OMERS
Annual Report 2006

Leadership in Investment Performance and Service Quality.

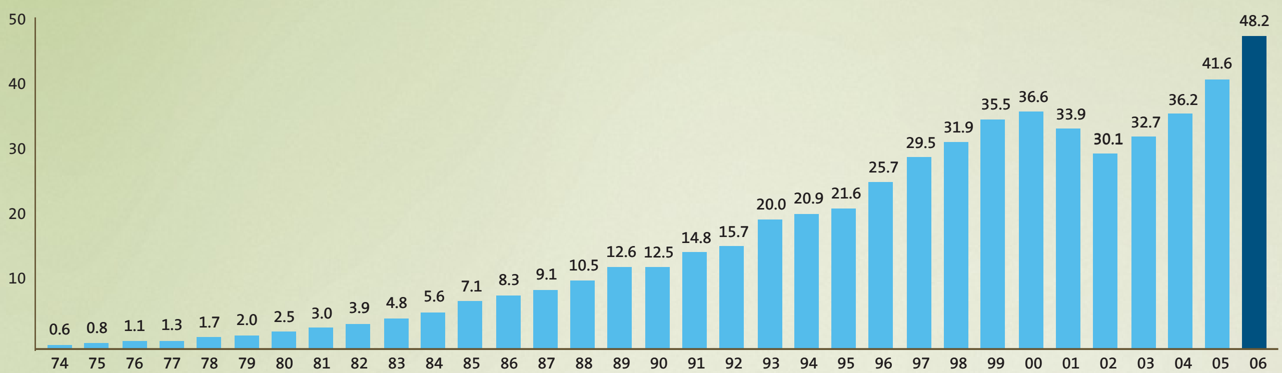
And in 2006, we did it as industry leaders.
Leaders in investment returns. Leaders in the service we provide.
We will keep doing it. That's our promise.

OMERS members on the cover (left to right):
Bikram Chawla, Paramedic/AR Supervisor, Toronto Emergency Medical Services
Leverne Pierce, Office Administrator, Toronto District School Board
Bernice Tinsley, Retired Member, Clerical Staff, City of Hamilton with George
OMERS members on the inside cover (left to right):
Joy Henderson-Gregg (Supervisor, Davisville Child Care Centre) with Matthew Adams
Constable Victor P. Kwong, Toronto Police Service

Financial Highlights

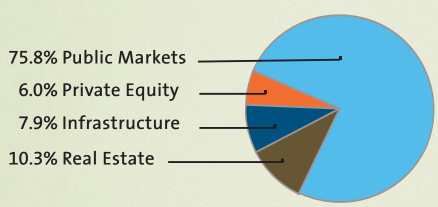
NET INVESTMENT ASSET GROWTH

Market Value ($ Billions)



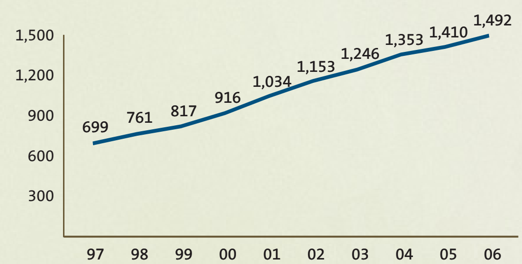
ASSET MIX

(as at December 31, 2006)
Net Investment Assets



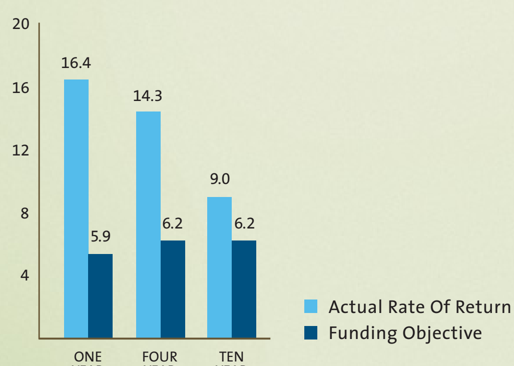
GROWTH IN MEMBERS' PENSION PAYMENTS

($ Millions)



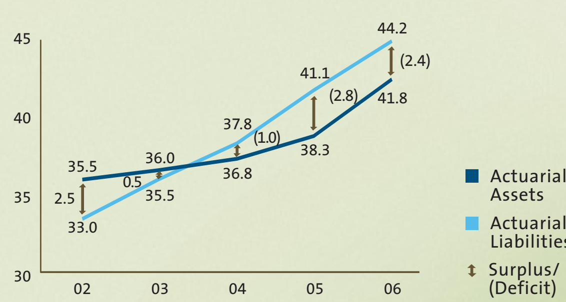
RATE OF RETURN VS. FUNDING OBJECTIVE

(%)



ACTUARIAL ASSETS AND LIABILITIES – OMERS PRIMARY PENSION PLAN

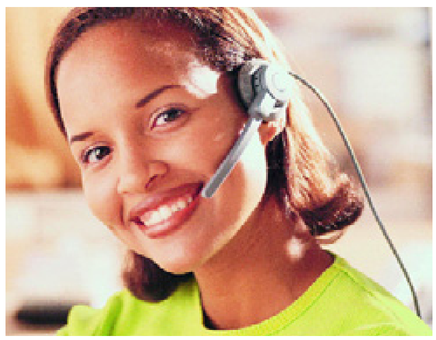
(as at December 31)
Market Value ($ Billions)



This Is OMERS...

OMERS ADMINISTRATION CORPORATION (OMERS) IS THE ADMINISTRATOR OF THE OMERS PRIMARY PENSION PLAN (THE PLAN) AND THE RETIREMENT COMPENSATION ARRANGEMENT (THE RCA) ASSOCIATED WITH THE PLAN, AND IS RESPONSIBLE FOR INVESTING THE PENSION FUNDS.

OMERS Operations



PENSION DIVISION

The Pension Division is OMERS primary link with its members, retirees and employers. Its mandate is to provide them with first-in-class pension services.

STRATEGY

- Continue to implement leading edge service enhancements such as new on-line access tools, employer forums, e-learning and communication programs.
- Continue to conduct regular surveys to measure service standards and to determine what services can be implemented or improved.
- Expand operational capability to allow for flexibility and expansion.

PUBLIC MARKET INVESTMENTS

OMERS public markets investments make up the majority of our investment portfolio. We have investments in publicly traded companies, as well as interest bearing investments such as bonds and mortgages. OMERS has developed global investment portfolios that capture growth and income opportunities, while diversifying risk.

STRATEGY

- Maintain portfolios of equities and interest bearing investments diversified by security type, geographic region, market capitalization, industry, investment style and term.
- Use tactical asset allocation to adjust the asset mix in response to economic and financial conditions.

The OMERS Primary Pension Plan is a multi-employer pension plan that serves over 372,000 current and former employees of more than 900 municipal governments, school boards, libraries, police and fire departments, children's aid societies and other local agencies throughout Ontario. The Plan is a contributory defined benefit pension plan. Equal contributions from participating employers and employees finance about 30% of benefits, while the Plan's investment earnings finance the remaining 70% over the long term.

PRIVATE EQUITY

OMERS CAPITAL PARTNERS

OMERS Capital Partners invests in and manages OMERS private equity investments in the manufacturing, industrial and consumer products, transportation and technology sectors.

STRATEGY

- Build a private equity portfolio diversified by geographic market, industry focus and stage of company.
- Participate both as a limited partner in externally managed funds and as a direct equity investor.

INFRASTRUCTURE

BOREALIS INFRASTRUCTURE

Borealis Infrastructure invests in and manages OMERS infrastructure assets. Consistent cash flow and long-term capital commitments make infrastructure investments ideal for long-term pension obligations.

STRATEGY

- Develop global investment opportunities in sectors such as transportation, energy, infrastructure buildings, pipelines and satellite communications.

REAL ESTATE

OXFORD PROPERTIES GROUP

Oxford Properties Group manages one of North America's largest income producing commercial real estate portfolios. These investments generate strong and sustainable cash flow with low volatility, ideal for meeting pension obligations.

STRATEGY

- Develop a global real estate enterprise.
- Invest in and actively manage commercial real estate to achieve superior risk-adjusted returns, diversified by property type and geographic market.

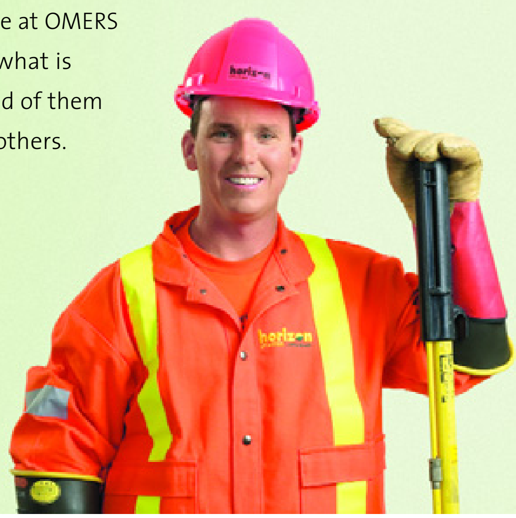
Our Operating Principles

ONE – 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.

TWO – 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.



THREE – Ensure that our members' needs are understood and met.

- We understand the needs of all our members.
- We deliver what our members want, where and when they want it, and at a price that represents value for them.

FOUR – 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.

FIVE – 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.

Dave Pressley, Horizon Utilities

David Kingston
Chair

OMERS Chair Reports...

It is clear that 2006 was a watershed year for OMERS, especially with respect to the changes introduced with the proclamation of the new OMERS Act. The legislation established a new and independent self-governance model. This is something the organizations that have a direct interest in our operations and success – groups representing employee members and employers, as well as the Board – had worked toward for some time.

The most fundamental difference with the new legislation is that the Plan and RCA are governed by the employers and members which is the case for most major public sector pension plans in Ontario. The new OMERS Act created a Sponsors Corporation with a new 14-member board that replaces the Ontario government as plan sponsor.

The Ontario Municipal Employees Retirement Board participated fully in the legislative process and made submissions to the Legislative Committee focused on amendments allowing for the proper administration of the Plan and investment of the pension funds. As fiduciary of the Plan, the Ontario Municipal Employees Retirement Board's sole mandate was to protect the best interests of our members and to ensure that OMERS could continue to effectively administer the pension plan upon proclamation of the new OMERS Act. The Plan remains subject to the legal and regulatory framework applicable to Ontario registered pension plans.

The Ontario Municipal Employees Retirement Board continues as the newly named OMERS Administration Corporation. Our focus on managing our investments and administering the Plan has not changed. We will continue with our investment strategy, which earned a return of 16.4 per cent in 2006. Over the long term, investment earnings account for approximately 70 per cent of the funding for pensions. In short, we remain committed to earning superior investment returns to fulfill our pension promise and providing industry-leading pension services to employers and members. Nothing in the new OMERS Act changes our obligation to administer the Plan in the best interests of the members.

The new governance model calls for 14 board members. With the Sponsors Corporation taking over the role of plan sponsor there is no longer an Ontario government representative on the

"OMERS strives for excellence in Board governance practices. The growing complexity of our organization, greater accountability and globalization all contribute to a requirement for ongoing attention to governance."

Board; instead the Board was expanded to include two new seats. This, combined with the vacancy created by the move of Marianne Love to the board of the Sponsors Corporation, meant we had three vacancies to fill. In the fall of 2006 the Board welcomed Ed DeSousa, Gerard Sequeira and David O'Brien. The Board would like to acknowledge Marianne Love, a representative of the Association of Municipalities of Ontario, for her wise counsel and dedication over the past seven years.

In addition to our ongoing work as the Administration Corporation, we are working with the Sponsors Corporation as it establishes its structure and processes. We are developing a strong working relationship with the Sponsors Corporation, and to help with the transition we have been developing background information and an orientation program for them.

BOARD GOVERNANCE

OMERS strives for excellence in Board governance practices. The growing complexity of our organization, greater accountability and globalization all contribute to a requirement for ongoing attention to governance. In 2005 our Board established a full standing Governance Committee to focus on both Board and corporate governance matters and ensure the use of best practices and structures that promote accountability.

Director education through an accredited director education program also forms an important part of OMERS governance strategy. All directors are required to complete a Director Certification program. We also provide each director a budget for supplemental education and regular internal education sessions are held with OMERS senior executives who provide in-depth analysis on different aspects of OMERS activities.

SUPPLEMENTAL PLAN

A second major initiative required by the new OMERS Act is the development of a new supplemental plan for members of the police sector, fire fighters and paramedics. This separately funded, stand-alone registered pension plan will give these members and their employers the opportunity to increase retirement benefits with additional contributions. Under the new OMERS Act the Sponsors Corporation has the authority to create supplemental plans for other members by a two-thirds majority vote.

LEADERSHIP CHANGE

The impact of a new governance model and the supplemental plan extends to the nature of the CEO's position at OMERS. Recognizing this, the Board and Paul Haggis have determined that the time is right for a new CEO to develop a relationship for the longer term with the Sponsors Corporation and implement the supplemental pension plan.

OMERS engaged Paul Haggis to address our changing investment needs. Since he joined us, he has made a number of significant contributions, overseeing a major reorganization, developing a strong, new leadership team and implementing a successful investment strategy that has generated exceptional returns, including our superior performance in 2006. Paul Haggis has earned OMERS gratitude and respect for his leadership during this important period in our history.

I also thank Frederick Biro who served as OMERS Board Chair during 2004 and 2005. Fred was instrumental in leading OMERS through a significant period of strategic refocus and all members will benefit from his contributions for years to come.

I am pleased that we did not need to extend our search for a new CEO beyond our own organization. The Board has appointed Michael Nobrega, former President and CEO of Borealis Infrastructure, OMERS new CEO effective March 12, 2007. This appointment speaks strongly to the quality of the people we have managing all areas of OMERS operations.

Mr. Nobrega has consistently delivered excellent investment results and put OMERS on the world stage as an astute infrastructure investor. He is a diplomatic leader who brings people together, creates collegiality and gets the job done. He has excellent relationships with all levels of government, with trade union leaders in the public and private sectors, and with leading institutional investment partners and major corporations around the world. The Board believes that these talents, combined with his deep understanding of our investment strategy and his commitment to the new governance structure, make him the ideal choice.

Mr. Nobrega's initial priorities include ensuring the effective introduction of the supplemental plan, supporting the Sponsors Corporation, and enhancing relations with OMERS sponsors and stakeholders.

