OMERS
Annual Report 2005

Lead

Be the leader in the pension industry.

Perform

Provide first-in-class investment management.

Serve

Deliver superior pension services to our members and employers.

Grow

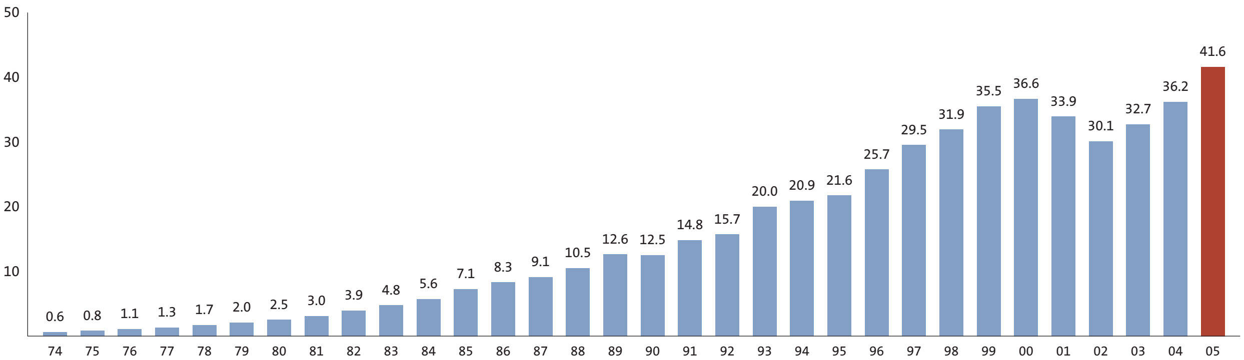
Attract investment partners and other pension plans through our leadership.

OMERS members on the cover (left to right):
Sarita de Souza, Retired, Committee of Adjustments
Steve Duncan, Driver/Loader Solid Waste
Dr. Sylvia Lee, Dentist
Brad deWald, Zoo Keeper with Bateleur eagle
Lisa Farun, Caseworker, Social Services
Frank Ramagnano, Fire Fighter
Pat Hofland, Senior Administrative Support, School Board
Constable Isabelle Cotton, Police Officer

FINANCIAL HIGHLIGHTS

NET INVESTMENT ASSET GROWTH FROM 1974

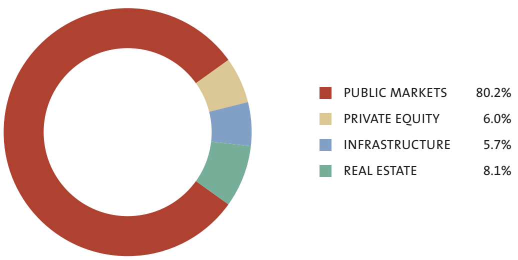
Market Value ($ Billions)



ASSET MIX

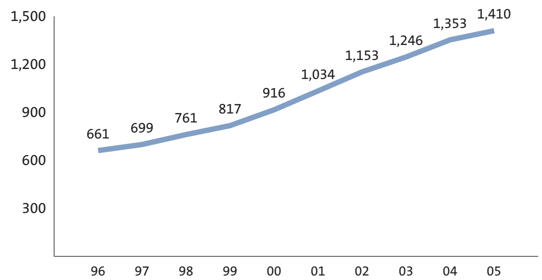
(as at December 31, 2005)

Net Investment Assets



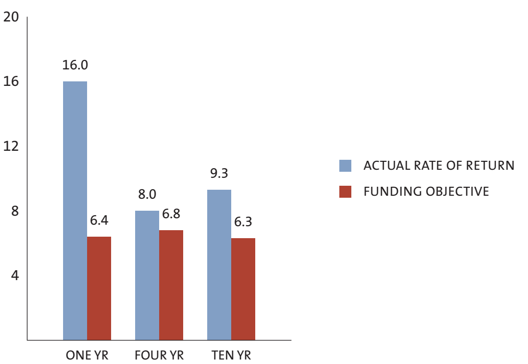
GROWTH IN PENSION PAYROLL

($ Millions)



RATE OF RETURN VS. FUNDING OBJECTIVE

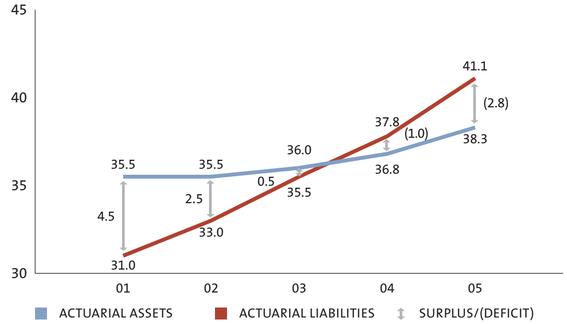
(%)



ACTUARIAL ASSETS AND LIABILITIES – BASIC PLAN

(as at December 31)

Market Value ($ Billions)



Generating results on investments

OMERS is a major investor in the energy sector, with significant holdings in the generation segment. Energy generation is an attractive opportunity for large institutional investors like OMERS and is consistent with our strategy, providing long-term, stable, inflation-protected returns to help us meet future pension obligations.

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 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 members' needs are understood and met.

- We understand the needs of all our members.
- 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.

Member Services

OMERS is widely recognized in the pension industry for the high standards of its member services. The reason for this is simple – business as usual for us means constantly striving to improve the quality and kind of service we provide and meeting service benchmarks that stretch our capabilities.

This requires innovative programs and processes and, more than anything else, highly skilled and dedicated people who appreciate the importance of understanding the needs of our customers, and fulfilling them efficiently and promptly.

Our mandate in the Pension Division, and OMERS overall, is to provide our members and employers first-in-class pension services. In recent years, this has become an increasingly challenging objective, with a growing membership that has become more actively aware of pension issues.

Our performance in 2005 confirms that the platform we have built over the past several years is capable of handling growing and changing needs.

In 2005, we met or exceeded every one of our demanding service monitor standards:

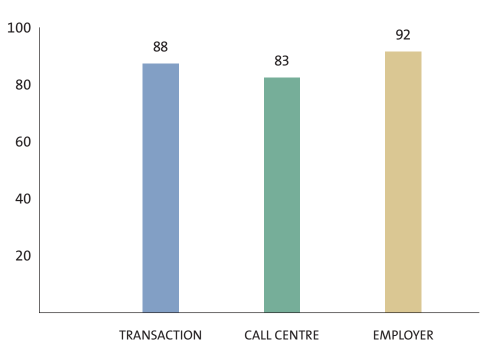
- Initial claims turnaround time – less than 2 business days on average vs. a target of 3 business days.
- Incoming calls resolved at first point of contact – 91.5 per cent on average vs. a target of 90 per cent.
- Answer incoming calls to client services within 100 seconds – 80.3 per cent on average vs. a target of 80 per cent.

Some further statistics help tell the story:

- We now serve a total active and retired membership of almost 364,000, 2.6 per cent more than at the end of 2004, and nearly 900 employers.
- In 2005, we processed over 24,000 retirement, termination, disability, pre-retirement death benefits and retirement estimates.
- Communication is a critical element of our service. In 2005, our web site had almost half a million hits.
- OMERS presentation staff reached out to nearly 10,000 members, retirees and employers at face-to-face meetings across Ontario.

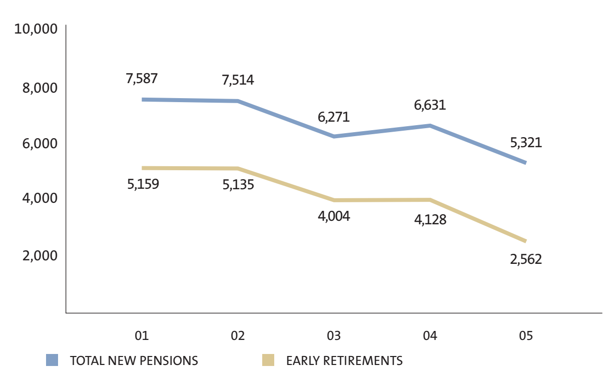
SATISFACTION SURVEYS

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



NUMBER OF NEW PENSIONS IN PAST FIVE YEARS

Unusually high numbers from 2001 to 2004 reflect temporary early retirement windows that were in effect during those years



- 85 per cent of employers (covering 99 per cent of active members) are now registered for our e-access program, which enables employers to look up member information, check the status of an event or process a form on-line.
- e-access continued to extend its reach in 2005. Over the course of the year, 79 per cent of key employer requests were received through e-access, compared with about 70 per cent at the end of 2004 and about 55 per cent at the end of 2003. Employers benefited from a new secure on-line application – e-119 – to report their annual data.

We also conduct an annual survey to assess how we are doing at meeting the needs of members, retirees and employers. The 2005 survey results show a satisfaction rate of between 83 per cent and 92 per cent and indicate a continuing recognition of our high standards.

What's next for Member Services? Continuing to enhance our overall services, improving e-access tools, plus implementing the provisions of the new OMERS Act, including Supplemental Plans, and supporting the Sponsors Corporation as required. (More about the new OMERS Act on pages 8, 20.)

Message from the Chair

Frederick Biro
Chair

In order to sustain growth in a $41 billion organization like OMERS, our team of dedicated professionals must focus on implementing our investment strategy and managing day-to-day operations. However, every now and again it is important to be reminded just how personal our business is to our members and retirees.

In November 2002, I attended my father-in-law's 80th birthday celebration held near Peterborough, Ontario. The room was filled with extended family and friends, a good number of whom were understandably of retirement age. I happened to stop by a table of six women and discovered that four of the six were OMERS pensioners, two of whom were receiving survivor benefits. They, in turn, had been informed I was a relatively new member of the OMERS Board. Unanimously and without any prompting on my part, they praised the Plan. As one said, "*It means so much to all of us. Without my monthly cheque, I don't know how I'd get by.*"

That is when I fully realized the true purpose of the OMERS Plan and the difference it makes in the lives of our members. Our job – our entire focus – must continue to be meeting the pension promise. Every action we take must strengthen our capability to pay pensions, now and in the future. In practical terms, it means making the right investments; building our resources to manage and monitor our assets; meeting the requirements of our members in a timely and accurate manner; and demonstrating leadership at all levels of the organization, beginning with the Board itself.

In 2005, OMERS enhanced its abilities on all these key fronts and it is a pleasure to comment on our performance over the past year.

OUR INVESTMENT STRATEGY

In last year's annual report, I discussed the progress OMERS had made in implementing the new investment strategy that we announced in early 2004.

The importance that OMERS attaches to achieving success with our investment strategy is understandable since, over the long term, 70 per cent of the funding for pensions comes from investment returns, while 30 per cent is derived from member and employer contributions.

A key element of our strategy is a shift in our asset mix as we work towards reducing our public equity and interest-bearing holdings from 80 per cent to approximately 60 per cent of the Plan's assets and increasing private equity, infrastructure and real estate to about 40 per cent. We believe this will result in stronger returns and more stable cash flow, regardless of returns from the public markets.

The strength of equity markets in the past two years has contributed to a slower pace in this asset shift, although we expect to achieve our asset allocation targets by the end of the decade.

Our President and CEO, Paul Haggis, will comment further on our investment returns. Suffice it to say we earned a total fund rate of return of 16.0 per cent in 2005, the third consecutive year that we have exceeded our long-term funding requirement.

FUNDED POSITION

Despite our excellent investment performance in 2005, our funding deficit in the Basic Plan increased to $2.8 billion from just under $1 billion a year ago. This can be attributed to several factors.

First, a portion of the investment income earned in 2005 will be deferred to future years, as part of the actuarial smoothing process, and similarly, a portion of the losses from 2001 and 2002 have been recognized in 2005.

Second, our actuarial liability in the Basic Plan (the present value of future pensions earned to date) is higher than we had anticipated due in part to member salary increases, inflation protection adjustments for pensions and member demographics that differed from actuarial assumptions. (A more detailed explanation may be found in the Management's Discussion and Analysis section of this annual report.)

CONTRIBUTION INCREASE

Our funded status will be assisted by an average 0.6 per cent increase in contribution rates for both members and employers, which began in January 2006. While our recent strong investment performance meant that the increase was substantially lower than originally anticipated, a contribution rate increase was still required to ensure that the Plan remains fully funded over the long term.

OMERS is not unique in facing a myriad of challenges in matching its pension liabilities to its assets. Some pension plans have reduced benefits; others have introduced or are warning of significant contribution rate increases. Our goal, as discussed earlier, is to drive investment returns, always with an eye towards appropriate levels of risk, in order to ensure stable contributions.

PENSION SERVICES

As I said from the outset, OMERS focus is on paying pensions and meeting the needs of our membership. The OMERS Board closely monitors the pension services we provide to ensure all plan participants get the information and support they need.

The OMERS Board views our Pension Division as one of the best kept secrets in the pension environment in Canada. Despite a varied and complex membership, with almost 364,000 members and 900 employers, OMERS achieved 100 per cent of its rigorous service level standards in 2005.

THE NEW OMERS ACT

In June 2005, a major change in OMERS governance structure was initiated when the Ontario government introduced Bill 206, *An Act to revise the Ontario Municipal Employees Retirement System Act*. Early in 2006, the Bill received Royal Assent and it is expected to take effect this year. The Board monitored the status of Bill 206 and participated in government committee hearings, with most of our recommendations being accepted and incorporated into the new OMERS Act.

