116)	(110)	(121)	(120)
Administered pension plans	(553)	(496)	(440)	(487)	(528)	(502)	(437)	(395)	(341)	(345)
Other assets/(liabilities)	112	23	(16)	(26)	(2)	72	23	95	110	116
Net assets	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108	25,378	21,213
INVESTMENT INCOME (iii)										
Total investment income	3,907	3,751	(2,358)	(1,362)	2,114	4,711	2,949	3,778	4,163	3,039
Investment management expenses	(147)	(158)	(103)	(69)	(62)	(52)	(50)	(40)	(39)	(35)
Basic plan	3,760	3,593	(2,461)	(1,431)	2,052	4,659	2,899	3,738	4,124	3,004
Administered pension plans and supplementary benefit agreements	(66)	(51)	28	4	(47)	(85)	(52)	(62)	(64)	(392)
Net investment income	3,694	3,542	(2,433)	(1,427)	2,005	4,574	2,847	3,676	4,060	2,612
CONTRIBUTIONS RECEIVED FOR										
Basic	1,363	404	–	–	–	–	364	869	874	869
Other	46	42	47	36	30	27	8	21	8	7
	1,409	446	47	36	30	27	372	890	882	876
PAYMENTS TO MEMBERS										
Pensions paid	1,353	1,246	1,153	1,034	916	817	761	699	661	570
Contributions and interest refunded	111	81	102	125	121	178	149	104	89	67
Transfers to other plans	34	29	47	34	8	10	10	9	6	6
	1,498	1,356	1,302	1,193	1,045	1,005	920	812	756	643
EXPENDITURES										
Pension administrative expenses	43	44	50	48	45	46	27	24	21	20
TOTAL FUND ANNUAL RATE OF RETURN										
Time weighted return on market value	12.1%	12.7%	-7.1%	-3.4%	6.2%	15.2%	10.1%	14.8%	19.3%	14.2%
Benchmark	9.9%	15.5%	-7.4%	-4.2%	4.1%	14.7%	10.7%	15.1%	18.0%	16.1%
Funding requirement	6.4%	6.3%	8.1%	5.0%	7.5%	6.8%	5.3%	5.0%	6.4%	6.0%

(i) Market value as at December 31.

(ii) For 2004 and 2003 public market investments include short-term investments from cash collateral received from securities lending activities and investment liabilities include the obligation to return the collateral upon termination of the securities lending arrangement. There is no impact on net assets.

(iii) Includes realized and unrealized gains, interest expense.

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