The Board has full confidence in Michael and the senior management team. OMERS is in outstanding shape thanks to Paul Haggis and all our employees. We pay pensions every month to more than 100,000 retirees – the population of a fair-sized city – and we serve more than 372,000 members overall. The security of our members' pensions remains our primary commitment.

David Kingston
Board Chair
March 9, 2007

Paul G. Haggis
President and
Chief Executive Officer

OMERS President Reports...

More than anything else, I believe that the strong performance outlined in OMERS 2006 Annual Report is the result of one characteristic – focus.

During an eventful year that required a major commitment from our people to ensure the smooth transition to a new governance model and the initial work required to develop and implement a new supplemental pension plan that could potentially impact many of our members and many of our employers, OMERS delivered on a promise that we made to all our stakeholders.

That promise was that we would not lose our focus on what is most important to them – achieving the strong investment returns required to secure their current and future pensions, and meeting the growing and varied pension service needs of our members and employers.

In fact, we achieved our strongest overall return in 10 years. One of the main reasons OMERS focus did not waver is that we have a clear vision of our long-term objectives, supported by operating principles, and explicitly defined priorities that clearly map out what we want to achieve.

During 2006 we launched a strategic plan to guide our activities through to 2009. It identified three key priorities that will allow us to achieve our vision of leadership and growth: a focus on strong investment performance combined with a continuing asset reallocation from public to private markets; responding to our members' and employers' needs for flexibility and service; and strengthening our organizational capacity.

In 2006, we made progress on all three priorities and in so doing, recorded one of the best annual results in OMERS history.

OUTSTANDING RESULTS FOR 2006

Our total fund rate of return in 2006 was 16.4 per cent, our highest in a decade, exceeding our benchmark of 13.7 per cent and last year's 16.0 per cent. For the second year in a row, the expertise of our investment professionals generated more than $1 billion in incremental value for OMERS portfolio over and above our benchmark, and each of our investment business units exceeded their benchmarks, including our public markets investments which exceeded their benchmark by 0.7 per cent.

Our 2006 total fund real rate of return was 14.8 per cent, after deducting inflation of 1.6 per cent. This is substantially in excess of our long-term real return funding requirement of 4.25 per cent.

For a number of years, OMERS has ranked high among public sector pension leaders in terms of pension services. In 2006, we met or exceeded all but one of the many specific measures we monitor to ensure that we are fulfilling the needs and expectations of our members and employers.

While our pension administrative expenses rose slightly in 2006 after being reduced for three successive years, our focus on controlling costs ensured that the increase was a moderate 5.6 per cent despite a substantial level of activity related to the new governance structure and the costs associated with increased membership.

These results confirm the integrity of our vision, principles and strategy and the need to continue to pursue them.

STRATEGIC PRIORITIES – PROGRESS AND PLANS

FOCUS ON STRONG INVESTMENT PERFORMANCE

Our focus on achieving and sustaining strong investment performance during all phases of the economic cycle is built around our strategy to rebalance our investments between public and private markets. At the end of 2006 the proportion of OMERS assets invested in public equity and interest-bearing investments declined to 75.8 per cent, down from 80.2 per cent a year earlier. Our long-term target is 62.5 per cent.

OMERS investment philosophy has two main features. First, we have a strong absolute return strategy, which differs from many pension funds that pursue relative returns. This means our objective is not just to better benchmarks as they follow the economic cycle up and down, but to carefully build a portfolio that will earn a significant return in spite of the cycles. The second and interrelated feature is our activist investment posture. We take accountability for the assets in which we invest, we vote our shares in the best interests of our members and publish these votes on our website, we work with the management of our private investments to ensure their growth plans are reasonable and feasible, and where we use external fund managers we monitor their performance very closely and hold them accountable.

This corporate approach has allowed us to achieve our objective of becoming a preferred investment partner in major international infrastructure and private equity projects which is essential in an environment where there is increasingly intense competition for alternative asset class investment opportunities.

MAJOR YEAR FOR ASSET ACQUISITIONS

Several major acquisitions during 2006 exemplify the kind of quality assets that will provide the stable returns necessary to meet OMERS long-term pension promise.

In March, Oxford Properties acquired an interest in Deutsche Annington Immobilien GmbH, one of Germany’s leading residential real estate companies. In September, Oxford Properties purchased seven Canadian Fairmont hotels, including the legendary Banff Springs and Chateau Lake Louise

"Our focus on achieving and sustaining strong investment performance during all phases of the economic cycle is built around our strategy to rebalance our investments between public and private markets."

properties. These are representative of a new global investment plan of real estate acquisitions and developments across the risk spectrum. This plan anticipates new investments in the vicinity of $4 to $6 billion over the next three to five years.

In 2006, Borealis acquired an interest in Associated British Ports and have now closed on the purchase of the Canadian laboratory services business of MDS Inc., Canada's largest provider of laboratory services, with more than 2,900 employees and annual revenue of $335 million.

In December, OMERS Capital Partners purchased an interest in CCNMatthews, a leading distributor of news releases and other content to the media and investment communities, whose business is being propelled by the rapidly growing need for corporate disclosure.

Over the next two years we will continue our shift to private market investments as economic conditions allow, although public market investments will always retain a strong portfolio position. We will continue to invest in secure Canadian and foreign infrastructure assets directly, through alliances with other sources of private capital, and enhance our position as a leading global infrastructure and private equity investment manager. In real estate, when the markets present appropriate opportunities, we will continue to harvest returns in our portfolio where values have been maximized, and exercise prudence with new investment activity in recognition of a potential slow down in the Canadian and global economies.

RESPONDING TO SERVICE NEEDS

In a year when the Pension Division could have been distracted by significant development work associated with our new governance structure and the supplemental pension plan, we maintained our focus. Over this past year we continued to enhance and expand our services based on regular member and employer feedback that tells us our pension services are meeting and exceeding their expectations.

Our plans for the short term include expanding our operational capability and relationships through initiatives such as employer forums and e-learning, and by continuing to improve on-line information and service access for employers and members.

STRENGTHENING OUR ORGANIZATION

None of our record accomplishments in 2006, nor our strategic plans and objectives for the next two years, would be possible without a highly developed organizational structure staffed by the best people in the investment and pension services business.

Over the past year, we have added to our internal audit and compliance groups with an objective to add value through consultative roles as both functions evolve and mature.

Our other organizational plans for the near term are to establish OMERS Public Market Investments as a distinct business unit and to continue to refine our compensation program to ensure it attracts and retains quality people and rewards performance. Effective communication with our employees remains a key to effective teamwork and alignment around our vision and goals. OMERS will continue to be a strong employment brand as a result of these initiatives.

While the anticipated slower economic environment may mean that it will be difficult to duplicate our investment performance of the past couple of years, with our clearly defined plans our assets are projected to continue to grow substantially over the next three years, our balance sheet will remain strong and we expect the deficit will be significantly reduced by the end of 2008.

LEADERSHIP CHANGE

Together with the entire OMERS team, we have implemented specific investment and service strategies that have transformed OMERS into a clear industry leader. However, several events have altered the nature of my job. While our investment strategy and our key priorities will not change in the near term, the nature of the CEO's job has changed with the transition to a new governance structure, and the launch of the supplemental plan.

The Board and I agreed that the person who develops the relationships and structure necessary for our new governance model should be the person who sees them through. The result is that I have stepped down as President and CEO of OMERS and Michael Nobrega, President and CEO of Borealis, and a superbly capable executive, will assume the role of OMERS CEO, effective March 12, 2007.

I wish to thank all of the OMERS family for their dedication and focus in creating a "first-in-class" global investment and pension management organization. It has been a pleasure to work with such a talented group of people and I wish Michael Nobrega and the OMERS team all the very best for the future.

Sincerely,

Paul G. Haggis
President and CEO
March 9, 2007

Management's Discussion and Analysis

OMERS Administration Corporation ("OMERS") is the administrator of the primary pension plan (the "OMERS Primary Pension Plan" or the "Plan) as defined in the *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Act") and the Retirement Compensation Arrangement ("RCA") associated with the Plan. This management discussion and analysis is the responsibility of management and contains management's analysis of OMERS financial condition, operational results and the environment in which it operates as of February 23, 2007. This section should be read in conjunction with the consolidated financial statements. The Audit Committee and Board of Directors of OMERS Administration Corporation 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.

Vision and Strategy

VISION

AT OMERS WE HAVE ONE CLEAR AND OVERRIDING OBJECTIVE: PAYING THE PENSIONS OF OUR CURRENT AND OUR FUTURE RETIREES.

Everything we do is to enable us to meet this objective including:

- Generating sufficient returns through the investment of the Plan's assets; and
- Providing pension administration services that meet our members' needs, the most important of which is to pay monthly pensions.

Our vision for OMERS focuses on four key areas which are integrated into our strategies and decisions:

LEAD

Be the leader in the pension industry. At OMERS we want to be nothing less than the leader in the pension industry. We will earn this status if we rank at the top in investment performance and if we set the industry standard for service to members and employers.

PERFORM

Provide first-in-class investment management. We recognize the importance of earning superior returns to keep pensions secure.

SERVE

Deliver superior pension services to our members and employers. Services to Plan members are one of our top priorities and one of our key strengths.

GROW

Grow by attracting investment partners and employers through our leadership. Growth is an objective not for its own sake but because it will expand the range and size of investment opportunities we can pursue and allow us to improve our services for the benefit of all members and employers.

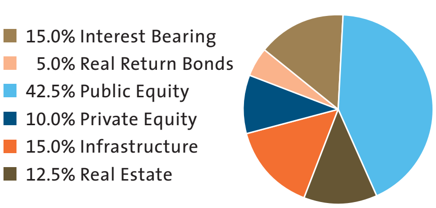
Kevin Ashfield, Executive Officer,
Toronto Professional Fire Fighters Association

Photo: Robert Palmese, Palmese Photodesign Group, Hamilton

STRATEGY

IN ORDER TO MEET OUR PENSION OBLIGATIONS, THE PLAN MUST EARN A 4.25 PER CENT REAL RETURN (THAT IS, BEFORE THE IMPACT OF INFLATION) ON ITS INVESTMENTS OVER THE LONG TERM.

LONG-TERM ASSET MIX TARGETS



OMERS exercises prudence in determining its investment strategy which is based on an asset mix policy that will allow us to meet and exceed the long term return requirements with an acceptable level of risk. In determining the asset mix policy for the Plan we identify the asset classes that collectively are most likely to meet our pension obligations within the Plan's risk tolerance. 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 risk and reduce the volatility of total returns. OMERS invests domestically and internationally in interest bearing investments, public equities, private equities, infrastructure and real estate investments, often in combination with derivative financial instruments.

We believe that over the long term, an asset mix with greater exposure to private market investments is better positioned to generate strong, predictable returns and consistent cash flow with reduced risk to meet the Plan's funding requirements.

Our investment strategy over the long term is to reduce our asset mix exposure to public equities and interest bearing investments from the current 75.8 per cent to approximately 62.5 per cent of the Plan's net investment assets with a corresponding increase in our asset mix exposure to private equities, infrastructure and real estate from 24.2 per cent to approximately 37.5 per cent of net investment assets. This asset mix policy is supported by foreign currency management, derivatives and absolute return strategies. Our investment professionals are managing this shift by constantly monitoring OMERS asset mix and making the necessary investments to achieve the target investment levels.

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 from employee and employer contributions.

Performance vs. Objectives

Our overriding objective is to fulfill the pension promise to our current and future retirees. To achieve this objective we must excel in our investment performance in order to meet the future payments of the Plan and the quality of service provided to our members. OMERS quality of service standards are discussed on page 34 of this Annual Report.

INVESTMENT PERFORMANCE OVERVIEW

OMERS invests in several asset classes and in several markets which are described more fully beginning on page 24 of this Annual Report. Returns for 2006 and 2005 are shown in the table to the right.

OMERS earned a 16.4 per cent total fund rate of return in 2006, compared with a 16.0 per cent total fund rate of return in 2005. This is the fourth year in a row that OMERS has earned a double digit return. After allowing for inflation of 1.6 per cent, the real rate of return was 14.8 per cent, which significantly exceeded our long-term real return funding requirement of 4.25 per cent. Net investment income totaled $6,530 million in 2006, compared with $5,515 million a year earlier.

Net assets include net investment assets of $48,221 million, net pension related assets of $125 million less the value of administered funds of $741 million due to such funds.

RETURNS AND BENCHMARKS

	2006		2005	
	Rate of Return	**Benchmark**	Rate of Return	Benchmark
Public markets	**16.2%**	**15.5%**	12.6%	12.5%
Private equity (i)	**17.7%**	**10.8%**	23.2%	7.6%
Infrastructure (i)	**14.0%**	**10.8%**	23.2%	11.8%
Real estate (i)	**26.2%**	**9.2%**	26.0%	8.4%
Total	**16.4%**	**13.7%**	16.0%	13.2%

(i) Returns for private equity, infrastructure and real estate include the results of OMERS currency hedging program related to the respective asset classes.

NET ASSETS

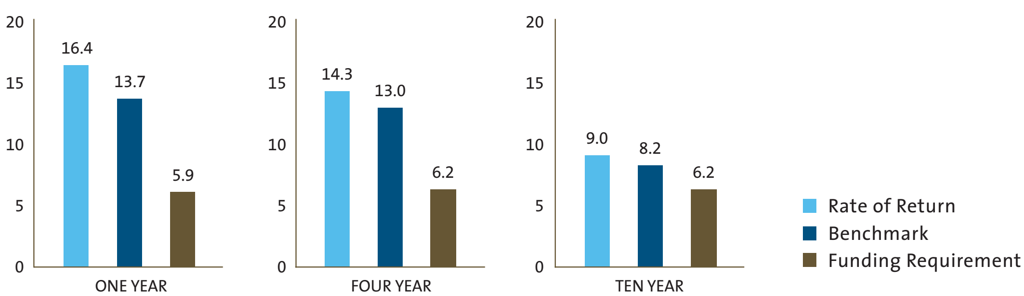
(Millions)	**2006**	2005
Net investment assets	**$ 48,221**	$ 41,621
Net pension amounts receivable and payable	**125**	83
Due to administered funds	**(741)**	(639)
	$ 47,605	$ 41,065

Net assets grew by $6,540 million, or 15.9 per cent, to $47,605 million in 2006 compared with an increase of $5,410 million, or 15.2 per cent last year. The increase was due to strong performance in the Canadian and non-Canadian public equity markets, real estate, infrastructure and private equity investments.