Many of our members and retirees have inquired about the impact of the new OMERS Act on OMERS operations and on their current and future pensions, so it is important to highlight some key facts.

The most important thing to note is that the fund remains strong and pensions remain secure. The organization that runs OMERS day-to-day continues as the OMERS Administration Corporation. The new OMERS Act does not change our responsibility for managing investments and administering the Plan.

Like all pension plans, OMERS remains subject to federal and provincial pension regulations.

SPONSORS CORPORATION

The new OMERS Act gives responsibility for the decisions that affect pension plan design, contributions and benefits to the people and organizations that fund OMERS – namely its members and employers. A Sponsors Corporation, with a representative Board of Directors, will replace the Ontario Government which, for 43 years, has been OMERS plan sponsor. This governance model is not unique – most other major public sector pension plans in Canada use a similar independent sponsor governance system. What is unique is the degree of complexity of the OMERS plan, with its large and diverse membership. The OMERS Board has committed to working with the Sponsors Corporation to ensure a smooth transition.

SUPPLEMENTAL PLANS

The new OMERS Act introduces the concept of Supplemental Plans. These are separately funded, stand-alone pension plans that would offer flexibility in benefits currently not available in the OMERS Primary Pension Plan.

Within two years of the Act taking effect, Supplemental Plans must be established for police officers, fire fighters and paramedics. This is not to say new benefits will be in place at this point. Rather, the systems to allow for the benefits to be negotiated have to be established. The Sponsors Corporation Board may also vote to create Supplemental Plans for other plan members in the future.

Supplemental Plan benefits will be bargained locally between employers and eligible employees. The new OMERS Act stipulates that only one new supplemental benefit can be provided initially, and additional benefits can only be added once every three years.

These Supplemental Plans do not impact the security of OMERS Primary Plan. Supplemental Plans will be entirely funded by their participants and cross funding is not permitted under the law.

GOVERNANCE

The new OMERS Act will bring change with respect to how plan design and contribution rates will be determined.

What will not change is the emphasis the OMERS Board has put on corporate governance and its commitment to be a leader in adopting best practices in board governance.

It is with a sense of accomplishment and pride in my Board colleagues when I say that OMERS was the first Board to have all its members graduate as Chartered Directors from The Directors College, jointly administered by The Conference Board of Canada, the DeGroote School of Business and McMaster University. It is mandatory that all new directors commit to achieving this designation when appointed to the OMERS Board.

Ongoing Board education remains a priority, with quarterly education sessions conducted in conjunction with Board meetings, an education budget to address independent learning requirements for each Board member, and mandatory training on pension and audit matters.

The Board conducts ongoing reviews of its effectiveness, including the work of its five standing Committees. In 2005, we affirmed our ongoing commitment to disclosure with the regular publication of summaries of Board proceedings regarding the OMERS Plan on the OMERS website. This is in addition to hosting regional meetings in different parts of Ontario to review the Plan's performance.

It is my firm belief that the new OMERS Act will give the OMERS Board an even greater opportunity to concentrate on its fiduciary responsibilities to the betterment of all plan members.

OUR COMMITMENT

Our commitment is simple – to do our very best every day. It is a philosophy that I have seen exhibited by my Board colleagues and our entire staff. It has resulted in our becoming a leader among pension plans and an internationally recognized name as an institutional investor. It is a philosophy that I know will continue to guide us as we face the challenges before us and seize the opportunities they bring.

The end of 2005 marked the conclusion of my two-year tenure as OMERS Chair. I wish to thank all OMERS Directors, executive and staff – and the staff of our investment entities – for their contributions and effort. I also want to note the contributions of Bill Rayburn, my predecessor as Chair, Dick McIntosh and Brian O'Keefe, the three members of the Board who stepped down during 2005.

In closing, I would say it has been a privilege and an honour to serve as Chair for OMERS.

Frederick Biro
Chair

Letter from the President

Paul G. Haggis
President and Chief Executive Officer

Everything we do at OMERS is in pursuit of two main goals – achieving the asset growth we need to meet future pension liabilities in a challenging and variable long-term investment environment, and meeting the pension service needs of our members, employers and retirees.

We feel the best way to achieve these goals is to continually strive to be the pension industry leader both in terms of the superior returns we earn on fund investments and as a first-in-class provider of pension services.

More than two years ago, in recognition of our primary goals, and in pursuit of our desire to be the best, we launched a new strategy and initiated a number of organizational changes, restructuring around five key lines of business and adding experienced executives in several key positions. During 2004 and again last year, we began to see tangible and substantial rewards from the new strategy at work.

Our asset mix policy, the foundation of our investment activities, produced very strong results for the third consecutive year in 2005.

OUTSTANDING INVESTMENT, PENSION SERVICE PERFORMANCE

Our total fund rate of return in 2005 was 16.0 per cent, exceeding our overall benchmark of 13.2 per cent. Our strategy, executed by experienced and capable professionals, created value for OMERS portfolio of more than $1 billion over and above our benchmark.

Our 2005 real rate of return was 13.8 per cent, after deducting inflation of 2.2 per cent. This is substantially in excess of our long-term real return funding requirement of 4.25 per cent.

Each of the investment business units exceeded their benchmarks. Public market investments returned 12.6 per cent against a benchmark of 12.5 per cent. OMERS Capital Partners, our private equity investment arm, returned 23.2 per cent against a benchmark of 7.6 per cent. Borealis Infrastructure, which manages our infrastructure investments, also posted a return of 23.2 per cent in 2005, compared with their

benchmark of 11.8 per cent. Oxford Properties Group, responsible for our real estate assets, achieved a return of 26.0 per cent against a benchmark of 8.4 per cent.

OMERS pension services continue to lead the public sector pension industry. In 2005, we met or exceeded every one of the many detailed measures we monitor to ensure that we are meeting the needs and living up to the expectations of our members, employers and retirees. Some of these results are profiled on page 4.

For the third straight year our success at controlling costs resulted in lower pension administrative expenses. In 2005, they were down a substantial 16 per cent from 2004.

OUR STRATEGY ENSURES A SECURE FUTURE

These exceptional results provide validation for our reorganization and strategic direction. Our strategy is proving its worth and OMERS pension promise is secure and strong.

In 2005, the Board and management worked together to develop a new vision for OMERS. In 2006, we will ensure that our new organization and strategy are aligned with the new vision, corporate objective and core values that define what we want to be, what we are committed to providing to our members, and how we treat our people and members in fulfilling our mandate.

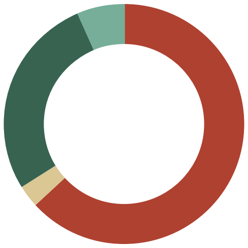
Public Market Investments

OMERS overall public market return in 2005 was 12.6 per cent compared with a 12.5 per cent benchmark. OMERS investment expertise capitalized on strong Canadian public markets in 2005 to earn a 23.0 per cent return for our Core Canadian Fund, which comprises about 30 per cent of our public equity portfolios.

Canadian returns were dominated by the energy sector which produced a 63.0 per cent return in 2005.

Non-Canadian public equities were strong; we earned a return of 11.8 per cent, beating the benchmark of 11.2 per cent. For the second straight year, real return bonds, which represent approximately 4 per cent of our portfolio, exceeded a 15.0 per cent return. Interest bearing investments, which comprise the balance of our public market portfolio, generated a return of 7.0 per cent, exceeding its benchmark of 6.3 per cent.

MEMBER PROFILE



ACTIVE	230,736
DEFERRED	10,908
RETIRED/SURVIVOR	99,005
INACTIVE	23,220
TOTAL	**363,869**

We want to be nothing less than the leader in the pension industry – we want to be the best. We will earn that status if we rank at the top in investment performance, and if we set the standard in our industry for service to our members and employers. And, as leaders in these areas we will be the ideal choice for other capital market participants to partner with; we will be the asset management and service leader that other organizations will want to handle their investment operations; and we will be the company where quality people want to work.

Growth is an objective not for its own sake, but because it will expand the range and size of the investment opportunities we can pursue, decrease our costs on a per-unit basis, and allow us to add new services to the benefit of all members, employers and retirees.

STRONG PRIVATE MARKET INVESTMENT POTENTIAL

2005 represented the second full year that OMERS has operated with our revised asset mix strategy that increases emphasis on private market classes. During 2005 we grew the proportion of our assets in private equity and infrastructure investments and positioned our real estate assets for growth. We will continue to make this adjustment carefully and deliberately over the next few years.

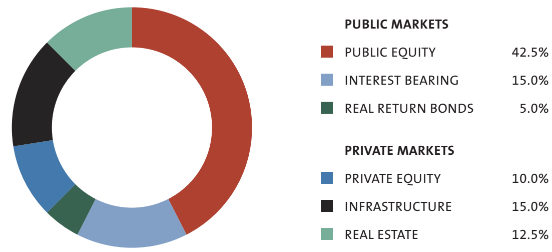
The timing of our shift to private market classes couldn't have been better for several reasons. First, while our overall performance over the past few years has exceeded expectations, it is not realistic to expect it to be sustainable over the longer term. While the North American economy is strong, and has been for a couple of years, economists predict the United States economy will start to slow down in 2007 and that world economies will remain mixed.

Pension Division

The Pension Division is the primary link between OMERS and its members, retirees and employers, and two-way communication is the key to our ability to consistently meet their needs.

OMERS conducts quarterly surveys to confirm that our current services are up to the standards expected by active and retired members, and employers. We also obtain feedback through our regular contact with members, retirees and employers. In 2005, our call centre handled 94,258 telephone calls and 10,705 e-mails, letters, and faxes. We also made 1,085 presentations at member information and pre-retirement sessions, and employer seminars and visits. These face-to-face meetings have proven to be an effective means of building a strong partnership with employers and enhancing the pension knowledge of members and employers.

FUTURE ASSET MIX POLICY



Investments in real estate, private equity and infrastructure, when thoroughly researched and carefully chosen, tend to produce higher, more stable returns than investments in public debt and equity markets. So our new asset mix will help mitigate the dampening effect of public market downturns that we expect will occur over time.

The second factor in our favour is the fact that private market classes represent a growing investment opportunity globally. Real estate, for example, is well-positioned for global expansion. Industry experts have observed that the global real estate market, which has recently experienced dramatic change in terms of evolving demand and innovative financial structures, continues to trend higher. They expect direct real estate investment – one of Oxford Properties' key strategic initiatives – to outperform most other assets.

Private equity investment, which helps drive innovation, is a very competitive field. Promising opportunities are there and our challenge is to be among the first investors to identify emerging trends, to partner with experienced and proven players in the market, to structure our investments in the most beneficial way possible and to help our portfolio companies achieve their growth potential.

Finally, opportunities to invest in infrastructure projects that offer stability and solid returns over the long term continue to grow. Governments around the world have recognized that co-investment partnerships that include private investment represent one of the best ways to meet their infrastructure goals and needs.

OMERS Capital Partners

In 2005, OMERS Capital Partners (OCP) made significant progress both in concluding investment deals and in strengthening and adding to the relationships that will be the foundation for securing promising opportunities in the future.

OCP clearly achieved one of its strategic objectives – generating enhanced returns – with a return of 23.2 per cent in 2005, compared to a benchmark of 7.6 per cent. OCP made new fund and direct investment commitments in 2005 to bring the value of OMERS private equity portfolio to about $2.4 billion. OCP also seeks sector and geographic diversification to reduce risk and at year end, assets were split approximately 50 per cent in Canada, 20 per cent in Europe and 30 per cent in the U.S.

OCP now actively manages a private equity portfolio of 47 fund relationships and 20 direct investments and representatives sit on 15 company boards and 32 fund advisory committees.

Our exceptional results provide validation for our reorganization and strategic direction. Our strategy is proving its worth and the future of OMERS pension promise is secure and strong.

Borealis Infrastructure is pursuing a strategy that will see OMERS partnering with leading institutional investors to develop exactly the kinds of innovative financing needed by the global infrastructure sector.

OUTSTANDING PEOPLE AND EXCELLENT PROCESSES

With a strategy firmly in place that provides sufficient assets to participate in these opportunities in a meaningful way, the requisite for success in the alternative investment sector, as well as in public market investments and pension services, is excellent people and processes. We have encapsulated our focus on excellence in our five Operating Principles: quality of the balance sheet, the right organizational structure with clear lines of accountability, understanding and meeting our customers' needs, having the right people in the right jobs, and having access to timely and accurate management information.

These principles are the foundation of our ability to deliver on our mandate of pension security and service excellence. They are not a one-time achievement however, they are an ongoing requirement. We work continuously to ensure that we maintain every one of them. The results of 2005 demonstrate the effectiveness of these principles and our strategy.

MEASURING OUR SUCCESS

The confidence we have in our abilities and strategy is reflected by our willingness to be measured by what we achieve against targets and to be compensated accordingly. This approach is even more important when working with an active investment strategy.

Borealis Infrastructure

Borealis Infrastructure nearly doubled its return target in 2005, achieving 23.2 per cent compared with a benchmark of 11.8 per cent. Borealis continued to enhance its reputation as a pre-eminent global investment manager for institutional investments in core infrastructure assets. This will strengthen Borealis' "first mover" advantage, which provides access to the most promising global deals in the rapidly growing infrastructure sector.