CHANGES IN NET ASSETS

(Millions)	**2006**	2005
Changes due to investment activities	**$ 6,530**	$ 5,515
Changes due to pension activities	**10**	(105)
Net assets, beginning of year	**41,065**	35,655
Net assets, end of year	**$ 47,605**	$ 41,065

RATE OF RETURN, BENCHMARK RETURN, FUNDING REQUIREMENT (%)



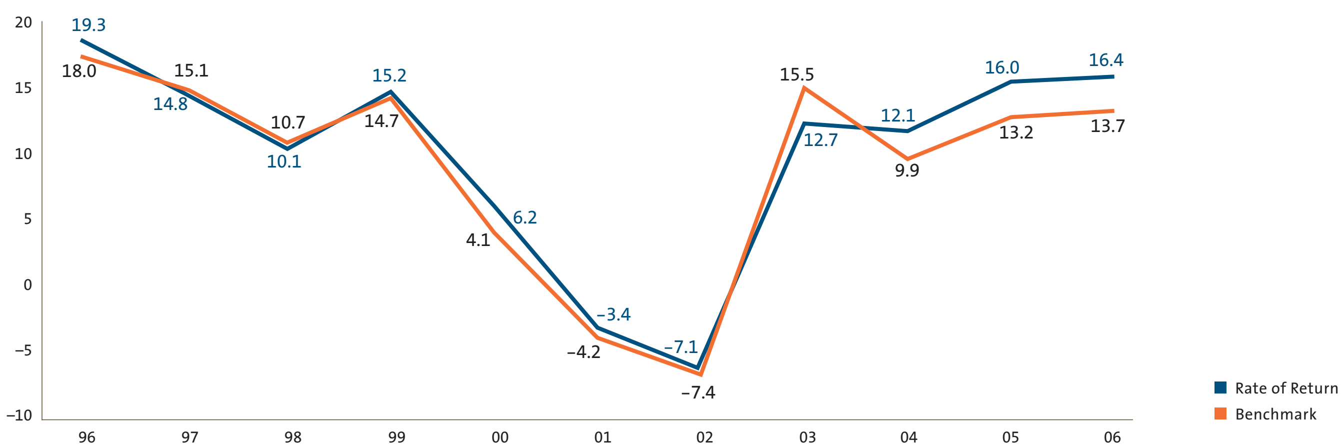
Investment returns over the past ten years have exceeded the Plan funding requirement. The factors contributing to the funding deficit are discussed under the Plan Funding Status section on page 19 of this Annual Report.

We measure the performance of each of our investment asset classes against a benchmark that acts as the proxy for the market for each asset class. We develop a benchmark for total investment activities by aggregating and weighting the individual benchmarks consistent with our asset mix policy. Our benchmarks are reviewed and approved by the Board. Our goal is to earn returns that exceed these benchmarks. 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. For the year ended December 31, 2006, OMERS total return was 16.4 per cent, exceeding the aggregate benchmark of 13.7 per cent by 270 basis points (a basis point is one one-hundredth of a percentage point) which represents value added of over $1 billion. As illustrated in the graph on page 17, OMERS has frequently exceeded its benchmark; over the last three years the value added from actual fund returns exceeding the benchmark has totaled $2.8 billion.

The benchmarks used by OMERS are based primarily on (i) externally computed indices that reflect the results of markets in which OMERS invests or (ii) an expected absolute return. The benchmarks used are as follows:

ASSET CLASS	BENCHMARK
Interest bearing	Blended Scotia Capital 31 day Treasury Bill Index and Scotia Capital Universe
Real return bonds	Scotia Capital Real Return Bond Index
Canadian public equities	S&P/TSX Equity Only Composite
Non-Canadian public equities	Blended hedged FTSE All World Index excluding Canada and U.S., hedged FTSE All Cap U.S. Index and hedged custom Derivative Index
Private equity, Infrastructure, Real estate	Absolute return set at the beginning of each year based on operating plans approved by the Board of Directors

ANNUAL RATE OF RETURN AND BENCHMARK (%)



Corporate

Governance

On June 30, 2006, the new *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Act") was proclaimed into law and put in place a new autonomous governance model. This new model made our governance structure similar to that of other major public sector pension plans in Ontario. Under the OMERS Act, a Sponsors Corporation comprised of representatives of members and employers replaces the Government of Ontario as plan sponsor and is responsible for all decisions on Plan design and for setting contribution rates. The Ontario Municipal Employees Retirement Board was continued as the OMERS Administration Corporation, and continues to be responsible for pension administration and investments. These changes do not impact the day to day operations of OMERS and management's continued responsibilities. For further discussion of the OMERS Administration Corporation Board activities and an explanation of the new governance model, see Corporate and Board Governance on page 66 of this Annual Report.

Pension Plans

OMERS Primary Pension Plan is a multi-employer pension plan whose members are mainly employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. It is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees as well as investment earnings of the Plan. The Plan has approximately 372,000 members.

The Plan's pension payments are integrated with the Canada Pension Plan as the benefit formula includes a bridge benefit paid to age 65. Including this bridge benefit, the benefits paid under the 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 and disability benefits and early retirement options are also excellent features of the Plan.

In addition to the Plan for all members, OMERS maintains a full earnings pension plan through the use of a Retirement Compensation Arrangement ("RCA"), which provides pension benefits for members whose benefits under the Plan are limited by ceilings imposed by the *Income Tax Act*. The RCA provides a means to enable retirement savings and contributions on members' total earnings. The RCA is consolidated in OMERS financial statements and is accounted for separately from the Plan. Net assets of the RCA were $29 million at December 31, 2006 and were $19 million at December 31, 2005. The RCA financial statements are set out in note 8 to the OMERS consolidated financial statements on page 57 of this Annual Report.

The OMERS Act requires OMERS to establish and administer a Supplemental Plan to provide optional benefits for members of the police sector, fire fighters and paramedics. The Sponsors Corporation can establish other Supplemental Plans for other members of the Plan. Supplemental Plans are stand-alone registered pension plans which offer benefits not available in the OMERS Primary Pension Plan and are not funded from the Plan. There are no Supplemental Plans currently in place; however, as required by the OMERS Act, the first Supplemental Plan for members of the police sector, fire fighters and paramedics is to be established by July 1, 2008. The Province of Ontario has agreed to provide OMERS with funding to pay for the costs of establishing that first Supplemental Plan as such expenses can not be paid by the Plan.

Plan 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, 2006, the estimated actuarial accrued pension obligation for all members including survivors of the Plan was $44,167 million, compared with $41,123 million a year earlier. The increase is primarily due to interest accrued on benefits, plus benefits accrued, partially offset by benefits paid in the year. The Plan had an actuarial value of net assets of $41,785 million in 2006, compared with $38,339 million in the prior year, resulting in a funding deficit of $2,382 million as at December 31, 2006, compared with a deficit of $2,784 million as at December 31, 2005.

The factors that have contributed to the funding deficit in the 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. Due to the actuarial smoothing process described below, the last of these losses was recognized in actuarial assets in 2006.
- Deferred recognition of the higher investment returns from the last four years as compared to the long-term return assumption due to the actuarial smoothing process.

Current Year Change in Deficit

(Millions)	**2006**	2005
OMERS Primary Pension Plan		
Deficit, beginning of year	**$ (2,784)**	$ (963)
Increase in net assets available for benefits	**6,530**	5,403
Change in actuarial valuation adjustment	**(3,084)**	(3,875)
Increase in actuarial value of net assets available for benefits	**3,446**	1,528
Less: increase in accrued pension benefits	**(3,044)**	(3,349)
Deficit, end of year	**$ (2,382)**	$ (2,784)

Although investment returns have exceeded the funding requirement since 2003, the actuarial deficit in the Plan, as predicted, has remained high. This is due to a $3,044 million increase in the actuarial liability and to the recognition of the last year 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 2002. This was partially offset by the smoothed recognition of gains above the long-term actuarial rate of return assumption from 2003 to 2006.

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 (expected inflation plus 4.25 per cent, equivalent to 7.00 per cent in 2006) for the current year plus the four preceding years. This is in keeping with the long-term nature of the Plan and assists us in meeting our objective of maintaining stable contribution rates.

Investment returns were above the long-term actuarial rate of return assumption from 2003 to 2006 as Canadian and foreign public equity markets performed well. Private market investments also achieved strong results over this period. As a result, as at December 31, 2006, the actuarial valuation adjustment account now represents unrecognized net gains of $5,791 million which will be recognized in actuarial assets over the next four years, with $2,164 million to be recognized in 2007. The last of the actuarial losses related to the 2000 to 2002 market downturn were recognized through the actuarial smoothing process in 2006. On a market value basis, excluding smoothing adjustments, the net assets of the Plan exceed the accrued benefit obligation by $3,409 million.

Funding Outlook

Under Ontario provincial regulations a pension plan must file an actuarial valuation report at least once every three years, and at that time must take measures to eliminate any funding deficit over a period not to exceed 15 years, typically through increased contributions or a change in the benefits offered. OMERS filed the Plan's December 31, 2004 actuarial valuation with the Ontario pension regulator in 2006 and based on a funding deficit of $963 million at that time, the Board implemented an increase in contribution rates which averaged 0.6 per cent of a member's earnings for both employers and members on January 1, 2006. This was equivalent to a 9.0 per cent increase in the amount of contributions. The Plan's funded status and the need for any corrective action will be reviewed prior to the next government filing which must be made for either the 2006 or the 2007 year end. By the end of 2007, the deficit is expected to be lower due to the actuarial smoothing of unrecognized gains noted above, assuming no change to actuarial assumptions or any other plan changes or unfavourable plan experience that would increase our liability. The decision as to when to file the Plan's actuarial valuation with the regulator will be made by the OMERS Sponsors Corporation.

As a result of the contribution increase, the 2006 contribution rate for Plan members with a normal retirement age of 65 was 6.5 per cent of earnings up to $42,100 and 9.6 per cent for earnings above that level. For members with a normal retirement age of 60, the 2006 contribution rate for earnings up to $42,100 was 7.9 per cent and 10.7 per cent for earnings above that level.

The 2007 contribution rate for Plan members with a normal retirement age of 65 will be 6.5 per cent of earnings up to $43,700 and 9.6 per cent for earnings above that level. For members with a normal retirement age of 60, the 2007 contribution rate for earnings up to $43,700 will be 7.9 per cent and 10.7 per cent for earnings above that level.

Actuarial Assumptions

In calculating the funding deficit, the actuary makes various long-term economic and demographic assumptions. Demographic assumptions are updated to reflect Plan experience. Economic assumptions about future investment returns, i.e. the discount rate, and assumptions about inflation and member salary increases affect the projected value of future benefits. The actuary's major economic assumptions included in the valuation as at December 31, 2006, which were approved by the Board, are summarized as follows:

- ***Inflation Rate***

  OMERS uses an inflation rate assumption of 2.5 per cent for future years in the calculation of the nominal discount rate when estimating liabilities. Any variation in the actual inflation rate from this assumption will result in a variation in the actuarial liabilities of the Plan.

- ***Discount Rate***

  The Plan's annual nominal rate of return and discount rate for future years is assumed to be 6.75 per cent down from 7.0 per cent in 2005. This includes an assumption on annual inflation of 2.5 per cent, reduced from 2.75 per cent in 2005 and a real investment return assumption, based on OMERS asset mix, of 4.25 per cent, unchanged from 2005. A decrease/increase of 50 basis points in the real discount rate would result in an approximate increase/decrease of 7.8 per cent or approximately $3,400 million in the actuarial liability of the Plan.

  The real investment return assumption used in 2006 is unchanged from that used in 2005. It includes a margin for conservatism for potential adverse investment experience so that over the long term there is a greater chance of actuarial gains than losses arising from the Plan's assets. This assumption includes an estimate of the returns expected to be earned over the long term on the Plan's assets over and above fixed income returns, based on the current asset mix. In addition, the lower ratio of retired members to active members results in a low fixed income component in the asset mix as compared to several other public sector plans thereby allowing a somewhat higher real discount rate.

- ***Salary Increases***

  An assumption about future increases in the salaries of active members is needed to estimate the value of the liability. The salary increase assumption uses an age based scale which allows for increases in productivity as well as merit and promotion related earnings increases. For members with normal retirement age of 60, the assumption also includes service related increases. The assumed increase, including assumed inflation, averages 4.0 per cent at the December 31, 2006 valuation (4.25 per cent at the December 31, 2005 valuation).

Retirement Compensation Arrangement

As a consequence of the modified pay-as-you-go funding policy adopted for the RCA, 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 RCA increased from $157 million in 2005 to $172 million at the end of 2006.

The RCA had an estimated funding deficit of $143 million at December 31, 2006 compared with a deficit of $138 million last year as shown below:

Changes in Deficit

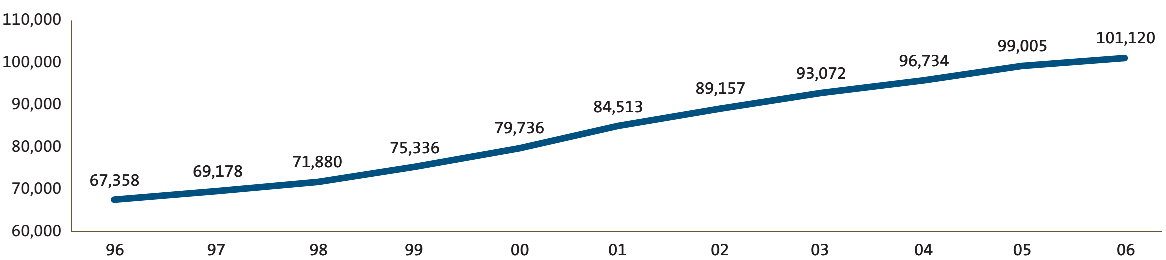
(Millions)	**2006**	2005
Retirement Compensation Arrangement		
Deficit, beginning of year	**$ (138)**	$ (137)
Increase in net assets	**10**	7
Less: increase in accrued pension benefits	**(15)**	(8)
Deficit, end of year	**$ (143)**	$ (138)

Pension Benefits and Contributions

In 2006, OMERS ended the year with over 101,000 retired members and survivors receiving pension benefits. Benefits paid from the Plan in 2006 were $1,740 million, an increase of $140 million over 2005 while benefits paid from the RCA in 2006 were $4 million compared with $3 million in 2005. The increase reflected new retirements, the adjustment of benefits for inflation and an increase in termination refunds and transfers to other plans.

Contributions for the Plan in 2006 were $1,780 million compared with $1,525 million in 2005. Contributions to the RCA in 2006 were $12 million compared with $9 million in 2005. The increase reflects higher contribution rates in 2006, a larger number of active members and an increase in members' salaries.

GROWTH IN NUMBER OF PENSIONERS



Asset Mix

As discussed in the strategy section above, one of our corporate strategies is to shift the asset mix to 62.5 per cent public market investments and 37.5 per cent private market investments over the long term. As illustrated in the table below, in 2006 we made progress toward our long-term asset mix targets. At the end of 2006 private market investments comprise 24.2 per cent of our asset mix compared with 19.8 per cent at the end of 2005. As illustrated in the table on page 23, the market value of our net investment assets with exposure to private equity, infrastructure and real estate grew to $11,656 million an increase of $3,400 million, or 41.2 per cent over 2005. We will continue our disciplined investment approach over the next few years and we expect to move closer to our long-term targets.

	2006	2005	Long-Term Target
Public Markets			
Interest bearing	**17.6%**	18.9%	15.0%
Real return bonds	**4.1%**	4.0%	5.0%
Public equity	**54.1%**	57.3%	42.5%
	75.8%	80.2%	62.5%
Private Markets			
Private equity	**6.0%**	6.0%	10.0%
Infrastructure	**7.9%**	5.7%	15.0%
Real estate	**10.3%**	8.1%	12.5%
	24.2%	19.8%	37.5%

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, 2006			December 31, 2005		
		Asset Mix			Asset Mix	
(Millions)	**Holdings**	**Exposure**	**%**	Holdings	Exposure	%
Public Markets						
Interest bearing	**$ 19,162**	**$ 8,476**	**17.6%**	$ 19,682	$ 7,836	18.9%
Real return bonds	**1,969**	**1,977**	**4.1%**	1,660	1,664	4.0%
Total interest bearing	**21,131**	**10,453**	**21.7%**	21,342	9,500	22.9%
Public equity	**22,442**	**26,112**	**54.1%**	17,996	23,865	57.3%
	43,573	**36,565**	**75.8%**	39,338	33,365	80.2%
Private Markets						
Private equity	**2,911**	**2,876**	**6.0%**	2,391	2,497	6.0%
Infrastructure	**5,585**	**3,833**	**7.9%**	3,719	2,388	5.7%
Real estate	**8,541**	**4,947**	**10.3%**	6,180	3,371	8.1%
	17,037	**11,656**	**24.2%**	12,290	8,256	19.8%
Investment related assets	**699**	**–**	**–**	765	–	–
Investment related liabilities	**(13,088)**	**–**	**–**	(10,772)	–	–
Net investment assets	**$ 48,221**	**$ 48,221**	**100.0%**	$ 41,621	$ 41,621	100.0%

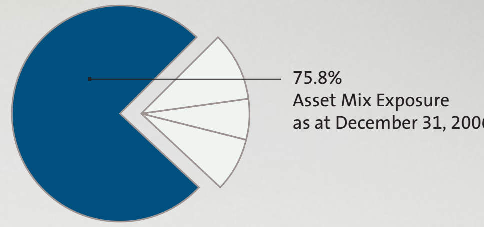
Long-Term Debt

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. Debt outstanding through OMERS real estate operations at December 31, 2006 includes $1,033 million of debentures, $1,138 million of commercial paper as well as $735 million in secured and unsecured debt. As discussed on page 32 under Real Estate Investments, we increased our commercial paper program by $1,000 million during 2006 to fund the acquisition of seven hotel properties from Fairmont Hotels and Resorts. In addition, our infrastructure and private equity portfolios are financed with $1,644 million and $41 million, respectively, in secured and unsecured debt.

Corporate Expenses

Investment management expenses were $169 million in 2006, compared to $160 million in 2005. The increase of 5.6 per cent is primarily related to higher third party investment manager costs as we raised our exposure to global public equity markets. As a percentage of net investment assets, total investment expenses declined slightly in 2006. Pension administrative expenses were $38 million for the year, compared with $36 million for the previous year, an increase of 5.6 per cent which is primarily due to higher salaries and benefits and communication costs, partially offset by lower premises and professional services costs. This is the first time in the last four years that pension administrative expenses have increased.

Public Market Investments



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.

(l-r) James Donegan, Graham Pugh, Barbara Bale, Paul Pugh, Cathy Carlin, Kirby Connor

The investment expertise of the Public Markets team capitalized on strong Canadian and global public equity markets in 2006 to achieve significant returns. Public markets generated net investment income of $4,870 million compared with $4,041 million a year earlier. Public market investment returns excluding the impact of OMERS currency hedging, were 16.2 per cent compared with a benchmark of 15.5 per cent and a return of 12.6 per cent in 2005. The increase from the prior year is attributable to significantly higher returns in non-Canadian public equity markets in 2006 when OMERS non-Canadian public equities returned 20.0 per cent compared with 11.8 per cent in 2005.

RETURNS AND BENCHMARKS

	2006		2005	
	Rate of Return	**Benchmark**	Rate of Return	Benchmark
Interest bearing	**4.7%**	**4.1%**	7.0%	6.3%
Real return bonds	**–2.9%**	**–2.9%**	15.2%	15.2%
Canadian public equities	**21.3%**	**20.2%**	23.6%	24.2%
Non-Canadian public equities (i)	**20.0%**	**19.3%**	11.8%	11.2%

(i) Returns for non-Canadian public equities include the results of OMERS currency hedging program.

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.

Interest bearing investments, excluding real return bonds, produced income before investment management expenses of $514 million, a decrease of $80 million or 13.5 per cent compared with 2005. The return for interest bearing investments, excluding real return bonds was 4.7 per cent compared with 4.1 per cent for the benchmark and 7.0 per cent a year earlier. The return of 0.6 per cent over the benchmark is primarily due to the successful anticipation of changes in interest rates, positioning the portfolio to take advantage of a narrowing of the gap between long term and short term interest rates, and an additional weighting in higher yielding provincial bonds. Real return bonds produced a loss of $49 million and had returns of –2.9 per cent, consistent with the benchmark of –2.9 per cent; however, well below the 15.2 per cent return achieved in 2005 caused by an increase in real interest rates in 2006, compared to the significant decline in real interest rates in 2005.

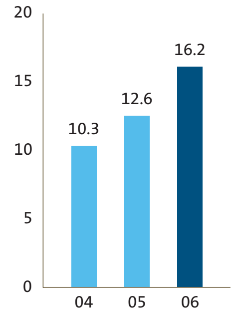
At December 31, 2006, total interest bearing investments held were $21,131 million. Of this total, $8,476 million was invested with exposure to bonds and debentures, mortgages, private debt and money market and other short-term investments and $1,977 million was invested with exposure to real return

The overall public market return in 2006 was

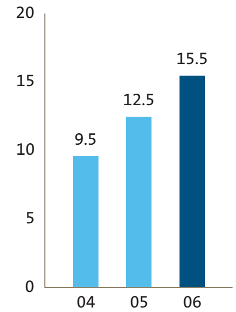
16.2%

compared with a benchmark of 15.5%.

RATE OF RETURN (%)



BENCHMARK (%)



Significant Public Markets Investments

Government of Canada
Interest Bearing Securities
Manulife Financial Corporation
Royal Bank of Canada
Toronto Dominion Bank

bonds. In addition $3,460 million were backing assets for derivatives programs that provide exposure to public equity markets and $7,218 million related to cash collateral received as part of securities lending transactions and amounts allocated to other asset categories.

As at December 31, 2006, 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.

In the past 10 years, interest bearing investments, excluding real return bonds, have earned an annualized return of 7.2 per cent, including capital gains, due in part to the declining interest rate environment.

PUBLIC EQUITIES

At December 31, 2006, OMERS had $9,518 million invested in Canadian public equities and $12,924 million in non-Canadian public equities including both actively managed and non-derivative, quantitatively, managed portfolios. Included in the non-Canadian public equities are $924 million of assets in absolute return and other long-short strategies that are used as backing assets for equity derivatives. Exposure to public equities also includes $3,562 million of exposure through the market value of non-equity assets backing equity derivatives and the allocation of $108 million of cash and short-term investments and investment related assets and liabilities.

Public equity investments generated income before investment management expenses of $4,489 million, $2,010 million from the Canadian market and $2,479 million from global markets. Canadian public equities plus Canadian equity derivative exposure earned a return of 21.3 per cent for the year, compared with a benchmark return of 20.2 per cent and a 23.6 per cent return in 2005. Non-Canadian public equities and non-Canadian equity derivative exposure earned a return of 20.0 per cent in 2006, compared with 19.3 per cent for the benchmark and an 11.8 per cent return in 2005. Although mitigated by our currency hedging program, the non-Canadian public equity return was aided by changes in the value of the Canadian dollar against foreign currencies as the Canadian dollar depreciated against the British pound and the Euro and only marginally appreciated against the U.S. dollar. These currencies comprise approximately 78 per cent of OMERS foreign currency exposure.

Actively Managed Equity Portfolios

The actively managed Canadian equity portfolio totaled $8,090 million in 2006 compared with $7,107 million in 2005 and contained approximately 218 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.

Within the actively managed Canadian equity portfolio OMERS manages the Canadian Focus Fund which

has a more specific mandate than the other OMERS equity investments in order to enhance overall investment returns. The Canadian Focus Fund had assets of $1,383 million in 2006 representing 17 per cent of the actively managed Canadian equity portfolio. The Canadian Focus Fund's mandate is to invest in a select group of up to 30 Canadian equities which OMERS believes will earn above average returns over the long term. Specifically, the fund is invested in Canadian companies that have a combination of some or all of the following: low sustainable cost structures, strong manageable operating margins, strong balance sheets, good product innovation, efficient research and development, efficient capital management and high quality management. The more concentrated nature of the fund results in increased risk; however, we believe this risk is balanced by our expectation for enhanced returns over the long term.

Outside Canada, we had $11,153 million actively invested in the equities of companies in the United States, United Kingdom, Europe, the Far East and emerging markets as shown in the above table. Participation in various global economies increases our portfolio diversification and lowers overall risk.

	December 31, 2006		December 31, 2005	
(Millions)	**Holdings**	**(%)**	Holdings	(%)
United States	**$ 4,419**	**39%**	$ 3,032	38%
Europe	**2,768**	**25%**	1,869	24%
Far East	**1,632**	**15%**	1,391	17%
United Kingdom	**1,085**	**10%**	791	10%
Emerging markets	**1,249**	**11%**	887	11%
	$ 11,153	**100%**	$ 7,970	100%

Our non-Canadian equity portfolios are actively managed by 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, non-Canadian equities managed by external investment firms increased due to market value appreciation and additional funds provided to external managers.

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

- $1,428 million in managed portfolios that target the S&P/TSX Composite excluding income trusts, the S&P/TSX 60 and other indices.

Non-Canadian Equity

- $1,771 million in managed portfolios that target the Russell 1000 index and the S&P 500 index.

DERIVATIVE FINANCIAL INSTRUMENTS

In order to manage risk and enhance returns we enter into a variety of derivative contracts. These contracts are used in combination with other investment assets with the objective of providing a cost efficient means to improve returns by mitigating uncompensated risks and to add flexibility to the asset mix. Derivatives also enable us to rebalance the overall asset mix, or the asset mix within a class, on short notice to adjust for market shifts. We held derivatives with a notional value of $17,387 million at December 31, 2006, including $11,977 million of foreign exchange forward contracts.

We use derivative contracts to replicate Canadian and non-Canadian equity index returns. This equity exposure complements the internally managed Canadian equities portfolio and global equities portfolios managed both internally and by external specialists. At December 31, 2006 OMERS had public equity derivative exposure of $4,486 million through the market value of derivatives and assets backing derivatives as follows:

Canadian Equity

- $1,154 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

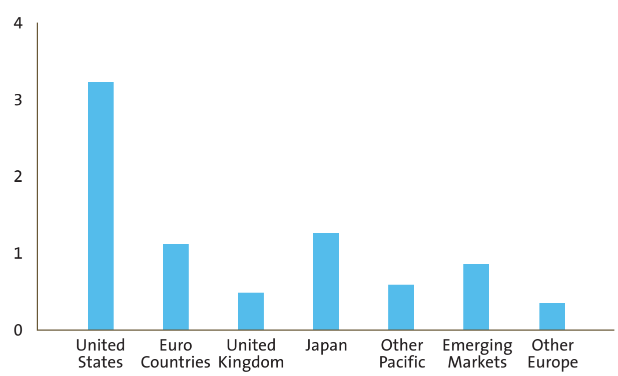
- $1,904 million in derivative portfolios that provide exposure to the S&P 500 index;
- Various derivative portfolios totaling $1,428 million that provide diversified exposure to major equity indices throughout the world.

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, 2006, $18,795 million or 39 per cent of OMERS net investment assets were exposed to foreign exchange risk before foreign currency management. Our largest foreign currency management strategy hedges approximately 50 per cent of our exposure to 13 major currencies, narrowing their volatility relative to the Canadian dollar. In addition, for non-Canadian private market investments we hedge foreign currency exposure up to 100 per cent. Our currency management programs produced a loss of $473 million in 2006, compared to income of $639 million in 2005, caused by a significant depreciation of the Canadian dollar against the British pound and the Euro in 2006, compared to a large appreciation in 2005. Since our currency hedging program was implemented in 2001, it has produced total income of $799 million. Our net foreign currency exposure after the results of our foreign currency management and trading programs at December 31, 2006 was $7,855 million and is allocated as shown in the chart below.

The credit risk exposure for derivatives is the unpaid amount receivable from counterparties. We follow prudent risk management policies, limiting our derivative credit risk exposure to less than five per cent of total fund net assets. At December 31, 2006, the credit risk exposure was 0.2 per cent, or $80 million, with all counterparties required to have a minimum "A" credit rating.

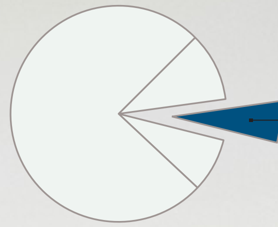
NET FOREIGN CURRENCY EXPOSURE

as at December 31, 2006 (Billions, Cdn Dollar Equivalent)



Private Equity Investments

OMERS private equity investments are managed by OMERS Capital Partners (OCP). OCP continues to build and strengthen investment relationships globally which will be the foundation for future investments to meet or exceed the long-term return objectives.