In 2005, Borealis increased its commitment to invest in Bruce Power, Ontario's largest independent electricity generator, with a $2.1 billion commitment to restart two reactors and refurbish two others. Other significant accomplishments included closing the more than $600 million investment in Scotia Gas Networks and completing an investment that gives OMERS 30 per cent ownership of Ciel Satellite.

This means we have to be accountable for the decisions we make, and often we must be actively involved in the management of the assets in which we invest to ensure better returns.

ELIMINATING OMERS FUNDING DEFICIT

At the end of 2004, OMERS Basic Plan had an actuarial funding deficit of $963 million. In last year's annual report, we estimated that the deficit would grow to about $2.5 billion by the end of 2005 because of the need to recognize losses incurred during the 2000 to 2002 stock market decline. Virtually all public sector pension plans are facing similar challenges.

In fact, OMERS actuarial deficit increased to $2.8 billion as a result of a couple of items. Firstly, our actuarial liability was impacted by several factors including larger than expected salary increases for plan members and a higher than expected inflationary increase for OMERS retirees. So while our assets grew substantially, these factors caused higher than expected growth in the Plan's liabilities. And secondly, the same actuarial smoothing process that requires that we smooth our losses over five years also applies to our gains. So a portion of the income related to the strong returns of the past few years has been deferred and will be recognized in the Plan's valuation in the future, which we expect will contribute to a decrease in the deficit.

We are confident that our investment strategy and the new contribution rates implemented in January 2006, coupled with the dedicated and innovative efforts of OMERS professionals, will reduce the actuarial deficit and return the plan to fully funded status. In the meantime, we take comfort from the fact that on a market value basis, for the first time since 2001, our assets approximate our liabilities.

Oxford Properties Group

Oxford posted very strong returns in 2005 (26.0 per cent compared to a benchmark of 8.4 per cent) and took major steps towards repositioning its portfolio as a global platform for growth.

Oxford sold a 50 per cent interest in 11 major downtown office buildings to the Canada Pension Plan Investment Board while continuing to act as property manager for these buildings.

To support a key strategic objective of reducing third party management, Oxford brought the property management for three major retail malls and all industrial and multi-family residential properties in house.

Capital investment projects included launching the development of a new 19-storey office tower in Ottawa, and $144 million for leasing and redevelopment initiatives to improve the value of existing assets.

OMERS IS STRONG, PENSIONS ARE SECURE

It is important for all our stakeholders to appreciate that the security of the OMERS Plan and our ability to pay pensions has never been in question during our entire history. The inevitable peaks and valleys of the various markets in which we invest, as well as changing demographics and other factors, mean that OMERS will sometimes record surpluses and sometimes deficits. OMERS remains strong and our current and future pensions remain secure.

In 2005, OMERS continued to reap the benefits from the organizational and strategic changes initiated in 2003. Our strategic priorities over the next few years are to do more of what has brought OMERS success. We will continue to strive for top investment returns, we will continue to implement our asset allocation with the shift to private equity, real estate and infrastructure, we will continue to respond to the needs of our members and employers, and we will continue to develop and improve our organizational capacity and structure to reach these goals.

OMERS is fortunate to have a Board of Directors that both challenges and supports us. On behalf of the senior management team, I thank them for their guidance and counsel and I thank all our employees for their commitment to delivering results for OMERS members, employers and retirees.

Paul G. Haggis
President and Chief Executive Officer

OMERS SENIOR EXECUTIVE MANAGEMENT TEAM

(left to right) **Selma M. Lussenburg**, Senior Vice President, General Counsel and Corporate Secretary, **Paul G. Renaud**, Senior Vice President and CFO, **Paul G. Haggis**, President and CEO, **Debbie Oakley**, Senior Vice President, Corporate Affairs, **Jennifer Brown**, Senior Vice President, Pensions, **Michael Latimer**, President and CEO, Oxford Properties Group, **Paul Pugh**, Senior Vice President, Public Investments, **Michael Nobrega**, President and CEO, Borealis Infrastructure, **Flo Paladino**, Vice President, Human Resources

Board Governance

OMERS ability to fulfill the pension promise for our members and retirees is rooted in our history of effective and transparent pension plan governance. Over the past 43 years, we have continuously sought to achieve the highest standards.

OMERS FOCUS ON EXCELLENCE IN GOVERNANCE

OMERS has a number of policies and practices in place that support our commitment to best governance practices, including the measures listed below.

- A Board education program that includes mandatory corporate director certification from The Directors College, operated in conjunction with The Conference Board of Canada, the DeGroote School of Business and McMaster University, as well as mandatory orientation in board operations and governance.
- Strict auditor independence guidelines that separate the audit and non-audit functions. OMERS external auditor is prohibited from providing other consulting services.
- A Code of Ethics and Professional Conduct, covering areas such as conflict of interest, fiduciary duty, and privacy, that applies to OMERS Board members and staff who are required to affirm their compliance each year.
- An ethics hotline supported by a whistle blowing policy.
- A conflict of interest policy regarding investments. Board members and appropriate staff must sign an annual certificate of compliance and portfolio statement.
- A requirement that members of the Audit Committee meet the standard of financial literacy.
- Transparency and accountability to plan participants through regular meetings with plan participants and stakeholders as well as print and electronic communication. We also regularly publish summaries of Board proceedings regarding the OMERS Plan on the OMERS website.

BOARD MANDATE

OMERS obligation to manage the Plan in the best interests of all Plan members, is set out in the *OMERS Act and Regulation*. The Board has a number of key responsibilities including:

- Administering the pension plan.
- Ensuring appropriate allocation of financial resources.
- Determining investment asset mix and establishing investment policies.
- Monitoring organizational effectiveness and establishing appropriate executive compensation policies.
- Monitoring the Plan's funding status, appointing the Plan actuary and approving actuarial valuations.

BOARD MEMBERSHIP

Structure (2005)

There are 13 positions on the OMERS Board – six member 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. Under the new OMERS Act, which is expected to be proclaimed in 2006, the current OMERS Board will continue as the OMERS Administration Corporation (see page 20 "New Governance Model").

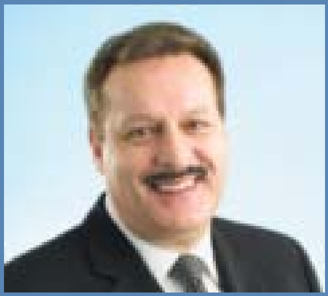
Board Independence

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

OMERS BOARD OF DIRECTORS


Frederick Biro, Chair


David Carrington


Richard Faber


David Kingston, Vice-Chair


Marianne Love


Rick Miller


Ann Mulvale


Michael Power


Peter Routliff


John Sabo


John Weatherup


Cam Weldon

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

MEMBER REPRESENTATIVES

David Carrington
Canadian Union of Public Employees

Richard Faber
Retired Member

David Kingston
York Regional Police

Rick Miller
Ontario Professional Fire Fighters Association

Peter Routliff
International Brotherhood of Electrical Workers

John Weatherup
Canadian Union of Public Employees

EMPLOYER REPRESENTATIVES

Frederick Biro
Peel Police Services Board

Marianne Love
Association of Municipalities of Ontario

Ann Mulvale
Town of Oakville

Michael Power
Municipality of Greenstone

John Sabo
York Catholic District School Board

Cam Weldon
City of Toronto

GOVERNMENT OF ONTARIO REPRESENTATIVE

Vacant

The Board would like to acknowledge the following Directors who served on the Board in 2005:

Dick McIntosh
Retired Member

Brian O'Keefe
Canadian Union of Public Employees

Bill Rayburn
County of Middlesex

The Board also appoints the external auditors, master custodian and actuary, and has access to independent legal advice. The Board has regular *in-camera* meetings without management present.

Board Attendance

Board attendance in 2005 was over 96 per cent.

Board Committees

The Board has five standing committees with the following mandates:

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 and makes recommendations to the Board on plan service quality and standards, pension communications, plan administration policy and Board-mandated plan administrative decisions. May consider and review, as appropriate, OMERS plan design and actuarial matters.

Audit Committee

- Monitors the integrity of OMERS financial reporting processes and system of internal control regarding financial reporting and accounting compliance, assesses the independence and performance of OMERS external auditors and internal audit department.

Human Resources and Compensation Committee

- Reviews human resources strategy, executive compensation and performance, succession planning and non-executive compensation and incentive plans.

Governance Committee

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

NEW GOVERNANCE MODEL

With the passage of the new OMERS Act by the Ontario legislature on February 23, 2006 and its expected proclamation later in the year, the existing Ontario Municipal Employees Retirement Board – the corporate entity that has a fiduciary obligation to administer the OMERS Plan and invest its funds – will continue as the OMERS Administration Corporation. A new body, the Sponsors Corporation, replaces the Ontario government as the Plan's sponsor with authority for plan design, benefit changes and contribution rates.

The commitment to excellence that OMERS has maintained for more than four decades, including our focus on improving governance practices, will not change as a result of the new Act.

Under the new OMERS Act, the Administration Corporation consists of 14 voting members appointed first by the Ontario government (for terms of up to three years) and then by the sponsor organizations (for three-year terms) if vacancies arise during the three-year period following Proclamation. After this three-year transitional period, the composition of the Administration Corporation and the method of choosing its members is determined by a Sponsors Corporation by-law, which must be passed by a two-thirds majority.

The transitional or initial Administration Corporation Board comprises seven employer and seven plan member representatives as follows:

Employer representatives

- Association of Municipalities of Ontario (2 members)
- City of Toronto (1 member)
- School Boards (rotates between public and Catholic Boards) (1 member)
- Ontario Association of Police Services Boards (1 member)
- Other employers (rotates among representatives of other employers) (2 members)

Plan Member representatives

- Canadian Union of Public Employees (Ontario) (2 members)
- Police Association of Ontario (1 member)
- Association of Municipal Managers, Clerks and Treasurers of Ontario (1 member)
- Ontario Professional Fire Fighters Association (1 member)
- Other contributing members (rotates among other unions and associations) (1 member)
- Members receiving or entitled to a pension (rotates among organizations representing these members) (1 member)

Management's Discussion and Analysis

This section is the responsibility of management and contains management's analysis of the Plan's financial condition, operational results and the environment in which it operates as of February 24, 2006. This section should be read in conjunction with the consolidated financial statements. The consolidated financial statements document our significant accounting polices and risk management approach and are integral to our analysis. The Audit Committee and Board of Directors have reviewed and approved the contents of this section.

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

Our overriding goal is to fulfill the pension promise to our current and future retirees. To achieve this goal two overall objectives govern our actions:

(i) generating sufficient returns through the investment of the Fund's assets; and

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

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 364,000 active, former and retired members.

OMERS pension is integrated with the Canada Pension Plan as the OMERS benefit formula includes a bridge benefit paid to age 65. Including this bridge benefit, the benefits paid under the Basic Plan are calculated by multiplying two per cent of the member's average annual earnings for the highest paid five consecutive years, times years of credited service, to a maximum of 35 years. At age 65 the bridge benefit of 0.675 per cent is subtracted for integration with the Canada Pension Plan. 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 ceilings imposed by the *Income Tax Act*. An RCA provides a means to enable retirement savings and contributions on members' total earnings.

OUR INVESTMENT STRATEGY

OMERS investment strategy focuses on investments in asset classes that collectively are designed to meet our pension obligation within the Plan's risk tolerance. OMERS invests in interest bearing investments, public equities, private equities, infrastructure and real estate investments, often in combination with derivative financial instruments. Our strategy over the long term is to reduce our holdings of public equities and interest bearing investments from the current 80 per cent to approximately 60 per cent of the Plan's net investment assets with a corresponding increase in our investments in private equities, infrastructure and real estate from 20 per cent to approximately 40 per cent of net investment assets. We believe that this will bring strong, predictable returns and generate consistent cash flow with reduced risk to meet the pension promise.

Over the long term, investment returns on the Plan's assets are expected to fund 70 cents of every dollar paid in benefits with the balance coming from employee/employer contributions.

FUND PERFORMANCE

OMERS earned a 16.0 per cent total fund rate of return in 2005, compared with a 12.1 per cent total fund rate of return in 2004. After allowing for inflation of 2.2 per cent, the real rate of return was 13.8 per cent, which significantly exceeded our long-term real return funding requirement of 4.25 per cent. Net investment income totaled $5,515 million in 2005, compared with $3,694 million a year earlier.

Net assets grew by $5,410 million, or 15.2 per cent, to $41,065 million in 2005 compared with an increase of $3,562 million or 11.1 per cent last year. The factors driving the increase were the strong net investment income resulting from the strength of the Canadian public equity markets and exceptional returns from real estate, infrastructure and private equity investments.

Investment management expenses were $160 million in 2005, compared to $147 million in 2004. The increase of 8.8 per cent is due to increased salary and benefit costs in managing our public markets, private equity and infrastructure investments. Pension administrative expenses were $36 million for the year, compared with $43 million last year, a decrease of 16.0 per cent. Pension administrative expenses have declined for the third straight year due to the completion of the Membership Services System and cost control efforts throughout the organization.