(l-r) John Young, Paul Renaud, Michael Lank, Don Morrison, Martin Day, Michael Graham

At December 31, 2006, the private equity portfolio team managed 43 fund relationships and 24 direct investments. This includes representing OMERS interests on 11 company boards and 32 fund advisory committees.

Private equity is the ownership of equity or equity-like securities in companies that do not generally trade publicly. Our goal over the long term is to build a portfolio of private equity investments diversified by geographic market, industry sector, size of company and type of investment that will represent approximately 10 per cent of our asset mix.

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. The fund investments as a limited partner are generally in excess of $50 million and as a co-investor generally in excess of $25 million. Fund investments are an efficient means for OMERS to diversify its investment portfolio. The types of fund investments include leverage buyouts, venture capital, distressed situations and mezzanine debt.

The second form is direct investment, with significant equity positions. Our focus is primarily on companies headquartered in Canada and when we decide to partner, it is with other like minded investors. Typical investments are expected to be in excess of $50 million.

Private equity investments generated net investment income of $360 million, compared with $383 million last year. The 2006 return on total private equity investment income was 17.7 per cent compared with 10.8 per cent for the benchmark and a 23.2 per cent return in 2005. Although the income and return was quite strong in 2006, the decline from 2005 was the result of lower market valuation adjustments resulting from reduced oil prices impacting the value of our investments exposed to that industry segment.

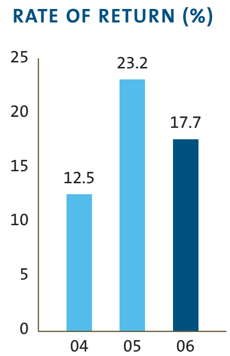
RETURNS AND BENCHMARKS

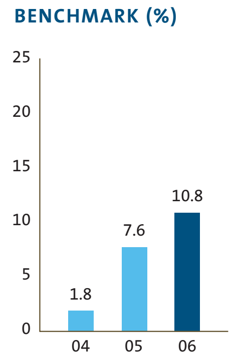
	2006		2005	
	Rate of Return	**Benchmark**	Rate of Return	Benchmark
Private equity	17.7%	10.8%	23.2%	7.6%

The overall private equity return in 2006 was

17.7%

compared with a benchmark of 10.8%.





Significant Direct Investments
Affinia Group Holdings
CCNMatthews
CEDA Holdings
Constellation Software
NXP (formerly, Philips Semiconductor)
OMERS Energy Inc.
Warner Chilcott

Significant Fund Investments
Hellman and Friedman
KKR
Sagard
Texas Pacific Group

Currently $2,911 million is invested in private equity, with 53 per cent managed by fund managers in Canada, the United States, Western Europe and Asia. The remaining 47 per cent is directly invested in companies. Private equity percentage exposure remained unchanged representing 6.0 per cent of net investment assets at the end of 2005 and 2006.

During 2006 private equity investments increased from $2,391 million to $2,911 million due to investments in both funds and direct investments. For funds, 15 new fund commitments for both new and existing relationships were made during the year totaling $1,437 million. We expect that our investment in private equity will continue to grow as we fund existing unfunded commitments of $2,100 million. We expect 2007 to be another strong year for new commitments as private equity global fundraising remains robust.

During 2006, we made $217 million of direct investments including an interest in CCNMatthews, a leading distributor of news releases, multimedia content and photographs to the media and investment community worldwide. We will continue to be responsive and proactive in seeking new direct investments where we can add value to deliver our required return.

Other significant investments include interests in:

- Affinia Group Holdings, a global aftermarket automotive parts manufacturer;
- CEDA Holdings, a leading industrial, mechanical and electrical services company which is well established in the Alberta oil sands;
- Constellation Software, a leading provider of software and services;
- NXP, a semiconductor manufacturer founded by Philips;
- OMERS Energy, an oil and gas exploration company located in Calgary, Alberta;
- Warner Chilcott, a leading, specialty pharmaceutical company focusing on women's health care; and
- fund investments with KKR, Sagard, Texas Pacific Group and Hellman and Friedman, which are leverage "buyout" funds that invest in a variety of businesses.

CCN Matthews
News Distribution Experts

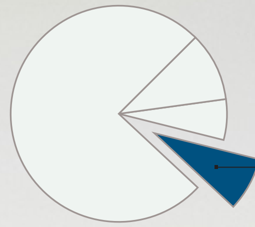
An interest in CCNMatthews was acquired on December 22, 2006. CCNMatthews is a leading distributor of news releases, multimedia content and photographs to the media and investment communities worldwide.

NXP founded by Philips

NXP is a semiconductor company with a fifty-year history of providing products and software that deliver better sensory experiences for mobile communications, consumer electronics, security applications, payment and connectivity, and in-car entertainment and networking.

Infrastructure Investments

Our infrastructure investments are managed by Borealis Infrastructure. Over the past several years Borealis has helped to develop infrastructure investing as an asset class for institutional investors and is one of the world leaders in sourcing and managing infrastructure investments.



(l-r) Rheal Ranger, Michael Rolland, John Knowlton, Michael Nobrega, Rob Watters, John McManus

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 a significant investor in the infrastructure sector. Our assets include majority or minority positions alongside other pension, corporate and government investors.

Infrastructure investments generated net investment income of $388 million, compared with $393 million a year earlier. The 2006 return was 14.0 per cent, compared with 10.8 per cent for the benchmark and a 23.2 per cent return in 2005. Net investment income was essentially flat in 2006 compared with 2005 as lower than expected earnings generated by the energy sector were offset by positive earnings generated by other sectors in the infrastructure portfolio. The infrastructure portfolio is partially funded by $1,644 million in debt, most of which is secured by the related underlying asset, resulting in an interest expense of $55 million in 2006.

RETURNS AND BENCHMARKS

	2006		2005	
	Rate of Return	**Benchmark**	Rate of Return	Benchmark
Infrastructure	14.0%	10.8%	23.2%	11.8%

At December 31, 2006, OMERS had $5,585 million invested in infrastructure assets, an increase of $1,866 million over the prior year. We increased our asset mix exposure to infrastructure in 2006 from 5.7 per cent to 7.9 per cent and we are making good progress toward our long-term asset mix goal of 15 per cent for infrastructure.

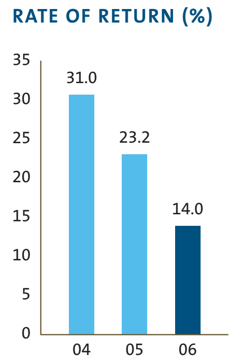
Our largest investment in our infrastructure portfolio is our limited partnership interests in the Bruce Power nuclear power plant. Based on an agreement which was reached with the Ontario Power Authority in 2005, OMERS has committed to provide funding of approximately $1,651 million between 2007 and 2011 to the restart and refurbishment of three of the eight reactors at Bruce Power. This will result in Bruce Power supplying approximately 25 per cent of Ontario's electricity by 2011 up from the current 20 per cent.

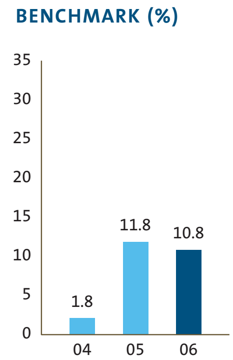
In August 2006, we also invested $975 million in a one third interest in Associated British Ports PLC, the largest port operator in the United Kingdom. Associated British Ports owns 21 ports handling approximately 25 per cent of all marine traffic goods into and out of the United Kingdom.

The overall infrastructure return in 2006 was

14.0%

compared with a benchmark of 10.8%.





Significant Investments

Bruce Power

Associated British Ports

Scotia Gas Networks

Express Pipeline

Detroit River Tunnel Partnership

During the year we reached an agreement to purchase the Canadian laboratory services business of MDS Inc., Canada's largest provider of laboratory services, for $1,325 million. The company provides more than 50 million diagnostic tests to more than 10 million patients and nearly 20,000 physicians each year. This transaction closed on February 23, 2007.

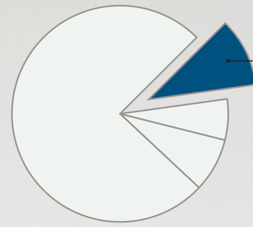
Other significant investments made in previous years include interests in:

- Scotia Gas Networks which operates the Scotland and the South of England gas distribution networks, comprising approximately 73,000 km of gas lines serving approximately 5.6 million customers;
- Express Pipeline, a pipeline system that exports crude oil from Alberta to the United States and serves refineries in six western and midwestern states;
- The Detroit River Tunnel transports over 425,000 railcars annually making it one of the largest trade corridors in the world;
- 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;
- Confederation Bridge linking Prince Edward Island and New Brunswick under a concession agreement with the federal government until 2032; and
- CIEL Satellite which will offer wholesale satellite capacity to the North American market.

(top) Southampton Port of the Associated British Ports. (bottom) Confederation Bridge between New Brunswick and Prince Edward Island.

Real Estate Investments

OMERS real estate investments are managed by Oxford Properties Group. Oxford is responsible for executing our strategy of developing a global enterprise in the real estate sector.



(l-r) Anna Kennedy, Paul Brundage, John Macdonald, Michael Latimer, Christopher Voutsinas

The strategy focuses on the ownership and management of large-scale assets, diversified by property type and geographic market to achieve superior risk-adjusted returns. 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 and property management companies, overseeing and managing approximately $15 billion of real estate for itself and on behalf of its co-owners.

Real estate generated net investment income of $1,016 million, including operating income of $350 million after interest expense as compared with net investment income of $790 million a year earlier on operating income of $392 million after interest expense. The real estate portfolio is partially funded by $2,906 million in mortgages, debentures, commercial paper and other debt, which resulted in an interest expense of $126 million in 2006. Based on total investment income of $1,021 million before investment management expenses, the return for the real estate portfolio was 26.2 per cent in 2006, compared with a 2006 benchmark return of 9.2 per cent and a 26.0 per cent return in 2005. Real estate significantly exceeded its benchmark return and increased its total investment income by 28.8 per cent over 2005 primarily as a result of gains on sales of properties and favorable market value appreciation in the year.

RETURNS AND BENCHMARKS

	2006		2005	
	Rate of Return	**Benchmark**	Rate of Return	Benchmark
Real estate	26.2%	9.2%	26.0%	8.4%

Oxford's real estate assets were valued at $8,541 million at December 31, 2006, an increase of $2,361 million from 2005. Our asset mix exposure to real estate increased to 10.3 per cent at December 31, 2006 compared with 8.1 per cent in 2005 due to net acquisitions during the year and valuation increases. As a result, we are making good progress toward our long-term asset mix goal of 12.5 per cent for real estate.

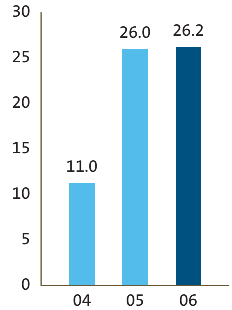
In September 2006, Oxford acquired seven iconic hotel properties from Fairmont Hotels and Resorts, allowing it to further diversify its real estate portfolio with a significant investment in this new asset class. The hotels include The Fairmont Banff Springs, The Fairmont Chateau Lake Louise, The Fairmont Chateau Whistler, The Fairmont Jasper Park Lodge, The Fairmont Vancouver Airport, Fairmont Le Chateau Montebello and Fairmont Kenauk at Le Chateau Montebello. The

The overall real estate return in 2006 was

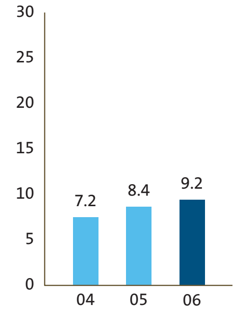
26.2%

compared with a benchmark of 9.2%.

RATE OF RETURN (%)



BENCHMARK (%)



Significant Investments

Royal Bank Plaza, Toronto
BCE Place-Canada Trust Tower, Toronto
Canterra Tower, Calgary
Yorkdale Shopping Centre, Toronto
Square One Shopping Centre, Mississauga
Scarborough Town Centre, Toronto

hotels will continue to be managed by Fairmont Hotels and Resorts. This acquisition was partially funded with a $1 billion increase in our commercial paper program.

At December 31, 2006, our direct portfolio consisted of 84 properties primarily in Canada with a total leasable area of 40.9 million square feet, 2,924 hotel rooms and 2,380 residential units. The portfolio composition is shown in the table to the right.

REAL ESTATE PORTFOLIO COMPOSITION

	Number of Properties	Percentage of Portfolio Based on Market Value
Office	45	42%
Retail	13	29%
Industrial	9	5%
Residential	6	3%
Hotels and resorts	7	20%
Properties under development	1	1%
Land held for development	3	0%
	84	100%

Oxford's office portfolio is diversified geographically in Canada across seven major markets. The largest concentration is in Toronto and the surrounding areas (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 13.9 million square feet. The properties are located across Canada and in the United States, but are predominantly in Toronto and the surrounding area. 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.

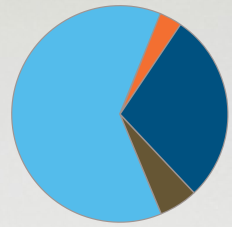
In 2006, Oxford began an initiative to seek new investment opportunities in the industrial and multifamily residential sectors with a view to building its portfolio in these areas. Historical and current data have demonstrated that these asset types can enhance the returns from real estate.

In addition, as part of Oxford's strategic and global investment plans, further efforts and investments are being made to increase the international component of our real estate investments to diversify and enhance returns. Through rigorous research, due diligence and strategic relationships, a pipeline of new investment activity has been identified and investment opportunities will continue to be assessed in 2007.

Oxford also holds and manages a portfolio of indirect investments that were valued at $500 million at December 31, 2006, an increase of $226 million from last year due primarily to new investments.

Pension Services

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



Member Profile

Active	236,900
Deferred	11,316
Retired/Survivor	101,120
Inactive	22,685
Total	**372,021**

(l-r) Jennifer Brown, Evelynn Funston, Graham Hills, Wendy Forsythe

OMERS is widely recognized in the pension industry not only for having an excellent pension plan but also for the high standards of its member services.

The OMERS Primary Pension Plan provides members with:

- a guaranteed pension benefit, based on earnings and years of service (as described on page 18, Pension Plans)
- early retirement options
- a Canada Pension Plan "bridge" benefit if the member retires before age 65
- full inflation protection up to 6 per cent per year with inflation above that level available to be carried forward to subsequent years
- disability protection in the event a contributing member becomes disabled and is unable to work
- survivor benefits to protect a member's family when a member dies
- portability to continue to be an OMERS member with any of 906 OMERS employers across Ontario.