Performance Overview

We measure the performance of each of our investment asset classes against an objective benchmark that acts as the proxy for each market. We develop a benchmark for the total fund by aggregating and weighting the individual benchmarks proportionately with our asset mix policy. Our benchmarks are reviewed and approved by the Board. Our goal is to earn returns that exceed these benchmarks. For the year ended December 31, 2005, the total fund return of 16.0 per cent exceeded the total fund benchmark of 13.2 per cent by 280 basis points (a basis point is one hundredth of a per cent). When we exceed the benchmark, our investment managers are adding value to the portfolio above the targeted return for the asset class or the return generated by the markets through passive investments.

Public markets generated net investment income of $4,036 million compared with $2,928 million a year earlier. Public market investment returns were 12.6 per cent compared with a benchmark of 12.5 per cent and a return of 10.3 per cent in 2004. The increase is attributable to significantly higher returns in Canadian public equity markets in 2005 when OMERS Canadian public equities returned 23.6 per cent compared with 14.2 per cent in 2004.

Interest bearing investments, excluding real return bonds, produced income before investment management expenses of $594 million, an increase of $26 million or 4.6 per cent compared with 2004. The return for interest bearing investments, excluding real return bonds was 7.0 per cent compared with 6.3 per cent for the benchmark and 7.5 per cent a year earlier. The gain of 70 basis points over the benchmark is primarily due to the successful anticipation of changes in interest rates and a greater percentage of higher yielding instruments such as mortgages and private debt. Real return bonds produced $201 million in income and had solid returns of 15.2 per cent, consistent with the benchmark of 15.2 per cent; however, below the 17.6 per cent return in 2004 due to a smaller decline in real interest rates in 2005 compared to 2004.

Public equity investments generated income before investment management expenses of $3,322 million, $1,900 million from the Canadian market and $1,422 million from global markets. Canadian public equities valued at $8,466 million plus Canadian equity derivative exposure earned a return of 23.6 per cent for the year, compared with a benchmark return of 24.2 per cent and a 14.2 per cent return in 2004. Non-Canadian public equities valued at $9,530 million and non-Canadian equity derivative exposure earned a return of 11.8 per cent in 2005, compared with 11.2 per cent for the benchmark and an 11.5 per cent return in 2004. Although mitigated by our currency-hedging program, the non-Canadian public equity return was reduced after conversion into Canadian dollars as the Canadian dollar strengthened against major currencies during 2005.

Private equity investments generated net investment income of $385 million, compared with $104 million last year. The 2005 return on total private equity investment income was 23.2 per cent compared with 7.6 per cent for the benchmark and a 12.5 per cent return in 2004. The increased return and income is due to strong market value appreciation on several investments as the portfolio of investments continues to improve its financial performance as the businesses mature.

Infrastructure investments generated net investment income of $395 million, compared with $292 million a year earlier. The 2005 return was 23.2 per cent, compared with 11.8 per cent for the benchmark and a 31.0 per cent return in 2004. The increase in net investment income and a return in excess of the benchmark is due to higher than expected earnings in the energy sector.

Real estate generated net investment income of $791 million, including operating income of $440 million after interest expense. This compared with net investment income of $436 million a year earlier on operating income of $445 million after interest expense. The real estate portfolio is partially funded by $2,168 million in mortgages and other debt, which resulted in an interest expense of $124 million in 2005. Based on total investment income of $793 million before investment management expenses, the return for the real estate portfolio was 26.0 per cent in 2005, compared with a 2005 benchmark return of 8.4 per cent and an 11.0 per cent return in 2004. The increase in income and returns compared with the prior year is a result of strong rental operating income plus favourable market value appreciation in the year. Part of the market value appreciation was realized in 2005 from the sale of a number of real estate properties, with the majority from the sale of a 50 per cent interest in 11 properties to Canada Pension Plan Investment Board in June 2005 for an amount in excess of $1,000 million.

Returns and Benchmarks

	2005		2004	
	Rate of Return	**Benchmark**	Rate of Return	Benchmark
Interest bearing	**7.0%**	**6.3%**	7.5%	6.8%
Real return bonds	**15.2%**	**15.2%**	17.6%	17.5%
Canadian public equities	**23.6%**	**24.2%**	14.2%	14.4%
Non-Canadian public equities (i)	**11.8%**	**11.2%**	11.5%	10.7%
Private equity (i)	**23.2%**	**7.6%**	12.5%	1.8%
Infrastructure (i)	**23.2%**	**11.8%**	31.0%	1.8%
Real estate	**26.0%**	**8.4%**	11.0%	7.2%
Total Fund	**16.0%**	**13.2%**	12.1%	9.9%

(i) Returns for non-Canadian public equities, private equity and infrastructure include the results of OMERS currency hedging program related to the respective asset classes.

Long-Term Returns

OMERS annualized four-year return (a standard measure in the pension fund industry) was 8.0 per cent, well above the 6.8 per cent four-year funding requirement. Over a longer horizon, our 10-year return to the end of 2005 was 9.3 per cent, compared with 6.3 per cent for the funding requirement. Since first implementing an active investment policy in 1974, the Fund has a 10.4 per cent compounded annual return, compared with a funding requirement of 8.6 per cent.

OUR PLAN'S FUNDING STATUS

Each year an independent actuary determines the Plan's funding status by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. On December 31, 2005, the estimated actuarial accrued pension obligation for all members including survivors (excluding the net liabilities of the Full Earnings Plan) was $41,123 million, compared with $37,774 million a year earlier. OMERS Basic Plan had an actuarial value of net assets of $38,339 million in 2005, compared with $36,811 million in the prior year, resulting in a funding deficit of $2,784 million as at December 31, 2005, compared with $963 million as at December 31, 2004.

The Full Earnings Plan had an estimated funding deficit of $138 million as at December 31, 2005, compared with a deficit of $137 million last year.

CHANGES IN (DEFICIT)/SURPLUS

(Millions)	2005	2004
Basic Plan		
(Deficit)/surplus, beginning of year	$ (963)	$ 509
Increase in net assets available for benefits	5,403	3,556
Change in actuarial valuation adjustment	(3,875)	(2,720)
Increase in actuarial value of net assets available for benefits	1,528	836
Less: increase in accrued pension benefits	(3,349)	(2,308)
Deficit, end of year	$ (2,784)	$ (963)
Full Earnings Plan		
Deficit, beginning of year	$ (137)	$ (63)
Increase in net assets	7	6
Less: increase in accrued pension benefits	(8)	(80)
Deficit, end of year	$ (138)	$ (137)

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

- The implementation of $2,200 million of pension benefit improvements between 1998 and 2000, including guaranteed inflation protection of up to 6.0 per cent per year, improved spousal benefits and a change to the CPP offset formula.
- A federal government mandated full contribution holiday for employers and plan members that began in August 1998 and lasted until December 2002, which resulted in more than $5,300 million in contributions that would normally have been made during this period not flowing into the Plan and not being available for investment.
- A significant decline in equity markets that resulted in OMERS recording negative returns in 2001 and 2002.
- Actuarial smoothing of higher investment returns in the last three years as compared to the long-term return assumption.

Current Year Change in Deficit

Although investment returns have exceeded the funding requirement in both 2004 and 2005, the actuarial deficit in the Basic Plan, as predicted, also increased. The increase in the actuarial deficit is due to a $3,349 million increase in the actuarial liability and to the recognition of losses that had been deferred and amortized in the actuarial valuation adjustment reserve as a result of returns below the long-term actuarial rate of return assumptions in 2001 and 2002, partially offset by the recognition of gains above the long-term actuarial rate of return assumption in 2003, 2004 and 2005.

The estimated present value of accrued liabilities for the Basic Plan at year-end 2005 was $41,123 million, an 8.9 per cent increase from $37,774 million in 2004 due to interest on accrued benefits, additional pension benefits earned by plan members and experience losses, which included larger than expected salary increases for plan members and a higher than expected inflationary increase for OMERS retirees.

In arriving at the actuarial deficit, changes in the fair value of net assets above or below the long-term actuarial rate of return assumption are deferred and amortized over five years to "smooth out" the peaks and valleys in an individual year's investment returns caused by market volatility. 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 annual actuarial valuation 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 in 2005) 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 its 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 above the long-term actuarial rate of return assumption from 2003 to 2005 as public equity markets, particularly in Canada, performed well. OMERS also achieved strong results across its private investments over this period. As a result, as at December 31, 2005, the actuarial valuation adjustment account now represents unrecognized net gains of $2,707 compared with unrecognized net losses of $1,168 million in 2004. The last of the actuarial losses related to the 2000 to 2002 market downturn will be recognized in 2006 through the actuarial smoothing process. On a market value basis, excluding smoothing adjustments, the net assets of the Basic Plan approximate the accrued benefit obligation for the first time since 2001.

Funding Outlook

Upon filing an actuarial valuation report, which is required at least once every three years under Ontario provincial regulations, a Plan must take measures to eliminate a funding deficit over a period not to exceed 15 years, typically through increased contributions or a change in the benefits offered. Based on the December 31, 2004 actuarial valuation, which showed a funding deficit of $963 million, the Board implemented an increase to contribution rates which averages 0.6 per cent of a member's salary for both employers and members beginning on January 1, 2006. This is equivalent to a 9.0 per cent increase in the amount of contributions.

The 2005 contribution rate for OMERS members with a normal retirement age of 65 was 6.0 per cent of salary up to $41,100 and 8.8 per cent for salary above that level. For police officers and fire fighters, who have a normal retirement age of 60 and represent about 12 per cent of OMERS members, the 2005 rate for salary up to $41,100 was 7.3 per cent and 9.8 per cent for earnings above that level.

As a result of the contribution increase, the 2006 contribution rate for OMERS members with a normal retirement age of 65 will be 6.5 per cent of salary up to $42,100 and 9.6 per cent for salary above that level. For police officers and fire fighters, the 2006 contribution rate for salary up to $42,100 will be 7.9 per cent and 10.7 per cent for earnings above that level. Based on increased contribution rates and other factors, we anticipate contributions to the Plan will increase by approximately $200 million in 2006.

Actuarial Assumptions

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 included in the valuation as at December 31, 2005, which were approved by the Board, are summarized as follows:

- First, the Plan's annual nominal rate of return and discount rate for future years is assumed to be 7.00 per cent, down from 7.25 per cent in the 2004 valuation. This includes an assumption on annual inflation of 2.75 per cent, which is down from 3.00 per cent in 2004 and a real investment return assumption based on OMERS asset mix of 4.25 per cent, unchanged from the 2004 valuation.
- Second, it is assumed that members' earnings will increase annually by approximately 4.25 per cent, down from 4.50 per cent in the 2004 valuation. 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 $149 million in 2004 to $157 million at the end of 2005.

Pension Benefits and Contributions

OMERS ended 2005 with approximately 99,000 retired members and survivors receiving pension benefits. Benefits paid in 2005 were $1,603 million, an increase of $105 million over 2004. The increase reflected new retirements, the adjustment of benefits for inflation and an increase in termination refunds. Contributions for 2005 were $1,534 million compared with $1,409 million in 2004. The increase reflects an increase in the number of active members and an increase in member salaries.

OUR ASSET MIX POLICY

In order to meet 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.

Our investment strategy over the long term is to reduce the percentage of the Fund exposed to public equities and interest bearing investments while increasing investments in private markets, particularly infrastructure and private equity. 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. This asset mix policy is supported by sophisticated investment strategies, such as absolute return strategies, foreign currency management and derivatives.

ASSET MIX

	2005	2004	Long-Term Target
Public Markets			
Interest bearing	**18.9%**	19.4%	15.0%
Real return bonds	**4.0%**	3.5%	5.0%
Public equity	**57.3%**	58.7%	42.5%
	80.2%	81.6%	62.5%
Private Markets			
Private equity	**6.0%**	4.1%	10.0%
Infrastructure	**5.7%**	3.5%	15.0%
Real estate	**8.1%**	10.8%	12.5%
	19.8%	18.4%	37.5%

In 2005, we continued to make progress towards our long-term asset mix targets as we increased the market value of our net investment assets with exposure to private equity and infrastructure by $2,118 million, a 77 per cent increase over 2004. However, due to strong public equity markets and the sale of certain real estate investments, the increase in our exposure to private markets is expected to take longer than originally anticipated.

In determining OMERS asset mix exposure, the market value of cash and other investment-related assets and liabilities included in net investment assets per the consolidated financial statements are allocated to the individual asset classes. In addition, to reflect asset class responsibility, derivative exposure and other items are allocated to arrive at OMERS ultimate exposure by asset class. Net investment assets, based on the holdings per the consolidated financial statements and after all allocations, are as follows:

	December 31, 2005			December 31, 2004		
		Asset Mix			Asset Mix	
(Millions)	**Holdings**	**Exposure**	**%**	Holdings	Exposure	%
Public Markets						
Interest bearing	**$ 19,682**	**$ 7,836**	**18.9%**	$ 13,809	$ 6,990	19.4%
Real return bonds	**1,660**	**1,664**	**4.0%**	1,266	1,266	3.5%
Total interest bearing	**21,342**	**9,500**	**22.9%**	15,075	8,256	22.9%
Public equity	**17,996**	**23,865**	**57.3%**	15,208	21,255	58.7%
	39,338	**33,365**	**80.2%**	30,283	29,511	81.6%
Private Markets						
Private equity	**2,389**	**2,497**	**6.0%**	1,460	1,484	4.1%
Infrastructure	**3,679**	**2,388**	**5.7%**	2,314	1,283	3.5%
Real estate	**6,180**	**3,371**	**8.1%**	6,898	3,904	10.8%
	12,248	**8,256**	**19.8%**	10,672	6,671	18.4%
Investment related assets	**807**	**–**	**–**	494	–	–
Investment related liabilities	**(10,772)**	**–**	**–**	(5,267)	–	–
Net Investment Assets	**$ 41,621**	**$ 41,621**	**100.0%**	$ 36,182	$ 36,182	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. Our policy of regular rebalancing is part of our risk management process 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. These investments are often made in combination with a variety of derivative financial instruments.