This requires a combination of innovative programs and processes and, in particular, highly skilled and dedicated people who appreciate the importance of understanding the needs of our customers, and fulfilling them efficiently and promptly.

The mandate of the Pension Division, and OMERS overall, is to provide our members and employers first-in-class pension services. Our performance in 2006 confirms that the technology and staffing platforms we have built over the past several years are capable of meeting such a challenging objective.

In 2006, our results against our demanding service monitor standards were:

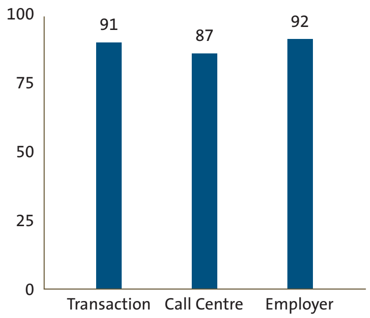
- Initial claims turnaround time – less than 2 business days on average compared with a target of 3 business days.
- Incoming calls resolved at first point of contact – 91.5 per cent of the time compared with a target of 90 per cent.
- Answer incoming calls to client services within 100 seconds – 73.9 per cent of the time compared with a target of 80 per cent.

The requirement to deliver outstanding service continues to grow:

- As illustrated by the member profile above, we now serve a total membership of over 372,000, 2.2 per cent more than at the end of 2005, and over 900 employers.
- In 2006, the pension promise was delivered through monthly Plan and RCA payments of $1,492 million to retirees who numbered over 101,000 at the end of the year. Where individuals left the Plan and RCA, payments of $252 million were also made in the form of commuted value payments and transfer payments to other pension plans.
- In 2006, we received requests for over 28,700 retirement, termination, disability, pre-retirement death benefits and retirement and termination estimates, an increase of 15 per cent over 2005.
- Communication is a critical element of our service. In 2006, our web site had 607,600 visits, an increase of 26 per cent over 2005. We also continued our practice of serving our members and building our relationship with employers through regular communication. We made 1,047 presentations at member information and pre-retirement sessions in 2006 and

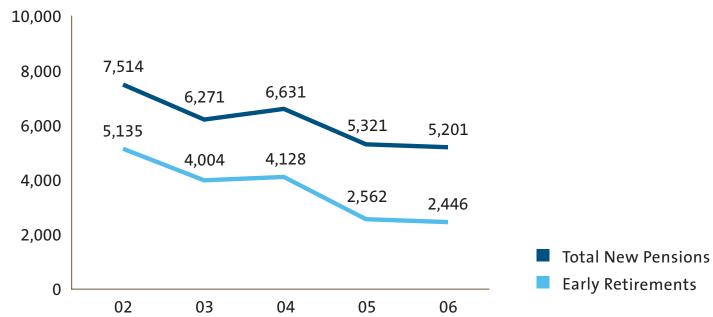
SATISFACTION SURVEYS

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



NUMBER OF NEW PENSIONS

(Unusually high numbers from 2002 to 2004 reflect temporary early retirement windows that were in effect during those years)



supported employers with regular written communication and on site visits where appropriate.

- 87 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 over a secure on-line service.
- e-access continued to extend its reach in 2006. Over the course of the year, 87 per cent of key employer forms were received through e-access, compared with about 79 per cent in 2005 and about 70 per cent at the end of 2004. The most significant e-access application for both employers and OMERS is the e-119 application through which employers report annual member data to OMERS through our secure on line e-access system. 96 per cent of all annual pension statements were issued to members by June 30, 2006, which exceeded our target of 80 per cent in that time frame.

Not only do we serve many individual members on a timely basis but we are told that we are doing it well. We conduct an annual survey to assess how we are doing at meeting the needs of members and employers. The 2006 survey results showed an average satisfaction rate of 91 per cent for the overall level of service which shows continuing recognition of our high standards.

Over the next year and a half our staff will be busy implementing the provisions of the OMERS Act, which includes the requirement for OMERS to implement a Supplemental Plan for members of the police sector, fire fighters and paramedics by July 1, 2008. The Sponsors Corporation can establish other Supplemental Plans for other members of the Plan. Supplemental Plans are separately funded stand alone pension plans which offer benefits in excess of what is available in the OMERS Primary Pension Plan.

Once the Supplemental Plan is finalized, members and employers may mutually agree to participate or participation may be locally bargained. Under the legislation, only one supplemental benefit may be provided at a time, at three-year intervals.

The benefits paid under the OMERS Primary Pension Plan, including the Canada Pension Plan bridge benefit (as discussed on page 18, Pension Plans), 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. The benefits available under the Supplemental Plan for members of the police sector, fire fighters and paramedics may include:

- Increasing the benefit accrual from the current 2 per cent of the member's average annual earnings as noted above to 2.33 per cent.
- Calculating the pension based on the member's average annual earnings for the highest paid three consecutive years of service rather than the member's average annual earnings for the highest paid five consecutive years.
- Calculating the pension based on the member's average annual earnings for the highest paid four consecutive years of service rather than the member's average annual earnings for the highest paid five consecutive years.
- Enabling eligible members to retire with an unreduced pension where a member's age plus years of credited service equal 85 or more rather than the current 90 factor for eligible members with a normal retirement age of 65.
- Enabling eligible members to retire with an unreduced pension where the member's age plus years of credited service equal 80 or more rather than the current 85 factor for eligible members with a normal retirement age of 60.

We will continue to enhance our overall services, improving e-access tools, and strengthening our processes and communications.

Risk Management

OMERS is committed to providing secure pensions to its members by investing in a broad range of assets in a manner that earns superior returns without taking undue risk. Our goal is to ensure that the value of the investment portfolio is sufficient to meet the value of all pension benefits (the "liabilities") promised to members of the Plan on a sustained basis.

The ability of OMERS to meet this obligation is affected by two factors:

- fluctuations in the value of the investment portfolio, which are driven by changes in investment markets (primarily market and credit risk), and
- changes in the value of the Plan's actuarial liabilities, which are driven by both economic and demographic factors.

Our approach to risk management is enterprise-wide and involves our Board, management and professional staff within each line of business. Risk management is an essential part of our corporate and investment strategy. It assists us in generating the investment returns we need to keep the pension promise without incurring substantial risk of loss. In addition, OMERS staff are required to adhere to policies, procedures and standards that a prudent person would reasonably exercise when managing the assets of others. Risk management is supported by our Code of Ethics and Professional Conduct and Conflict of Interest policies and our system of internal controls and procedures. During 2007 we will continue to strengthen our risk management activities throughout the organization.

OMERS follows a policy of asset diversification for its investments. The purpose of such diversification is to have different segments of the investment portfolio exposed to different investment risks. This reduces the overall volatility of returns and helps insulate the investment portfolio from the negative impact of adverse returns in any one asset class, industry or region.

Our primary longer-term focus is continuing to meet the pension promise. To manage this risk, OMERS reviews and adjusts its asset mix periodically so that the expected long-term investment returns are sufficient to meet the Plan's liabilities. Our goal is to manage an asset mix that balances risks and rewards, avoids excessive volatility in the investment portfolio and is appropriate for the size and duration of the Plan's liabilities. The target weight of each asset class, as a proportion of the total portfolio, and the associated allowable ranges, are approved by the Board and reviewed on an ongoing basis by management.

The Plan's actuarial liabilities behave largely like a mix of real return and nominal bonds. Due to the diversification principles noted above and the need to maintain reasonable contribution rates, OMERS invests in a combination of equities, infrastructure, real estate and a broad range of actively managed interest bearing instruments. As a result there is a mismatch between the characteristics of the actuarial liabilities and the characteristics of the assets, which expose the Plan to various risks that must be closely monitored and managed.

RISKS AFFECTING THE PLAN

There are five main facets to the risks faced by OMERS that could potentially have an adverse effect on the Plan.

- First, there are investment risks (market and credit) that are an inherent part of investing in capital markets.
- Second, there is an array of operational risks that OMERS faces as a business operation.
- Third, the Plan faces actuarial assumption risks which may impact the actuarial liability and contribution rates.
- Fourth, there are strategic risks inherent in the execution of our longer-term plan.
- And finally, there are legal, regulatory and reputational risks that OMERS deals with in the management of the Plan and the RCA and as part of the administration of such plans under the laws of Canada.

Investment Risk

OMERS manages a variety of investment risks associated with investing in capital markets including market and credit risk.

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. Market risk is a term which encompasses a variety of financial risks, such as interest rate risk, commodities risk, equity risk and foreign exchange risk. Significant volatility in interest rates, commodity prices, equity values and the value of the Canadian dollar against the currencies in which our investments are held can significantly impact the value of our investments and the actuarial surplus or deficit of the Plan.

OMERS has policies requiring the use of various investment strategies such as diversification, hedging and the use of derivative instruments, to mitigate the various forms of market risk. Our exposure and investment positions are monitored on a daily basis.

Credit Risk

Credit risk is the risk of loss arising from the failure of a counterparty to fully honour its contractual obligations including the inability or unwillingness to pay the principal borrowed, or to make interest payments when they come due. More generally, credit risk can also lead to losses when debtors are downgraded by credit agencies, usually leading to a fall in the market value of their obligations.

OMERS has developed policies which are designed to manage credit risk by establishing limits to credit exposure from individual corporate entities and requiring collateral where appropriate.

Operational Risk

Operational risk is the risk of financial loss arising either directly or indirectly from operational error due to failure in processes, systems, technology, actions of personnel or due to unforeseen external events. The framework of policies and procedures at OMERS is designed to identify and manage operational risks through the implementation of controls for data integrity, information processing, management of information technology and appropriate human resources, systems and practices.

Actuarial Assumption Risk

OMERS ability to pay pensions is also subject to the risks associated with the assumptions used in the valuation of the Plan's actuarial liabilities. There are two sources of this risk: (1) the risk that the actual market conditions differ significantly from the parameters used in the valuation of the liabilities and (2) unforeseen changes in the major parameters. The major parameters that go into the valuation of the actuarial liability include assumptions about long-term economic conditions such as inflation, the real return on investments and the rate of member salary increases and assumptions about demographics of the membership such as mortality rates, disability rates, and the rates for terminations, early retirement and marital status.

In order to manage these risks, the Board appoints an independent actuary to annually value the actuarial liability based on economic and demographic assumptions as recommended by the actuary, reviewed by management and approved by the Board. The validity of all assumptions are monitored each year against actual experience and adjusted as appropriate.

Strategic Risk

Strategic risk is the risk of not achieving OMERS long-term strategic goals and objectives. The Board and the CEO assist in the achievement of OMERS strategic goals by overseeing OMERS policies and the planning and achievement of OMERS long-term goals. The CEO is accountable to the Board for decisions relating to all areas of OMERS management including funding policy, investment strategies, investments pursued, investment management styles and operating results. To manage this risk, OMERS has established a governance framework, business strategy process and performance measures.

Legal, Regulatory and Reputation Risk

Legal, regulatory and reputation risk arises from unanticipated changes in or non-compliance with legal and/or regulatory requirements and/or other ethical standards which can undermine OMERS ability to accomplish its objectives. The Board and management with the assistance of the Legal Division and independent expert advisors monitor situations affecting regulatory compliance and situations that could result in regulatory action. We have established processes to keep abreast of regulatory developments applicable to OMERS.

The Board and management also monitor events that could affect stakeholder or public perceptions of OMERS. In addition, management also monitors the perception of OMERS by conducting regular research of member satisfaction and public perception of issues which could impact OMERS.

Through our governance framework, and established policies and procedures including our Code of Ethics and Professional Conduct and Conflict of Interest policies for directors and employees, we strive to ensure that values and behavioural expectations are well understood and integrated throughout the organization so as to minimize such risks.

Critical Accounting Policies

OMERS has established procedures to ensure that accounting policies are in accordance with Canadian generally accepted accounting principles ("GAAP"), are applied consistently and that our processes for changing accounting policies are systematic and well controlled.

Consistent with Canadian GAAP, certain of OMERS accounting policies require subjective or complex judgments and estimates relating to matters that are inherently uncertain. The use of different judgments and estimates could result in materially different amounts being recorded under different conditions or by using different assumptions. As a result, actual results could materially differ from our estimates and assumptions recorded in the consolidated financial statements. Significant estimates included in the consolidated financial statements relate to the valuation of certain investments and the determination of the actuarial liabilities.

OMERS policy is to record all investments at fair value; however, the determination of fair value involves considering many factors for each type of investment held by the Plan. Fair value is determined with reference to quoted market prices, where available. For private market investments where quoted market prices are not available, fair value is generally based on internal or external valuations using generally accepted valuation methods. For private equity funds the fair value may be provided by the fund's general partner. As a result fair values for private market investments are based on estimates which are inherently uncertain. OMERS policy is to obtain independent support of these valuations by accredited independent appraisers at least once every three years or whenever the valuation changes by more than 15 per cent from the prior year.

Actuarial assumptions used in determining actuarial liabilities reflect management's best estimates of future economic factors such as the discount rate, rate of pensionable earnings increase and inflation, and non-economic factors such as mortality, withdrawal and retirement rates of Plan members. This process is supported by our independent actuary. The Plan's actual experience could differ from these estimates and the differences are recognized as experience gains or losses in future years.

A summary of the OMERS significant accounting policies is presented in Note 2 to the Consolidated Financial Statements beginning on page 45 of this Annual Report.

OMERS Chief Executive Officer

On February 1, 2007, the Board of Directors of OMERS announced that Paul Haggis, President and Chief Executive Officer of OMERS would be leaving OMERS later in 2007. The decision was a mutual agreement between the Board and Mr. Haggis reflecting the future needs and focus of OMERS. Subsequently, on February 28, 2007, the Board of Directors announced the appointment of Michael Nobrega, formerly President and Chief Executive Officer of Borealis Capital Corporation (OMERS infrastructure entity), as the new President and Chief Executive Officer effective March 12, 2007. The change in President and Chief Executive Officer should not have a material impact on OMERS day to day operations.