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, 2005, total interest bearing investments held were $21,342 million. Of this total, $7,836 million was invested with exposure to bonds and debentures, mortgages, private debt and money market and other short-term investments, $1,664 million was invested with exposure to real return bonds, $5,481 million was backing assets for derivatives programs that provide exposure to public equity markets and $6,361 million related to securities lending cash collateral and amounts allocated to other asset categories.

As at December 31, 2005, 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 17 per cent of mortgages 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 7.9 per cent, including capital gains, due in part to the declining interest rate environment.

Public Equities

OMERS $8,466 million invested in Canadian public equities and $9,530 million in non-Canadian public equities included both actively managed and non-derivative quantitatively managed portfolios. Exposure to public equities included $5,597 million of exposure through the market value of derivatives and assets backing derivatives and the allocation of $272 million of cash and short-term investments and investment related assets and liabilities.

Actively Managed Equity Portfolios

The actively managed Canadian equity portfolio totaled $7,107 million in 2005 compared with $5,769 million in 2004 and contained approximately 220 publicly traded companies.

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.

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 $7,970 million invested in the equities of companies in the United States, United Kingdom, Europe, the Far East and emerging markets as follows:

	December 31, 2005		December 31, 2004	
(Millions)	Holdings	(%)	Holdings	(%)
United States	$ 3,032	38%	$ 2,622	38%
Europe	1,869	24%	1,616	23%
Far East	1,391	17%	1,199	17%
United Kingdom	791	10%	783	11%
Emerging Markets	887	11%	738	11%
	$ 7,970	100%	$ 6,958	100%

Participation in various global economies increases our portfolio diversification and lowers overall risk.

Our non-Canadian equity portfolios are actively managed by 12 external investment firms that specialize in regional and national markets. Such a global mandate enables managers to make larger allocations by country, sector or capitalization where they believe higher returns are possible. During the year, the net increase in funding to external investment firms was $400 million.

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:

Canadian Equity
- $1,359 million in managed portfolios that target the S&P/TSX Composite, the S&P/TSX 60 and other indices;
- $1,217 million in derivative portfolios that provide exposure to the S&P/TSX Composite, the S&P/TSX 60 index and other indices.

Non-Canadian Equity
- $1,560 million in managed portfolios that target the Russell 1000 index and the S&P 500 index;
- $2,264 million in derivative portfolios that provide exposure to the S&P 500 index;
- Various derivative portfolios totaling $2,116 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 19.8 per cent of total investments in 2005 and we are progressing toward a target exposure of approximately 37.5 per cent over the long term. These investments appeal to OMERS because history shows that they generate higher long-term returns than public equity portfolios over time.

Private Equity

Private equity is the ownership of equity or equity-like securities in companies that do not generally trade publicly.

Our private equity investment strategy takes two forms. One involves investing as a limited partner in funds managed by external specialists around the world 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 are generally in excess of $50 million and as a co-investor generally approximate $25 million. Fund investments are an efficient means for OMERS to diversify its investment portfolio geographically (particularly outside Canada), by industry segment and by type of investment (buyouts, venture capital and mezzanine).

Our second private equity strategy involves direct investments either on our own or with other like-minded 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. Our focus for direct investments is mainly investments in Canada and the United States.

At December 31, 2005, $2,389 million was invested in private equity, with 50 per cent managed by 47 external fund managers in Canada, the United States, Western Europe and Asia. The remaining 50 per cent was directly invested in companies. Private equity exposure represented 6.0 per cent of net investment assets at year-end.

During 2005 private equity investments increased from $1,460 million to $2,389 million due to increased investments in both funds and direct investments. For funds, additional investments for both existing relationships and new commitments during the year totaled $550 million. In addition, on December 30, 2005, we sold and assigned our general partnership interests in and management of, the Borealis Private Equity Limited Partnership and the Borealis (QLP) Private Equity Limited Partnership to avoid any perception of a conflict of interest between the interests of making private equity investments directly versus through the general partner. We have maintained our limited partner interest in this investment. In 2005 we made several new direct investments, the most significant of which was CEDA Holdings, a leading industrial, mechanical and electrical services company, which is well established in the Alberta oil sands.

Our goal over the long term is to build a portfolio of private equity investments diversified by geographic market, economic sector and types of companies that will represent approximately 10 per cent of our asset mix.

Infrastructure

Infrastructure investing involves direct investments in inflation sensitive assets that are critical to the long-term success of a modern industrial economy. Some infrastructure investments are subject to regulatory establishment of rates, service delivery levels or both. Individual investments generally require capital commitments for a minimum of 15 to 20 years and typically generate consistent annual cash flows; a perfect fit in meeting our long-term pension obligations.

Through Borealis Infrastructure, OMERS has become an investor of choice in the infrastructure sector. Our assets include majority or minority positions alongside other pension, corporate and government investors. At December 31, 2005, we had invested $3,679 million in infrastructure, an increase of $1,365 million over the prior year. We increased our asset mix exposure to infrastructure in 2005 from 3.5 per cent to 5.7 per cent and we are making progress toward our long-term goal of 15 per cent.

Our largest investment, representing approximately 35 per cent of our infrastructure portfolio, is our limited partnership interest in the Bruce Power nuclear facilities. With six operational nuclear reactors, Bruce Power currently supplies approximately 20 per cent of Ontario's electricity. In October 2005, an agreement was reached with the Ontario Power Authority to restart two currently idle reactors and refurbish two of the six operating reactors at Bruce Power. OMERS has committed to provide funding of approximately $2,125 million from 2005 to 2011 to the restart and refurbishment program. As a result of this program, Bruce Power is expected to supply approximately 25 per cent of Ontario's electricity by 2011.

In June 2005, we also completed the purchase of a 25 per cent interest in the Scotland and the South of England gas distribution networks from National Grid Transco plc as part of a consortium with Ontario Teachers' Pension Plan and Scottish and Southern Electric. OMERS invested approximately $628 million (£270 million) in this asset. The combined Scotland and South of England network comprises approximately 73,000 kilometres of gas lines serving approximately 5.6 million customers.

Other significant investments include:

- a 30 per cent interest in CIEL Satellite, which was acquired this year and will offer wholesale satellite capacity to the North American market;
- a 33 per cent interest in a pipeline system that exports crude oil from Alberta to the United States and serves refineries in six western and midwestern states;
- a 34 per cent interest in Confederation Bridge linking Prince Edward Island and New Brunswick under a concession agreement with the federal government until 2032;

- a 50 per cent ownership interest in the Detroit River Tunnel Partnership. The Detroit River Tunnel is used by over 425,000 railcars annually making it one of the largest trade corridors in the world;
- a 57 per cent interest in Enwave Energy Corporation, which owns the largest deep lake water cooling service in the world and provides environmentally friendly heat and air conditioning to Toronto's downtown office core.

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 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, well managed real estate generally appreciates in value over time in step with inflation, which offsets the inflation exposure of our pension liabilities. Today Oxford is one of North America's largest commercial real estate investment companies, overseeing and managing $12 billion of real estate for itself and on behalf of its co-owners.

In June 2005 Oxford took a major step in its strategy to reposition its real estate portfolio for increased growth with the sale of a 50 per cent interest in 11 core office assets to Canada Pension Plan Investment Board for proceeds in excess of $1,000 million. Under the terms of the agreement, Oxford will continue to manage the properties on behalf of the co-owners.

As a result of this and other sales and offset by market value appreciation, Oxford's real estate assets were $6,180 million at December 31, 2005, a decrease of $718 million from 2004. The real estate portfolio is financed with $2,168 million of long-term debt.

At December 31, 2005, our direct portfolio consisted of 81 properties primarily in Canada with a total leaseable area of 44.2 million square feet and 2,380 residential units. The portfolio composition is as follows:

	Number of Properties	Percentage of Portfolio Based on Market Value
Office	52	55%
Retail	13	36%
Industrial	7	4%
Residential	6	4%
Land held for development	3	1%
	81	100%

Oxford's office portfolio is diversified geographically in Canada across seven major urban markets. The largest concentration is in Toronto (representing approximately 56 per cent of the market value of the office portfolio) with investments in a number of properties, the most significant of which are BCE Place-Canada Trust Tower, Royal Bank Plaza, Metro Centre and the Richmond-Adelaide Centre. The other major urban centres are Calgary, Vancouver, Edmonton, Winnipeg, Ottawa and Montreal.

The retail portfolio comprises 13 properties, primarily super regional and regional shopping centres, totaling 13.4 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.

Oxford also manages a portfolio of private and public real estate securities and funds that were valued at $274 million at December 31, 2005, a slight decrease from 2004 after accounting for sales and market value appreciation.

As a result of repositioning the real estate portfolio for growth, our exposure to real estate was 8.1 per cent at December 31, 2005 compared with 10.8 per cent in 2004. OMERS, through Oxford, remains committed to active management of a real estate portfolio that has a long-term asset allocation target of 12.5 per cent. Over the next several years we expect that Oxford will execute a broad range of new investment opportunities in Canada and internationally that will allow OMERS to achieve a long-term target exposure to real estate that is in keeping with Oxford's goal of ownership and management of large-scale assets, diversified by property type and geographic market, to achieve superior risk-adjusted returns.

Investment-Related Debt

OMERS has maintained a triple "A" credit rating from leading credit rating agencies. This has enabled us, where appropriate, to obtain debt financing at preferred rates to support our investment strategy. Utilizing this excellent credit rating and relying on the credit capacity of its underlying subsidiaries, OMERS has taken on debt in order to provide stable, low-cost financing for our real estate assets in the infrastructure and real estate portfolios. Debt outstanding through OMERS real estate operations included $1,047 million of debentures, $298 million of commercial paper, as well as $823 million in secured and unsecured debt. In addition, our infrastructure portfolio was financed with $1,397 million in secured and unsecured debt.

OTHER INVESTMENT STRATEGIES

To better manage risk and enhance returns for the total fund, we enter into a variety of derivative contracts. These contracts are used in combination with other investment assets and are a cost-efficient means to improve returns by mitigating uncompensated risks and to add flexibility to the asset mix. We held derivatives with a notional value of $19,632 million at December 31, 2005.

We use 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, 2005, $15,788 million or 38 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 $639 million in 2005, an increase of $359 million from 2004, as the appreciation of the Canadian dollar against the U.S. dollar and other currencies continued in 2005 and for currencies other than the U.S. dollar the increase was generally greater in 2005 compared with 2004.

We use 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 we are required to pay on the swap agreement.

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 December 31, 2005, the credit risk exposure was 0.5 per cent, or $212 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 and its 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.

During 2005 the 30 per cent limit on foreign property held by pension funds was eliminated. This allows OMERS the flexibility of adding value by participating to a greater extent in investment opportunities outside Canada.

On February 23, 2006, the Ontario legislature passed Bill 206 *(An Act to revise the Ontario Municipal Employees Retirement System Act)*, which establishes a new independent governance model for OMERS. The legislation will take effect upon Proclamation, which is expected later this year. Under the legislation, a newly formed Sponsors Corporation composed of representatives of members and employers replaces the Government of Ontario as plan sponsor and will be responsible for all decisions on plan design and for setting contribution rates. The OMERS Board will be continued as the OMERS Administration Corporation, responsible for pension administration and investments. The new governance model puts OMERS in a position similar to other major public sector pension plans in Ontario.

Corporate Governance

OMERS strives to be a leader in terms of our internal governance practices. We expect the same of the companies in which we invest.

OMERS beneficially owns shares valued at nearly $18 billion in publicly traded companies around the world. OMERS believes that companies that have strong corporate governance are generally more capable of creating value for shareholders. We prefer to invest in companies governed by directors who understand that the best interests of the shareholders are met by effectively managed corporations where management has a well thought out strategy for expanding the business, running it efficiently and achieving long-term profitability.

The most important tool we have for influencing policy among investee companies is exercising our ownership rights through our proxy votes. OMERS votes proxies diligently in accordance with specific guidelines that we believe will optimize the long-term value of our 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.

OMERS is also a member of the Canadian Coalition for Good Governance whose purpose is to represent Canadian institutional shareholders through the promotion of best corporate governance practices and to align the interests of boards and management with those of the shareholder.

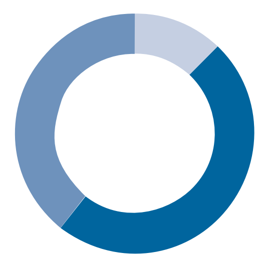
The *Proxy Voting Guidelines* and our voting record on major proposals for Canadian companies can be found on our web site, www.omers.com.

OUR KEY PROXY VOTING PRINCIPLES

OMERS *Proxy Voting Guidelines* are based on a number of key principles, including:

- Proper sharing of the rewards of the enterprise between stakeholders is essential to long-term prosperity and the generation of long-term value.
- Stakeholders involved in the corporate governance process accept their respective roles with a sense of fairness.
- A corporation that does not respond to public concerns or reasonable shareholder requests will eventually suffer in terms of its economic and capital market performance.
- Ownership rights should not be subordinated. Minority shareholders should not be treated differently from controlling shareholders.
- The proxy vote is an important asset of a pension fund. Fiduciaries are obligated to exercise their ownership rights by voting proxies diligently in order to optimize the long-term value of their investments.
- Effective management of the risks associated with social, environmental and ethical matters can lead to long-term financial benefits for the companies concerned and shareholders have a right to know about the activities of their companies.
- All fiduciary votes at board and shareholders' meetings should be confidential and tallied by an independent auditor as appropriate.
- Prompt disclosure of the results of votes at annual meetings is an important governance practice.

PROXY VOTING RECORD



CANADA	2,127
UNITED STATES	8,638
NON-NORTH AMERICAN	6,937
TOTAL	17,702

PROXY VOTES IN 2005

During 2005, OMERS voted a total of 17,702 ballots covering 2,242 shareholder meetings globally. In Canada, OMERS cast 2,127 ballots in 298 shareholder meetings. Outside of Canada, OMERS cast 15,575 ballots in 1,944 shareholder meetings.

Actuarial Opinion for the Ontario Municipal Employees Retirement Board

As at December 31, 2005

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, 2005 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purpose of the valuation was to fairly present the funded status of the Basic Plan as at December 31, 2005, for inclusion in this Annual Report in accordance with Section 4100 of the Canadian Institute of Chartered Accountants Handbook.

The results of the actuarial valuation of the Basic Plan disclosed total going concern Actuarial Liabilities of $41,123 million in respect of benefits accrued for service to December 31, 2005. The Actuarial Assets at that date were $38,339 million, indicating a going concern Actuarial Deficit of $2,784 million. Ongoing adequacy of the current contribution rates will need to be monitored to ensure that future contributions, together with the Basic Plan assets and future investment earnings thereon, will be sufficient to provide for all future benefits.

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 liability in respect of the full earnings pension benefits accrued for service to December 31, 2005 (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% refundable tax under the RCA), net of the RCA assets, was $138 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, 2005 was conducted using membership data as at December 31, 2004 and financial information as at December 31, 2005 supplied by the Board. The December 31, 2004 membership was adjusted for the following:

- membership movements to December 2, 2005,
- actual inflationary increases to pensions in payment and deferred pension payments effective January 1, 2006, and
- the estimated increase in earnings for 2005.

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 purpose of the valuation;
- the assumptions adopted are, in aggregate, appropriate for the purpose of the valuation; and
- the methods employed in the valuation are appropriate for the purpose 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, 2006

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, Internal Audit which reports directly to the Audit Committee, reviews OMERS system of internal control to ensure these controls are appropriate and operating effectively.

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 deficit of actuarial value of net assets over actuarial liabilities 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 use 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 deficit of actuarial value of net assets over 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, 2006

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 deficit of the Ontario Municipal Employees Retirement Fund (the Fund) as at December 31, 2005 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 deficit of actuarial value of net assets over actuarial liabilities of the Fund as at December 31, 2005 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, 2006

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF NET ASSETS

(Millions) As at December 31,	2005	2004
Assets		
Investments (note 3)	**$ 51,586**	$ 40,955
Amounts due from pending trades	**258**	228
Other assets (note 5)	**705**	408
Total Assets	**52,549**	41,591
Liabilities		
Investment liabilities (note 6)	**10,645**	5,048
Due to administered pension funds	**639**	553
Amounts payable from pending trades	**127**	219
Other liabilities	**73**	116
Total Liabilities	**11,484**	5,936
Net Assets	**$ 41,065**	$ 35,655

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,	2005	2004
Changes Due to Investment Activities		
Net investment income (note 9)	$ 5,515	$ 3,694
Changes Due to Pension Activities		
Contributions (note 11)	1,534	1,409
Benefits (note 12)	(1,603)	(1,498)
Pension administrative expenses (note 13)	(36)	(43)
	(105)	(132)
Total Increase	5,410	3,562
Net assets at beginning of year	35,655	32,093
Net Assets at End of Year	$ 41,065	$ 35,655

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 DEFICIT

(Millions)

As at December 31,	2005	2004
Basic Plan (note 7)		
Actuarial liabilities	$ 41,123	$ 37,774
Actuarial value adjustment of net assets	2,707	(1,168)
Deficit	(2,784)	(963)
Net Assets in Basic Plan	41,046	35,643
Retirement Compensation Arrangement (note 8)		
Actuarial liabilities	157	149
Deficit	(138)	(137)
Net Assets in Retirement Compensation Arrangement	19	12
Net Assets	$ 41,065	$ 35,655

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

Notes to Consolidated Financial Statements

NOTE 1 – DESCRIPTION OF THE PLAN

The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan established 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 fire fighters, 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 consecutive months of 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 benefits 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 benefits from OMERS.

e) **Escalation of Pensions** – Pensions 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) **Disability Pensions** – A disability pension is available at any age to a member who becomes totally disabled as defined by the Plan. The 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 consistent with a standard pension. Disability pensions continue until normal retirement or until the member is able to return to work.

g) **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.

h) **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*. 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 in accordance with Canadian generally accepted accounting principles 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 figures have been restated to conform to the current year's presentation.

Consolidation

The consolidated financial statements are stated at fair value and include the assets, liabilities and operating results for all investment entities where OMERS has effective control. For investment entities where OMERS has joint ownership and control, a proportionate share of the fair value of assets, liabilities and operating results is included in the consolidated financial statements. Entities over which OMERS has significant influence are accounted for using the equity basis of accounting, stated at fair value.

Inter-company 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 deficit. Actual results could differ from these estimates. Significant estimates included in the consolidated financial statements relate to the valuation of private market investments and the determination of the actuarial liabilities.

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 significant 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. Unrealized appreciation/depreciation in the fair value of investments is the change in fair value adjusted for cash flows during the year 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) Bonds and debentures, real return bonds 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 for comparable securities, independent asset appraisals, and financial analysis.

iii) Private markets investments include investments in private equity, infrastructure and real estate assets either held directly or as a limited partner. 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 arm's length third party 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 a specific and objectively verifiable reason to change the value, supported by an appraisal or valuation.

The fair value of private markets investments acquired within the current fiscal year is equal to cost, unless there is a specific and objectively verifiable reason to change the value, supported by an appraisal.

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 to change the value.

iv) Derivatives, including swap, futures, option and forward contracts, are recorded at fair value with unrealized gains and losses included in net investment income. Fair values are determined using 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; operating income/loss from consolidated and equity accounted investment entities 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 using the equity method and the investment is adjusted to its fair value. For private investments where OMERS is not able to exercise control or 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. Investment liabilities also include OMERS liability to return cash collateral received in securities lending transactions. 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, which 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 receivable, accounts receivable from the operations of the Plan, accrued income, infrastructure and real estate operational accounts receivable.

Due to Administered Pension Funds

Under contractual agreements, OMERS administers funds 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. OMERS is authorized under the terms of the various agreements to recover its expenses for administering investments for the aforementioned plans.

The amount due to administered pension funds is credited with income based upon their proportionate share of OMERS investment income and the balance reflects the administered plans' proportionate share of the investments of the Fund.

Other Liabilities

Other liabilities include amounts received in prior years 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 in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the Board for the purpose of establishing the long-term funding requirements of OMERS. The actuarial valuation included in the consolidated financial statements is consistent with the valuation for funding purposes.

Actuarial Value of Net Assets and Actuarial Value Adjustment

The actuarial value of net assets has been determined by amortizing returns above or below the actuarial long-term rate of return assumption over a five-year period. The fair value of net assets is adjusted by the unamortized actuarial value adjustment to arrive at the actuarial value of net assets.

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 at the first of each month. 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:

	2005		2004	
(Millions)	Fair Value	Cost	Fair Value	Cost
Public Market Investments				
Interest Bearing Investments				
Cash and short-term deposits	$ 11,696	$ 11,696	$ 6,411	$ 6,411
Bonds and debentures (i)	6,417	6,225	5,836	5,625
Real return bonds	1,660	1,265	1,266	1,028
Mortgages and private debt (ii)	1,569	1,494	1,562	1,472
	21,342	20,680	15,075	14,536
Public Equity				
Canadian public equities	8,466	5,471	6,638	4,202
Non-Canadian public equities	9,530	8,312	8,570	7,603
	17,996	13,783	15,208	11,805
Total Public Market Investments	39,338	34,463	30,283	26,341
Private Equity				
Canadian private equities (iii)	1,141	980	611	610
Non-Canadian private equities	1,248	1,272	849	928
	2,389	2,252	1,460	1,538
Infrastructure Investments	3,679	3,435	2,314	2,332
Real Estate Investments	6,180	5,920	6,898	7,077
Total Investments	51,586	46,070	40,955	37,288
Investment Related Assets				
Amounts due from pending trades	258	47	228	34
Other investment assets (note 5)	549	533	266	219
	807	580	494	253
Investment Related Liabilities				
Investment liabilities (note 6)	(10,645)	(10,462)	(5,048)	(4,915)
Amounts payable from pending trades	(127)	(50)	(219)	(1)
	(10,772)	(10,512)	(5,267)	(4,916)
Net Investment Assets	$ 41,621	$ 36,138	$ 36,182	$ 32,625

(i) Includes non-Canadian bonds and debentures with a fair value of $194 million (2004 – $nil).

(ii) Includes mortgages with a fair value of $1,072 million (2004 – $1,142 million).

(iii) Includes resource properties with a fair value of $271 million (2004 – $134 million).

OMERS participates in a securities lending program under which 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, 2005, securities with an estimated fair value of $6,589 million (2004 – $2,162 million) were loaned out, while collateral held had an estimated fair value of $6,787 million (2004 – $2,267 million) of which $6,344 million (2004 – $1,250 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:

	2005 Aggregate			2004 Aggregate		
(Millions)	**Number of Investments**	**Fair Value**	**Cost**	Number of Investments	Fair Value	Cost
Public market investments	**2**	**$ 849**	**$ 694**	2	$ 693	$ 678
Private market investments	**4**	**2,928**	**2,355**	4	2,008	1,837
	6	**$ 3,777**	**$ 3,049**	6	$ 2,701	$ 2,515

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 and equity securities of Manulife Financial Corporation. 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, an ownership interest in the Scotia Gas Networks PLC and a real estate ownership interest in Yorkdale Shopping Centre located in Ontario.

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

	Public Markets					
(Millions) As at December 31, 2005	**Interest Bearing**	**Public Equity**	**Private Equity**	**Infra-structure**	**Real Estate**	**Total**
Investment assets	**$ 21,342**	**$ 17,996**	**$ 2,389**	**$ 3,679**	**$ 6,180**	**$ 51,586**
Allocation of cash and other	**(4,709)**	**4,230**	**69**	**240**	**170**	**–**
Investment related assets	**81**	**280**	**105**	**243**	**98**	**807**
Investment related liabilities	**(6,354)**	**(129)**	**(51)**	**(1,772)**	**(2,466)**	**(10,772)**
Net investment assets	**$ 10,360**	**$ 22,377**	**$ 2,512**	**$ 2,390**	**$ 3,982**	**$ 41,621**

	Public Markets					
(Millions) As at December 31, 2004	Interest Bearing	Public Equity	Private Equity	Infra-structure	Real Estate	Total
Investment assets	$ 15,075	$ 15,208	$ 1,460	$ 2,314	$ 6,898	$ 40,955
Allocation of cash and other	(236)	86	31	62	57	–
Investment related assets	66	244	22	50	112	494
Investment related liabilities	(1,259)	(220)	(8)	(1,135)	(2,645)	(5,267)
Net investment assets	$ 13,646	$ 15,318	$ 1,505	$ 1,291	$ 4,422	$ 36,182

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 formal policies and procedures that establish a target asset mix among interest bearing, public equity, private equity, infrastructure and real estate investments. OMERS policies also require diversification of investments within categories, and set limits on the 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 a currency overlay program under which 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:

(Millions Cdn dollar equivalent)	**2005 Fair Value** Total Exposure	Currency Overlay Hedging	Trading	Net Exposure	2004 Fair Value Total Exposure	Currency Overlay Hedging	Trading	Net Exposure
Canada	**$ 25,833**	**$ 9,054**	**$ 148**	**$ 35,035**	$ 22,053	$ 5,962	$ (9)	$ 28,006
United States	**7,953**	**(4,936)**	**(200)**	**2,817**	7,490	(3,188)	(136)	4,166
Euro Countries	**2,423**	**(1,246)**	**(179)**	**998**	2,116	(924)	(79)	1,113
United Kingdom	**1,650**	**(1,199)**	**2**	**453**	1,153	(667)	26	512
Japan	**1,569**	**(761)**	**119**	**927**	1,313	(628)	53	738
Other Pacific	**889**	**(367)**	**(6)**	**516**	861	(345)	52	568
Other Europe	**662**	**(471)**	**34**	**225**	672	(150)	32	554
Emerging Markets	**642**	**(74)**	**82**	**650**	524	(60)	61	525
	$ 41,621	**$ –**	**$ –**	**$ 41,621**	$ 36,182	$ –	$ –	$ 36,182

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 concentration, 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)	**2005** Term to Maturity Within 1 Year	1 to 5 Years	Over 5 years	Total	Average Effective Yield	2004 Total	Average Effective Yield
Cash and short-term deposits	**$ 11,696**	**$ –**	**$ –**	**$ 11,696**	**3.30%**	$ 6,411	2.30%
Bonds and debentures	**1,302**	**1,524**	**3,591**	**6,417**	**4.06%**	5,836	3.80%
Real return bonds	**–**	**–**	**1,660**	**1,660**	**1.46%**	1,266	2.04%
Mortgages and private debt	**93**	**699**	**777**	**1,569**	**5.22%**	1,562	5.11%
	$ 13,091	**$ 2,223**	**$ 6,028**	**$ 21,342**	**3.53%**	$ 15,075	3.15%

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 6.2 per cent (2004 – 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 the real return bonds of 14.1 per cent (2004 – 12.5 per cent).

Bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt of $2,004 million (2004 – $2,229 million) comprises 24.8 per cent (2004 – 31.4 per cent) of the fair market value of 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 changes in 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 exposure to financial risks, including interest rate, foreign exchange and market risks without directly purchasing or selling the underlying assets or currencies. 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.

Bond and Equity Swaps

Bond and equity swaps involve contractual agreements between two counterparties to exchange a series of cash flows based on changes in value of a bond or equity instrument, a basket of instruments or an index.

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.

Bond Forward Contracts

Bond forward contracts are contractual agreements to buy or sell an individual bond, a basket of bonds or a bond index at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

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.

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 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 that permit offsetting of positions or any collateral which may be held.

	2005			2004		
		Fair Value			Fair Value	
(Millions)	**Notional Value**	**Assets (i)**	**Liabilities**	Notional Value	Assets (i)	Liabilities
Interest Rate Contracts						
Interest rate swap contracts	**$ 984**	**$ 19**	**$ (11)**	$ 1,283	$ 19	$ (23)
Bond index swap contracts	**477**	**4**	**–**	480	4	–
Bond options – purchased	**–**	**–**	**–**	111	–	–
	1,461	**23**	**(11)**	1,874	23	(23)
Equity Contracts						
Equity index futures contracts	**4,834**	**–**	**(32)**	5,045	1	(5)
Equity index swap contracts	**1,127**	**44**	**–**	985	27	–
Equity swap contracts	**19**	**9**	**–**	–	–	–
Equity options written (ii)	**68**	**–**	**(2)**	70	–	(1)
	6,048	**53**	**(34)**	6,100	28	(6)
Foreign Exchange Forward Contracts	**12,123**	**136**	**(37)**	13,250	143	(189)
Total	**$ 19,632**	**$ 212**	**$ (82)**	$ 21,224	$ 194	$ (218)

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

(ii) The premium received on equity options written is $3 million (2004 – $2 million).

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

	2005				2004			
(Millions)	**Interest Rate Contracts**	**Equity Contracts**	**Foreign Exchange Contracts**	**Total**	Interest Rate Contracts	Equity Contracts	Foreign Exchange Contracts	Total
Under 1 year	**$ 1,067**	**$ 6,048**	**$ 12,123**	**$ 19,238**	$ 1,381	$ 6,100	$ 13,250	$ 20,731
1 to 5 years	**327**	**–**	**–**	**327**	427	–	–	427
Over 5 years	**67**	**–**	**–**	**67**	66	–	–	66
	$ 1,461	**$ 6,048**	**$ 12,123**	**$ 19,632**	$ 1,874	$ 6,100	$ 13,250	$ 21,224

NOTE 5 – OTHER ASSETS

(Millions)	**2005**	2004
Investment receivables	**$ 360**	$ 205
Deferred assets, prepaids and other	**189**	61
Other investment assets	**549**	266
Other non-investment assets	**156**	142
	$ 705	$ 408

NOTE 6 – INVESTMENT LIABILITIES

(Millions)	**2005**	2004
Long-term debt (a)	**$ 3,565**	$ 3,455
Payable under securities lending program (b)	**6,344**	1,250
Deferred revenue	**90**	106
Payables	**646**	237
	$ 10,645	$ 5,048

(a) Long-term debt comprises the following:

	2005		**2005 Weighted Average**	2004		2004 Weighted Average
(Millions)	**Fair Value**	**Cost**	**Interest Rate**	Fair Value	Cost	Interest Rate
Real estate						
Secured debt (i)	**$ 821**	**$ 773**	**5.36%**	$ 1,060	$ 989	5.18%
Series A debentures (ii), (vi)	**539**	**500**	**4.19%**	530	500	4.57%
Series B debentures (iii), (vi)	**508**	**500**	**4.01%**	517	500	3.60%
Commercial paper (iv), (vi)	**298**	**298**	**3.29%**	285	285	2.54%
Unsecured debt	**2**	**2**	**7.53%**	3	3	7.52%
	2,168	**2,073**	**4.47%**	2,395	2,277	4.39%
Infrastructure						
Secured debt (v)	**1,379**	**1,282**	**5.60%**	1,041	1,026	6.07%
Unsecured debt	**18**	**18**	**7.42%**	19	19	6.14%
	1,397	**1,300**	**5.62%**	1,060	1,045	6.07%
Total	**$ 3,565**	**$ 3,373**	**4.92%**	$ 3,455	$ 3,322	4.91%

(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% Debentures issued November 27, 2002, maturing December 31, 2012.

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

(iv) OMERS Realty Corporation Commercial Paper with maturities as at December 31, 2005 up to March 15, 2006.

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

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

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

(c) Scheduled principal repayments for each of the five years subsequent to December 31, 2005 and thereafter are as follows:

(Millions)	
2006	$ 376
2007	133
2008	775
2009	120
2010	190
Thereafter	1,779
	$ 3,373

NOTE 7 – ACTUARIAL LIABILITIES AND DEFICIT – BASIC PLAN

The deficit 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 for the year 2005 of 7.25 per cent (2004 – 7.25 per cent) are deferred and amortized over 5 years to adjust the value of net assets. For the year, $2,347 million of investment income was credited to the actuarial valuation adjustment because the investment return was in excess of the long-term rate of return assumption. As a result, at December 31, 2005, OMERS has $2,707 million in investment gains (2004 – $1,168 million in investment losses) in an actuarial valuation adjustment reserve which will be recognized as follows:

(Millions)	Actuarial Valuation Adjustment as at Dec. 31, 2005	Unrecognized Investment Returns to be Recognized in 2006	2007	2008	2009	Actuarial Valuation Adjustment as at Dec. 31, 2004
2001	$ –	$ –	$ –	$ –	$ –	$ (983)
2002	(1,183)	(1,266)	–	–	–	(2,207)
2003	661	354	379	–	–	925
2004	882	314	336	360	–	1,097
2005	2,347	628	672	719	769	–
	$ 2,707	$ 30	$ 1,387	$ 1,079	$ 769	$ (1,168)

Accrued Pension Benefits

The actuarial present value of accrued benefits is an estimate 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 the Basic Plan. 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 as at December 31:

	2005	2004
Assumed rate of inflation	**2.75%**	3.00%
Assumed rate of pensionable earnings increases (Estimate based on inflation plus an age-related increase)	**4.25%**	4.50%
Assumed actuarial rate of return on plan assets and discount rate	**7.00%**	7.25%

As a pension plan which provides 100% inflation protection, the Basic Plan's 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
Rate of pensionable earnings increases	-/+2.7%
Real return on plan assets and discount rate	+/-7.8%

The accrued benefit obligation as at December 31, 2005, which follows, takes account of known changes in the Plan membership up to December 2, 2005, actual inflationary increases to pension payments and deferred pension payments to be implemented as at January 1, 2006, and an estimated pensionable earnings increase for 2005, which is based on the results of a survey of major OMERS employers.

(Millions)	**2005**	2004
Fair value of net assets of the Basic Plan at end of year	**$ 41,046**	$ 35,643
Actuarial value adjustment	**(2,707)**	1,168
Actuarial value of net assets at end of year	**38,339**	36,811
Accrued benefit obligation at beginning of year	**37,774**	35,466
Interest accrued on benefits	**2,790**	2,615
Benefits accrued	**1,500**	1,351
Benefits paid (note 12)	**(1,600)**	(1,496)
Plan amendments	**13**	69
Experience and other losses/(gains)	**646**	(231)
Accrued benefit obligation at end of year	**41,123**	37,774
Deficit of actuarial value of net assets over actuarial liabilities	**$ (2,784)**	$ (963)

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits are presented 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 future salary increments or 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 $40,255 million as at December 31, 2005 (2004 – $32,099 million). As at December 31, 2005, the fair value of net assets, excluding the full earnings assets and allowing for a provision for expenses on windup, was $40,985 million (2004 – $35,583 million).

NOTE 8 – ACTUARIAL LIABILITIES AND 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 – $113,871 for 2005 (2004 – $105,335). 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 liabilities continue to exceed the RCA assets. However, based on 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 the discount rate as at December 31, 2005 is 3.5 per cent (2004 – 3.63 per cent), which is 50 per cent of the Basic Plan rate in order 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)		**2005**		2004
Fair value of net assets at end of year	**$**	**19**	$	12
Accrued benefit obligation at beginning of year		**149**		69
Increase in benefit obligation due to RCA taxation		**–**		68
Interest accrued on benefits		**5**		5
Benefits accrued		**7**		7
Benefits paid (note 12)		**(3)**		(2)
Experience and other losses/(gains)		**(1)**		2
Accrued benefit obligation at end of year		**157**		149
Deficit of actuarial value of net assets over actuarial liabilities	**$**	**(138)**	$	(137)

NOTE 9 – NET INVESTMENT INCOME

OMERS investments are managed by the following major asset classes: Public Markets (which is comprised of OMERS investments in interest bearing investments including mortgages and private debt and OMERS investments in 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 $1,136 million (2004 – $698 million).

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

(Millions)	Investment Income (i)	Net Gain/(Loss) on Investments and Derivatives (ii)	Total Investment Income	Investment Management Expenses (note 13), (iii)	Net Investment Income
2005					
Public markets (iv)	**$ 962**	**$ 3,155**	**$ 4,117**	**$ (81)**	**$ 4,036**
Private equity (iv)	**64**	**373**	**437**	**(52)**	**385**
Infrastructure	**157**	**263**	**420**	**(25)**	**395**
Real estate (v)	**440**	**353**	**793**	**(2)**	**791**
	$ 1,623	**$ 4,144**	**$ 5,767**	**$ (160)**	**$ 5,607**
Income credited to administered pension funds and supplementary retirement benefits					**(92)**
Net investment income					**$ 5,515**

(Millions)	Investment Income (i)	Net Gain/(Loss) on Investments and Derivatives (ii)	Total Investment Income	Investment Management Expenses (note 13), (iii)	Net Investment Income
2004					
Public markets (iv)	$ 851	$ 2,152	$ 3,003	$ (75)	$ 2,928
Private equity (iv)	41	110	151	(47)	104
Infrastructure	236	73	309	(17)	292
Real estate (v)	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

(i) Net of total interest on real estate investment liabilities of $124 million (2004 – $138 million) and infrastructure investment liabilities of $36 million (2004 – $24 million).

(ii) Includes net realized gain of $2,218 million (2004 – $1,169 million).

(iii) Investment management expenses relate to corporate activity.

(iv) Total investment income for Public Markets and Private Equity are as follows:

(Millions)	2005 Investment Income	2005 Net Gain/(Loss) on Investments and Derivatives	2005 Total Investment Income	2004 Investment Income	2004 Net Gain/(Loss) on Investments and Derivatives	2004 Total Investment Income
Public Markets						
Interest Bearing Investments						
Short-term deposits	$ 128	$ –	$ 128	$ 112	$ –	$ 112
Bonds and debentures	293	81	374	288	53	341
Mortgages and private debt	107	(15)	92	110	5	115
	528	66	594	510	58	568
Real return bonds	40	161	201	32	133	165
	568	227	795	542	191	733
Public Equity						
Canadian equities	146	1,754	1,900	116	891	1,007
Non-Canadian equities	248	1,174	1,422	193	1,070	1,263
	394	2,928	3,322	309	1,961	2,270
	$ 962	$ 3,155	$ 4,117	$ 851	$ 2,152	$ 3,003
Private Equity						
Canadian private equities	$ 55	$ 163	$ 218	$ 30	$ 24	$ 54
Non-Canadian private equities	9	210	219	11	86	97
	$ 64	$ 373	$ 437	$ 41	$ 110	$ 151

(v) Total investment income for Real Estate is as follows:

(Millions)	2005	2004
Revenue		
Rental	$ 997	$ 1,096
Investment	79	60
	1,076	1,156
Expenses		
Property operating and other expenses (i)	(512)	(573)
Operating income	564	583
Interest expense	(124)	(138)
	440	445
Net Gain/(Loss)		
Properties	386	53
Debt	7	(23)
Investments and other	(40)	(31)
	353	(1)
Total investment income	$ 793	$ 444

(i) Includes audit costs of $1.6 million (2004 – $1.5 million) and legal costs of $4.9 million (2004 – $4.6 million).