Actuarial Opinion

as at December 31, 2006

The most recent actuarial valuation of the registered pension plan benefits of the primary pension plan (the "OMERS Primary Pension Plan" or the "Plan") administered by OMERS Administration Corporation was conducted as at December 31, 2006 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 Plan as at December 31, 2006, 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 Plan disclosed total going concern actuarial liabilities of $44,167 million in respect of benefits accrued for service to December 31, 2006. The actuarial assets at that date were $41,785 million indicating a going concern actuarial deficit of $2,382 million. Ongoing adequacy of the current contribution rates will need to be monitored to ensure that future contributions, together with the 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 Plan and are not fully pre-funded. The actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 2006 (determined using assumptions consistent with those used for the 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 $143 million. Contributions, based on the top-tier Plan contribution rates, are payable to the RCA on the excess of earnings over the maximum contributory earnings recognized under the 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 the Plan and the RCA as at December 31, 2006 was conducted using membership data as at December 31, 2005 and financial information as at December 31, 2006 supplied by OMERS Administration Corporation. The December 31, 2005 membership was adjusted for the following:

- membership movements to December 3, 2006,
- actual inflationary increases to pensions in payment and deferred pension payments effective January 1, 2007, and
- the estimated increase in earnings for 2006.

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 the Plan and the RCA 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 are given in accordance with accepted actuarial practice.

Respectfully submitted
WATSON WYATT CANADA ULC

Ian Markham

Ian Markham
Fellow, Canadian Institute of Actuaries

February 23, 2007

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

Responsibilities of Management, the Actuary and External Auditors

OMERS Administration Corporation ("OMERS") is the administrator of the primary pension plan as defined in the *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Primary Pension Plan" or the "Plan") and the Retirement Compensation Arrangement ("RCA") associated with the Plan. The consolidated financial statements of OMERS Administration Corporation have been prepared by management of OMERS, and approved by the Board of OMERS Administration Corporation (the "Board"). Management is responsible for the contents of the consolidated financial statements and the financial information contained within the Annual Report.

Management maintains systems of internal control and supporting procedures that are designed 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 of the Board, reviews OMERS systems of internal control to determine whether 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 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 Plan and RCA 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 on page 39 of this Annual Report. In performing the valuation, the actuary values the benefits provided under the Plan and the RCA 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 active, former and retired members.

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 OMERS 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 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 provided the Actuarial 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 Administration Corporation as of the date and for the periods presented in the Annual Report.

Paul G. Haggis
President and Chief Executive Officer

Patrick G. Crowley
Chief Financial Officer

Toronto, Canada
February 23, 2007

Auditors' Report

To the Board of OMERS Administration Corporation

We have audited the consolidated statement of net assets and the consolidated statement of application of net assets to actuarial liabilities and deficit of OMERS Administration Corporation as at December 31, 2006 and the consolidated statement of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of OMERS Administration Corporation'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 OMERS Administration Corporation as at December 31, 2006 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 23, 2007

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF NET ASSETS

(Millions) As at December 31,	2006	2005
Assets		
Investments (note 3)	$ 60,610	$ 51,628
Amounts due from pending trades	138	258
Other assets (note 5)	724	663
Total Assets	61,472	52,549
Liabilities		
Investment liabilities (note 6)	12,725	10,642
Due to administered funds	741	639
Amounts payable from pending trades	363	130
Other liabilities	38	73
Total Liabilities	13,867	11,484
Net Assets	$ 47,605	$ 41,065

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

Signed on Behalf of the Board
of OMERS Administration Corporation

Member

Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(Millions) For the year ended December 31,	2006	2005
Changes Due to Investment Activities		
Net investment income (note 9)	$ 6,530	$ 5,515
Changes Due to Pension Activities		
Contributions (note 11)	1,792	1,534
Benefits (note 12)	(1,744)	(1,603)
Pension administrative expenses (note 13(a))	(38)	(36)
	10	(105)
Total Increase	6,540	5,410
Net assets, beginning of year	41,065	35,655
Net Assets, End of Year	$ 47,605	$ 41,065

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

CONSOLIDATED STATEMENT OF APPLICATION OF NET ASSETS TO ACTUARIAL LIABILITIES AND DEFICIT

(Millions) As at December 31,	2006	2005
OMERS Primary Pension Plan (note 7)		
Actuarial liabilities	$ 44,167	$ 41,123
Actuarial value adjustment of net assets	5,791	2,707
Deficit	(2,382)	(2,784)
Net Assets in OMERS Primary Pension Plan	47,576	41,046
Retirement Compensation Arrangement (note 8)		
Actuarial liabilities	172	157
Deficit	(143)	(138)
Net Assets in Retirement Compensation Arrangement	29	19
Net Assets	$ 47,605	$ 41,065

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

Notes to Consolidated Financial Statements

NOTE 1 – DESCRIPTION OF PLANS ADMINISTERED BY OMERS ADMINISTRATION CORPORATION

Effective June 30, 2006, the Ontario Municipal Employees Retirement Board was continued as a corporation without share capital under the name OMERS Administration Corporation ("OMERS"), pursuant to the *Ontario Municipal Employees Retirement System Act, 2006* (the *"OMERS Act"*). OMERS is the administrator of the primary pension plan as defined in the *OMERS Act* (the "OMERS Primary Pension Plan" or the "Plan") and the Retirement Compensation Arrangement ("RCA") associated with the Plan. OMERS is responsible for investing the pension funds, as defined in the *OMERS Act*, in accordance with the *Pension Benefits Act (Ontario)* (the *"PBA"*), the *Income Tax Act (Canada)* (the *"Income Tax Act"*), and the *OMERS Act*. In addition, the OMERS Sponsors Corporation replaces the Province of Ontario as sponsor of the Plan and the RCA described below.

OMERS Primary Pension Plan

The OMERS Primary Pension Plan is a multi-employer pension plan, created in 1962 by an Act of the Ontario Legislature, whose members are mainly employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. Prior to June 30, 2006, the Plan was governed by the *Ontario Municipal Employees Retirement System Act* and *OMERS Regulation 890*, as amended from time to time. Effective June 30, 2006, the Plan is governed by the *OMERS Act* and the benefit provisions and other terms of the Plan are set out in the plan text.

The OMERS Primary Pension Plan is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency. The Plan is registered under Registration #0345983.

a) **Funding** – The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and members and by the investment earnings of the Plan assets. Contributions are determined in accordance with the *OMERS Act*, the *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 Plan members except police officers and firefighters, who generally have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest sixty consecutive months of earnings. The Plan is integrated with the Canada Pension Plan.

c) **Death Benefits** – Death benefits are available to a surviving spouse, eligible dependent children 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 eligibility to retire has the option to withdraw his/her benefits from the Plan.

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** – The Plan 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.

Retirement Compensation Arrangement

The RCA was established to provide pension benefits based on full earnings 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 Plan 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 OMERS Administration Corporation 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 include the assets, liabilities and operating results for all investment entities where OMERS has effective control for accounting purposes, and for variable interest entities where OMERS is the primary beneficiary. For investment entities where OMERS has joint ownership and control for accounting purposes, 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 consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported values of assets and liabilities, income and expenses, actuarial liabilities and related disclosures. 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 closing 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 annually by management to determine fair value using appropriate valuation techniques, including the use of discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. Accredited external appraisers are required to perform a review of management's valuations to determine the reasonableness of the valuations for each significant private market investment at least once every three years or in any year where the valuation changes by more than fifteen per cent from the prior year.

The difference between the value of an asset or liability 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 are also considered in the valuation. While not exact, appraisal or valuation procedures are able to provide estimates or identify likely ranges that a reasonable arms 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 directly held private markets investments is equal to cost until there is a specific and objectively verifiable reason to change the value, supported by an appraisal;
- 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 restricted, 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, 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 and the investment is adjusted to its fair value.

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.

Due to Administered Funds

Under contractual agreements and with the approval of the Government of Ontario, OMERS invests funds on behalf of The Board of Trustees of Ryerson 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 such funds.

The amount due to administered funds is credited with income based upon their proportionate interest in OMERS investment income and the balance reflects the administered funds' proportionate interest in the fair value of OMERS investments.

Accrued Pension Benefits

The value of accrued pension benefits of the Plan is based on a projected accrued benefits method (pro-rated on service) 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 OMERS for the purpose of establishing the long-term funding requirements of the Plan. The actuarial valuation included in the consolidated financial statements is consistent with the valuation for funding purposes.

The valuation methodology used in the estimation of the accrued pension benefits of the RCA is developed on a basis consistent with the Plan.

Actuarial Value of Net Assets and Actuarial Value Adjustment

The actuarial value of net assets for the Plan 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

Contributions from employers and members due to the Plan and the RCA 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:

	2006		2005	
(Millions)	**Fair Value**	**Cost**	Fair Value	Cost
Public Market Investments				
Interest Bearing Investments				
Cash and short-term deposits (i)	**$ 11,352**	**$ 11,352**	$ 11,696	$ 11,696
Bonds and debentures (ii)	**6,446**	**6,281**	6,417	6,225
Real return bonds	**1,969**	**1,685**	1,660	1,265
Mortgages and private debt (iii)	**1,364**	**1,305**	1,569	1,494
	21,131	**20,623**	21,342	20,680
Public Equity				
Canadian public equities	**9,518**	**6,127**	8,466	5,471
Non-Canadian public equities	**12,924**	**9,978**	9,530	8,312
	22,442	**16,105**	17,996	13,783
Total Public Market Investments	**43,573**	**36,728**	39,338	34,463
Private Equity				
Canadian private equities (iv)	**1,320**	**1,093**	1,143	982
Non-Canadian private equities	**1,591**	**1,645**	1,248	1,272
	2,911	**2,738**	2,391	2,254
Infrastructure Investments	**5,585**	**5,110**	3,719	3,475
Real Estate Investments	**8,541**	**7,597**	6,180	5,920
Total Investments	**60,610**	**52,173**	51,628	46,112
Investment Related Assets				
Amounts due from pending trades	**138**	**59**	258	47
Other investment assets (note 5)	**561**	**561**	507	491
	699	**620**	765	538
Investment Related Liabilities				
Investment liabilities (note 6)	**(12,725)**	**(12,536)**	(10,642)	(10,462)
Amounts payable from pending trades	**(363)**	**(66)**	(130)	(50)
	(13,088)	**(12,602)**	(10,772)	(10,512)
Net Investment Assets	**$ 48,221**	**$ 40,191**	$ 41,621	$ 36,138

i) Includes restricted cash of $119 million (2005 – $70 million).

ii) Includes non-Canadian bonds and debentures with a fair value of $142 million (2005 – $194 million).

iii) Includes mortgages with a fair value of $919 million (2005 – $1,072 million).

iv) Includes resource properties with a fair value of $217 million (2005 – $271 million).

OMERS participates in a securities lending program where it lends securities that it owns to third parties. For securities lent, OMERS receives a fee and holds cash or securities of higher value as collateral. As at December 31, 2006, securities with an estimated fair value of $8,061 million (2005 – $6,589 million) were loaned out, while collateral held had an estimated fair value of $8,313 million (2005 – $6,787 million) of which $7,153 million (2005 – $6,344 million) was cash collateral invested in short-term interest bearing investments.

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

(Millions)	2006 Number of Investments	2006 Fair Value	2006 Cost	2005 Number of Investments	2005 Fair Value	2005 Cost
Public market investments	**5**	**$ 2,427**	**$ 1,768**	2	$ 849	$ 694
Private market investments	**7**	**5,447**	**4,697**	4	2,928	2,355
	12	**$ 7,874**	**$ 6,465**	6	$ 3,777	$ 3,049

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 include two interest bearing securities issued by the Government of Canada and equity securities of Manulife Financial Corporation, Royal Bank of Canada and Toronto Dominion Bank. 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, an ownership interest in Associated British Ports PLC, and real estate ownership interests in Yorkdale Shopping Centre located in Ontario and the Fairmont Banff Springs and the Fairmont Chateau Lake Louise hotels both located in Alberta.

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

(Millions) As at December 31, 2006	Public Markets Interest Bearing	Public Markets Public Equity	Private Equity	Infra-structure	Real Estate	Total
Investment assets	**$ 21,131**	**$ 22,442**	**$ 2,911**	**$ 5,585**	**$ 8,541**	**$ 60,610**
Allocation of cash and other	**(4,159)**	**3,803**	**11**	**107**	**238**	**–**
Investment related assets	**78**	**165**	**98**	**258**	**100**	**699**
Investment related liabilities	**(7,161)**	**(371)**	**(136)**	**(2,115)**	**(3,305)**	**(13,088)**
Net investment assets	**$ 9,889**	**$ 26,039**	**$ 2,884**	**$ 3,835**	**$ 5,574**	**$ 48,221**

(Millions) As at December 31, 2005	Public Markets Interest Bearing	Public Markets Public Equity	Private Equity	Infra-structure	Real Estate	Total
Investment assets	$ 21,342	$ 17,996	$ 2,391	$ 3,719	$ 6,180	$ 51,628
Allocation of cash and other	(4,709)	4,230	69	240	170	–
Investment related assets	81	280	103	203	98	765
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

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 OMERS 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 its foreign currency exposure is hedged through the use of foreign exchange forward contracts. OMERS also takes active trading positions in foreign currencies with the objective of adding value. OMERS total currency exposure, impact of the currency overlay program (hedging and trading) and the net currency exposure as at December 31 are as follows:

	2006 Fair Value				2005 Fair Value			
		Currency Overlay				Currency Overlay		
(Millions Cdn dollar equivalent)	**Total Exposure**	**Hedging**	**Trading**	**Net Exposure**	Total Exposure	Hedging	Trading	Net Exposure
Canada	**$ 29,426**	**$ 11,020**	**$ (80)**	**$ 40,366**	$ 25,833	$ 9,054	$ 148	$ 35,035
United States	**9,034**	**(5,204)**	**(589)**	**3,241**	7,953	(4,936)	(200)	2,817
Euro Countries	**2,924**	**(1,706)**	**(97)**	**1,121**	2,423	(1,246)	(179)	998
United Kingdom	**2,765**	**(2,308)**	**22**	**479**	1,650	(1,199)	2	453
Japan	**1,360**	**(728)**	**620**	**1,252**	1,569	(761)	119	927
Other Pacific	**1,033**	**(462)**	**5**	**576**	889	(367)	(6)	516
Emerging Markets	**855**	**(76)**	**71**	**850**	642	(74)	82	650
Other Europe	**824**	**(536)**	**48**	**336**	662	(471)	34	225
	$ 48,221	**$ –**	**$ –**	**$ 48,221**	$ 41,621	$ –	$ –	$ 41,621

Interest Rate Risk

Interest rate risk refers to the effect on the market value of OMERS assets and liabilities due to fluctuations in interest rates. Due to the indexing of benefit entitlements and the relatively long-term nature of pension benefits (note 7 and 8), liabilities are influenced by inflation and long-term rates of return, while, asset values are mostly affected by equity markets and short-term changes in interest rates. The interest bearing investment 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:

	2006					2005	
	Term to Maturity						
(Millions)	**Within 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**	**Average Effective Yield** (i)	Total	Average Effective Yield (i)
Cash and short-term deposits	**$ 11,352**	**$ –**	**$ –**	**$ 11,352**	**4.28%**	$ 11,696	3.30%
Bonds and debentures	**568**	**2,187**	**3,691**	**6,446**	**4.28%**	6,417	4.06%
Real return bonds (ii)	**–**	**–**	**1,969**	**1,969**	**1.81%**	1,660	1.46%
Mortgages and private debt	**110**	**563**	**691**	**1,364**	**5.36%**	1,569	5.22%
	$ 12,030	**$ 2,750**	**$ 6,351**	**$ 21,131**	**4.12%**	$ 21,342	3.53%

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

ii) Real return bond yields based on real interest rates. The ultimate yield will be impacted by inflation as it occurs.