NOTE 10 – INVESTMENT RETURNS

Investment returns have been calculated in accordance with methods set forth by the CFA Institute and the Pension Investment Association of Canada.

	2005	2004
Interest bearing (i)	**7.0%**	7.5%
Real return bonds	**15.2%**	17.6%
Canadian public equities	**23.6%**	14.2%
Non-Canadian public equities (ii)	**11.8%**	11.5%
Private equity (ii)	**23.2%**	12.5%
Infrastructure (ii)	**23.2%**	31.0%
Real estate	**26.0%**	11.0%
Total Fund	**16.0%**	12.1%

(i) Interest bearing investments include short-term deposits, bonds and debentures, mortgages and private debt.

(ii) Return for non-Canadian public equities, private equity and infrastructure include the results of OMERS currency hedging related to the respective asset classes.

NOTE 11 – CONTRIBUTIONS

(Millions)	**2005**	2004
Basic (i)	**$ 1,498**	$ 1,363
Transfers from other pension plans	**15**	22
Other contributions (ii)	**21**	24
	$ 1,534	$ 1,409

(i) Basic contributions represent the required contributions for each member of the Plan and are funded equally by employers and employees. For NRA 65 members, the contribution rate was 6.0 per cent of salary up to $41,100 (2004 – $40,500) and 8.8 per cent of salary for earnings above that level. For NRA 60 members, the contribution rate was 7.3 per cent of salary up to $41,100 (2004 – $40,500) and 9.8 per cent of salary for earnings above that level.

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

NOTE 12 – BENEFITS

(Millions)	**2005**	2004
Members' pensions	**$ 1,410**	$ 1,353
Commuted value payments and members' contributions plus interest refunded	**160**	111
Transfers to other pension plans	**33**	34
	$ 1,603	$ 1,498

In 2005 total benefit payments from the Basic Plan were $1,600 million (2004 – $1,496 million) and from the Retirement Compensation Arrangement $3 million (2004 – $2 million).

NOTE 13 – PENSION ADMINISTRATIVE AND INVESTMENT MANAGEMENT EXPENSES

(a) Pension Administrative Expenses

(Millions)	**2005**	2004
Salaries and benefits	**$ 20**	$ 22
System development and other purchased services	**7**	12
Premises and equipment	**4**	6
Professional services (i)	**4**	2
Travel & communication	**1**	1
	$ 36	$ 43

(b) Investment Management Expenses

	2005				
(Millions)	**Public Market**	**Private Equity**	**Infra-structure**	**Real Estate**	**Total**
Salaries and benefits	**$ 22**	**$ 15**	**$ 21**	**$ –**	**$ 58**
System development and other purchased services	**7**	**–**	**–**	**–**	**7**
Premises and equipment	**4**	**1**	**1**	**–**	**6**
Professional services (i)	**2**	**3**	**1**	**–**	**6**
Travel & communication	**1**	**1**	**–**	**–**	**2**
Investment operating and manager expenses	**45**	**32**	**2**	**2**	**81**
	$ 81	**$ 52**	**$ 25**	**$ 2**	**$ 160**

	2004				
(Millions)	Public Market	Private Equity	Infra-structure	Real Estate	Total
Salaries and benefits	$ 19	$ 10	$ 8	$ 1	$ 38
System development and other purchased services	12	–	1	–	13
Premises and equipment	5	1	1	–	7
Professional services (i)	2	1	1	–	4
Travel & communication	1	1	1	–	3
Investment operating and manager expenses	36	34	5	7	82
	$ 75	$ 47	$ 17	$ 8	$ 147

(i) Total professional services expenses include actuarial costs of $1.0 million (2004 – $1.0 million), audit costs of $0.6 million (2004 – $0.7 million) and legal costs of $5.0 million (2004 – $2.8 million).

NOTE 14 – EXECUTIVE COMPENSATION

The compensation amounts for 2005 and 2004 are included under salaries and benefits in note 13. The table below represents disclosure of base earnings, annual incentive plan, long-term incentive plan and other compensation earned in 2003, 2004 and 2005 by the President and Chief Executive Officer (CEO), the Senior Vice President and Chief Financial Officer (CFO) and the other individuals reporting directly to the CEO in 2005.

Name and Principal Position	Year	Base Earnings	Annual Incentive Plan (i)	Long-Term Incentive Plan (ii)	Other (iii)	Taxable Benefits (iv)
Paul G. Haggis (v)	2005	$ 425,000	$ 374,999	$ 133,123	$ –	$ 16,528
President and CEO	2004	363,462	206,446	–	–	17,108
	2003	100,962	–	–	49,971	532
Paul G. Renaud (vi)	2005	$ 360,000	$ 346,500	$ 105,547	$ –	$ 19,927
Senior Vice President and CFO	2004	55,385	50,000	–	–	2,027
Finance and Administration						
Paul Pugh (vii)	2005	$ 310,481	$ 168,902	$ –	$ 5,489	$ 2,496
Senior Vice President	2004	242,308	256,800	–	–	1,605
Public Investments						
Debbie Oakley	2005	$ 195,422	$ 80,612	$ 111,493	$ 10,254	$ 988
Senior Vice President	2004	202,144	57,936	74,329	17,596	1,053
Corporate Affairs	2003	190,080	53,944	–	10,000	1,056
Selma M. Lussenburg (viii)	2005	$ 275,000	$ 189,062	$ 93,701	$ 10,258	$ 1,846
Senior Vice President	2004	163,942	137,500	–	5,600	741
General Counsel and Corporate Secretary						
Floretta Paladino (ix)	2005	$ 182,456	$ 63,525	$ 68,060	$ –	$ 864
Vice President	2004	153,282	55,918	34,975	10,000	814
Human Resources						
Jennifer Brown (x)	2005	$ 192,096	$ 154,513	$ 67,552	$ 2,685	$ 709
Senior Vice President						
Pensions						
R. Michael Latimer (xi)	2005	$ 600,000	$ 600,000	$ –	$ 30,000	$ 22,367
President and CEO	2004	510,000	480,000	–	25,577	17,158
OPGI Management GP Inc. (Real Estate)						
Michael Nobrega (xi)	2005	$ 400,000	$ 752,000	$ –	$ 39,231	$ 52,364
President and CEO	2004	346,154	600,000	–	35,839	37,179
Borealis Capital Corporation (Infrastructure)						
Ian Collier (xi), (xii)	2005	$ 400,000	$ 300,000	$ –	$ 1,640,000	$ 35,793
President and CEO	2004	346,154	400,000	–	35,577	30,244
Borealis Capital Corporation (Private Equity)						

(i) The annual incentive plan is based on a combination of achieving corporate and individual performance objectives, such as investment performance targets and pension service standards. The annual incentive plan amount relates to the year it was earned.
(ii) The long-term incentive plan is awarded based on meeting pension and investment return objectives over a four-year performance period.
(iii) Includes vacation cash-in, hiring, retirement, car and other allowances.
(iv) Includes insurance, car and fitness benefits.
(v) Joined OMERS on September 8, 2003.
(vi) Joined OMERS on November 8, 2004.

(vii) Joined OMERS on April 26, 2004.
(viii) Joined OMERS on May 31, 2004.
(ix) Direct reporting to the CEO commenced on March 1, 2004.
(x) Assumed Senior Vice President, Pensions role on January 3, 2005.
(xi) Employment commenced on February 21, 2004.
(xii) In addition to base earnings and annual incentive amounts, Mr. Collier received from Borealis Capital Corporation, an OMERS entity, a retirement allowance of $1.6 million for the termination of his employment contract that was necessary in connection with the sale and assignment of the general partnership interests in, and management of, the Borealis Private Equity Limited Partnership and the Borealis (QLP) Private Equity Limited Partnership for which Mr. Collier has since 2002 served as a required designated key man. Effective the date of closing of the transaction, December 30, 2005, Mr. Collier was no longer an employee of Borealis Capital Corporation.

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 include but are not limited to investments in mortgages, infrastructure, real estate and private equity limited partnership agreements. As at December 31, 2005, these future commitments totaled $4.1 billion (2004 – $2.5 billion). The maximum amount payable under guarantees and standby letters of credit provided as part of investment transactions was $488 million as at December 31, 2005.

As at December 31, 2005, OMERS was involved in litigation and claims which arise in the normal course of business. The outcome of such litigation and claims is inherently difficult to predict; however, in the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on the consolidated financial statements of OMERS.

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. In 2004, prior to the purchase of shares, payments to the Asset Manager were $7 million.

These transactions were in the normal course of operations and were measured at the exchange amount.

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($ Millions)	**2005**	2004	2003	2002	2001	2000	1999	1998	1997	1996
NET ASSETS as at December 31										
Public markets	**39,338**	30,283	30,168	23,823	27,755	30,941	30,303	28,026	26,173	22,744
Private equity	**2,389**	1,460	914	1,021	1,031	1,128	849	508	474	422
Infrastructure	**3,679**	2,314	1,426	349	279	–	–	–	–	–
Real estate	**6,180**	6,898	6,920	7,747	8,181	4,707	4,126	3,995	2,729	2,450
	51,586	40,955	39,428	32,940	37,246	36,776	35,278	32,529	29,376	25,616
Other investment assets	**807**	494	578	733	652	637	493	297	244	270
Investment liabilities	**(10,772)**	(5,267)	(7,297)	(3,540)	(3,977)	(860)	(280)	(916)	(102)	(156)
Net investment assets	**41,621**	36,182	32,709	30,133	33,921	36,553	35,491	31,910	29,518	25,730
Non investment assets/(liabilities)										
Administered pension plans	**(639)**	(553)	(496)	(440)	(487)	(528)	(502)	(437)	(395)	(341)
Other assets/(liabilities)	**83**	26	(120)	(188)	(191)	(150)	(59)	(93)	(15)	(11)
Net assets	**41,065**	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108	25,378
CHANGES IN NET ASSETS for the period ended December 31										
Net assets, beginning of the year	**35,655**	32,093	29,505	33,243	35,875	34,930	31,380	29,108	25,378	21,213
Changes due to Investment Activities										
Total investment income	**5,767**	3,907	3,751	(2,358)	(1,362)	2,114	4,711	2,949	3,778	4,163
Investment management expenses	**(160)**	(147)	(158)	(103)	(69)	(62)	(52)	(50)	(40)	(39)
	5,607	3,760	3,593	(2,461)	(1,431)	2,052	4,659	2,899	3,738	4,124
Administered pension plans and supplementary benefit agreements	**(92)**	(66)	(51)	28	4	(47)	(85)	(52)	(62)	(64)
Net investment income	**5,515**	3,694	3,542	(2,433)	(1,427)	2,005	4,574	2,847	3,676	4,060
Changes due to Pension Activities										
Contributions										
Basic	**1,498**	1,363	404	–	–	–	–	364	869	874
Other contributions	**36**	46	42	47	36	30	27	8	21	8
	1,534	1,409	446	47	36	30	27	372	890	882
Benefit Payments to Members										
Pensions paid	**(1,410)**	(1,353)	(1,246)	(1,153)	(1,034)	(916)	(817)	(761)	(699)	(661)
Commuted value and other payments	**(193)**	(145)	(110)	(149)	(159)	(129)	(188)	(159)	(113)	(95)
	(1,603)	(1,498)	(1,356)	(1,302)	(1,193)	(1,045)	(1,005)	(920)	(812)	(756)
Pension administrative expenses	**(36)**	(43)	(44)	(50)	(48)	(45)	(46)	(27)	(24)	(21)
Net assets, end of year	**41,065**	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108	25,378
APPLICATION OF NET ASSETS TO ACTUARIAL LIABILITIES AND SURPLUS/(DEFICIT) as at December 31										
Net assets in Basic Plan	**41,046**	35,643	32,087	29,500	33,236	35,867	34,921	31,372	29,100	25,372
Actuarial value adjustment of net assets	**(2,707)**	1,168	3,888	6,048	2,239	(1,913)	(3,957)	(3,135)	(3,310)	(2,845)
Actuarial assets – Basic Plan	**38,339**	36,811	35,975	35,548	35,475	33,954	30,964	28,237	25,790	22,527
Actuarial liabilities – Basic Plan	**(41,123)**	(37,774)	(35,466)	(33,034)	(30,955)	(28,104)	(25,462)	(22,283)	(21,105)	(19,660)
Surplus/(Deficit) – Basic Plan	**(2,784)**	(963)	509	2,514	4,520	5,850	5,502	5,954	4,685	2,867
Net assets in RCA	**19**	12	6	5	7	8	9	8	8	6
Actuarial liabilities – RCA	**(157)**	(149)	(69)	(63)	(71)	(54)	(42)	(41)	(39)	(39)
Deficit – RCA	**(138)**	(137)	(63)	(58)	(64)	(46)	(33)	(33)	(31)	(33)
TOTAL FUND ANNUAL RATE OF RETURN										
Time weighted return on market value	**16.0%**	12.1%	12.7%	–7.1%	–3.4%	6.2%	15.2%	10.1%	14.8%	19.3%
Benchmark	**13.2%**	9.9%	15.5%	–7.4%	–4.2%	4.1%	14.7%	10.7%	15.1%	18.0%
Funding requirement (including inflation)	**6.4%**	6.4%	6.3%	8.1%	5.0%	7.5%	6.8%	5.3%	5.0%	6.4%

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