After giving effect to the derivative contracts and investment related assets and liabilities, a one per cent increase/decrease in nominal interest rates would result in an approximate decrease/increase in the value of interest bearing investments of 8.1 per cent (2005 – 6.2 per cent). Similarly, a one per cent increase/decrease in real interest rates would result in an approximate decrease/increase in the value of the real-return bonds of 21.7 per cent (2005 – 24.0 per cent).

Bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt of $1,035 million (2005 – $2,004 million) makes up 12.3 per cent (2005 – 24.8 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. To mitigate the impact of market risk, OMERS invests in a diversified portfolio of investments, based on Board approved policies, and utilizes derivative financial instruments.

Credit Risk

OMERS 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 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.

OMERS 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.

OMERS 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;
- arranges credit risk mitigation in the form of periodic prepayments of the fair value of contracts.

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:

	2006			2005		
		Fair Value (ii)			Fair Value (ii)	
(Millions)	**Notional Value** (i)	**Assets** (iii)	**Liabilities**	Notional Value (i)	Assets (iii)	Liabilities
Interest Rate Contracts						
Interest rate swap contracts	**$ 404**	**$ 16**	**$ (3)**	$ 984	$ 19	$ (11)
Bond index swap contracts	**421**	**–**	**(3)**	477	4	–
Bond options purchased (iv)	**99**	**1**	**–**	–	–	–
	924	**17**	**(6)**	1,461	23	(11)
Equity Contracts						
Equity index futures contracts	**3,852**	**–**	**(10)**	4,834	–	(32)
Equity index swap contracts	**609**	**28**	**–**	1,127	44	–
Equity swap contracts	**–**	**–**	**–**	19	9	–
Equity options written (v)	**25**	**–**	**(1)**	68	–	(2)
	4,486	**28**	**(11)**	6,048	53	(34)
Foreign Exchange Forward Contracts	**11,977**	**35**	**(281)**	12,123	135	(38)
Total	**$ 17,387**	**$ 80**	**$ (298)**	$ 19,632	$ 211	$ (83)

i) 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.

ii) Fair value represents unrealized gains or losses from derivative contracts which 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.

iii) The fair value of derivative assets represent the credit risk replacement cost or 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.

iv) The premium paid on bond options purchased is $1 million (2005 – $nil).

v) The premium received on equity options written is $1 million (2005 – $3 million).

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

	2006				2005			
(Millions)	**Interest Rate Contracts**	**Equity Contracts**	**Foreign Exchange Contracts**	**Total**	Interest Rate Contracts	Equity Contracts	Foreign Exchange Contracts	Total
Under 1 year	**$ 573**	**$ 4,486**	**$ 11,977**	**$ 17,036**	$ 1,067	$ 6,048	$ 12,123	$ 19,238
1 to 5 years	**284**	**–**	**–**	**284**	327	–	–	327
Over 5 years	**67**	**–**	**–**	**67**	67	–	–	67
	$ 924	**$ 4,486**	**$ 11,977**	**$ 17,387**	$ 1,461	$ 6,048	$ 12,123	$ 19,632

NOTE 5 – OTHER ASSETS

Other assets are comprised of operational accounts receivable, accrued income and other assets related to private equity, infrastructure and real estate, and contributions and other non-investment receivables.

(Millions)	**2006**	2005
Investment receivables	**$ 456**	$ 360
Deferred assets, prepaids and other	**105**	147
Other investment assets	**561**	507
Contributions receivable	**146**	143
Other non-investment assets	**17**	13
	$ 724	$ 663

NOTE 6 – INVESTMENT LIABILITIES

(Millions)	**2006**	2005
Long-term debt (a)	**$ 4,591**	$ 3,562
Payable under securities lending program (b)	**7,153**	6,344
Deferred revenue	**106**	100
Payables	**875**	636
	$ 12,725	$ 10,642

a) Long-term debt is comprised of the following:

(Millions)	2006 Fair Value	2006 Cost	2006 Weighted Average Interest Rate	2005 Fair Value	2005 Cost	2005 Weighted Average Interest Rate
Real estate						
Secured debt (i)	$ 734	$ 700	5.46%	$ 821	$ 773	5.36%
Series A debentures (ii)	531	500	4.28%	539	500	4.19%
Series B debentures (iii)	502	500	4.30%	508	500	4.01%
Commercial paper (iv)	1,138	1,138	4.31%	298	298	3.29%
Unsecured debt	1	1	6.43%	2	2	7.53%
	2,906	2,839	5.18%	2,168	2,073	4.47%
Infrastructure						
Secured debt (v)	1,626	1,496	5.42%	1,376	1,282	5.60%
Unsecured debt	18	18	4.50%	18	18	7.42%
	1,644	1,514	5.41%	1,394	1,300	5.62%
Private equity						
Secured debt (vi)	41	41	5.27%	–	–	–
Total (vii)	$ 4,591	$ 4,394	5.26%	$ 3,562	$ 3,373	4.92%

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, 2006 up to March 28, 2007.

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) Credit facility maturing April 11, 2011 secured by specific private equity assets.

vii) Scheduled principal repayments for each of the five years subsequent to December 31, 2006 and thereafter are as follows:

(Millions)	
2007	$ 1,272
2008	749
2009	120
2010	221
2011	119
Thereafter	1,913
	$ 4,394

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.

NOTE 7 – OMERS PRIMARY PENSION PLAN

The OMERS Primary Pension Plan is a multi-employer pension plan administered by OMERS whose members are mainly employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. The Plan is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency.

A summary of the financial statements for the Plan as at and for the year ended December 31 is as follows:

(Millions)	2006	2005
Statement of Net Assets		
Net investment assets (i)	$ 47,466	$ 40,973
Other assets	148	145
Other liabilities	(38)	(72)
Net Assets	$ 47,576	$ 41,046
Statement of Changes in Net Assets		
Net investment income	$ 6,528	$ 5,514
Contributions	1,780	1,525
Benefits	(1,740)	(1,600)
Pension administrative expenses	(38)	(36)
Total Increase	6,530	5,403
Net assets, beginning of year	41,046	35,643
Net Assets, End of Year	$ 47,576	$ 41,046

i) Excludes amounts due to administered funds.

Actuarial Value of Net Assets of the Plan

The actuarial value of net assets of the Plan is established such that investment returns above or below the long-term return assumption for the year 2006 of 7.00 per cent (2005 – 7.25 per cent) are deferred and amortized over 5 years to adjust the value of net assets. For the year, $2,924 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, 2006, the Plan has $5,791 million in investment gains (2005 – $2,707 million) in an actuarial valuation adjustment reserve which is the present value of the amount of previous excess investment returns to be recognized from 2007 through 2010 as follows:

(Millions)	Actuarial Valuation Adjustment as at Dec. 31, 2006	Unrecognized Investment Returns to be Recognized in 2007	2008	2009	2010	Actuarial Valuation Adjustment as at Dec. 31, 2005
2002	$ –	$ –	$ –	$ –	$ –	$ (1,183)
2003	354	378	–	–	–	661
2004	629	336	358	–	–	882
2005	1,884	670	716	764	–	2,347
2006	2,924	780	833	889	949	–
	$ 5,791	$ 2,164	$ 1,907	$ 1,653	$ 949	$ 2,707

Accrued Pension Benefits of the Plan

The actuarial present value of accrued benefits is an estimate of the value of pension and other benefit obligations of the Plan in respect of benefits accrued to date for all active and inactive members. This obligation is measured using the same actuarial assumptions and methods adopted by OMERS 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.

The following actuarial assumptions have been used in the actuarial valuation of the Plan as at December 31:

	2006	2005
Assumed rate of inflation	**2.50%**	2.75%
Assumed rate of pensionable earnings increases (Estimate based on inflation plus an age-related increase)	**4.00%**	4.25%
Assumed actuarial rate of return on plan assets and discount rate	**6.75%**	7.00%

As a pension plan which provides 100% inflation protection, the 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 earning increases	-/+2.5%
Real return on plan assets and discount rate	+/-7.8%

The accrued benefit obligation as at December 31, 2006, which follows, takes account of known changes in the Plan membership up to December 3, 2006, actual inflationary increases to pension payments and deferred pension payments to be implemented as at January 1, 2007, and an estimated pensionable earnings increase for 2006, which is based on the results of a survey of major OMERS employers.

(Millions)	**2006**	2005
Fair value of net assets of the Plan at end of year	**$ 47,576**	$ 41,046
Actuarial value adjustment	**(5,791)**	(2,707)
Actuarial value of net assets at end of year	**41,785**	38,339
Accrued benefit obligation at beginning of year	**41,123**	37,774
Interest accrued on benefits	**2,934**	2,790
Benefits accrued	**1,660**	1,500
Benefits paid (note 12)	**(1,740)**	(1,600)
Plan amendments	**–**	13
Experience, actuarial and other losses/(gains)	**190**	646
Accrued benefit obligation at end of year	**44,167**	41,123
Deficit of actuarial value of net assets over actuarial liabilities	**$ (2,382)**	$ (2,784)

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits are presented on a going concern basis. Under the *PBA* a solvency (hypothetical windup) valuation must be performed on the Plan, even though the risk of it being wound up, in management's view, is remote. This special valuation assumes a liquidation scenario. As permitted by the PBA, 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 for the Plan under the solvency valuation was estimated to be $42,443 million as at December 31, 2006 (2005 – $40,255 million). As at December 31, 2006, the fair value of net assets of the Plan, allowing for a provision for expenses on windup, was $47,515 million (2005 – $40,985 million).

NOTE 8 – RETIREMENT COMPENSATION ARRANGEMENT

The Retirement Compensation Arrangement was established by OMERS to provide 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. Under the *OMERS Act*, OMERS is the plan administrator and funding agent of the RCA. The accounting for the RCA is separate from the Plan.

The full earnings pension benefits provided by the RCA are not fully funded but are funded based on a modified pay-as-you-go funding policy 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 Plan contribution rates) are payable to the RCA on the excess of earnings over the maximum contributory earnings recognized under the Plan which was $119,764 for 2006 (2005 – $113,871). 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.

A summary of the financial statements for the RCA as at and for the year ended December 31 is as follows:

(Millions)	**2006**	2005
Statement of Net Assets		
Net investment assets	**$ 14**	$ 9
Other assets	**15**	11
Other liabilities	**–**	(1)
Net Assets	**$ 29**	$ 19
Statement of Changes in Net Assets		
Net investment income	**$ 2**	$ 1
Contributions	**12**	9
Benefits	**(4)**	(3)
Total Increase	**10**	7
Net assets, beginning of year	**19**	12
Net Assets, End of Year	**$ 29**	$ 19

The actuarial assumptions used for the RCA are consistent with those used for the Plan except that the discount rate as at December 31, 2006 is 3.375 per cent (2005 – 3.5 per cent), which is 50 per cent of the Plan rate in order to approximate the effect of the 50 per cent refundable tax under the RCA.

Determination of the value of the RCA accrued benefit obligation is made on the basis of a periodic actuarial valuation. The deficit of net assets over actuarial liabilities is as follows for December 31:

(Millions)	**2006**	2005
Fair value of net assets at end of year	**$ 29**	$ 19
Accrued benefit obligation at beginning of year	**157**	149
Interest accrued on benefits	**6**	5
Benefits accrued	**6**	7
Benefits paid (note 12)	**(4)**	(3)
Experience, actuarial and other losses/(gains)	**7**	(1)
Accrued benefit obligation at end of year	**172**	157
Deficit of actuarial value of net assets over actuarial liabilities	**$ (143)**	$ (138)

NOTE 9 – NET INVESTMENT INCOME

OMERS investments consist of the following major asset classes: Public markets (which includes OMERS investments in interest bearing investments, including mortgages and private debt, and public equities); Private equity; Infrastructure and Real estate.

Income from assets backing derivative financial instruments is reported in the particular investment category by major asset class. Realized and unrealized income from derivative financial instruments is $198 million (2005 – $1,136 million).

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

	2006				
(Millions)	**Investment Income** (i)	**Net Gain/(Loss) on Investments and Derivatives** (ii)	**Total Investment Income**	**Investment Management Expenses** (note 13(b)), (iii)	**Net Investment Income**
Public markets (iv)	**$ 1,099**	**$ 3,855**	**$ 4,954**	**$ (84)**	**$ 4,870**
Private equity (iv)	**92**	**317**	**409**	**(49)**	**360**
Infrastructure	**379**	**40**	**419**	**(31)**	**388**
Real estate (v)	**350**	**671**	**1,021**	**(5)**	**1,016**
	$ 1,920	**$ 4,883**	**$ 6,803**	**$ (169)**	**6,634**
Income credited to administered funds					**(104)**
Net investment income					**$ 6,530**

	2005				
(Millions)	Investment Income (i)	Net Gain/(Loss) on Investments and Derivatives (ii)	Total Investment Income	Investment Management Expenses (note 13(b)), (iii)	Net Investment Income
Public markets (iv)	$ 962	$ 3,155	$ 4,117	$ (76)	$ 4,041
Private equity (iv)	64	373	437	(54)	383
Infrastructure	157	263	420	(27)	393
Real estate (v)	392	401	793	(3)	790
	$ 1,575	$ 4,192	$ 5,767	$ (160)	5,607
Income credited to administered funds					(92)
Net investment income					$ 5,515

i) Net of total interest on real estate investment liabilities of $126 million (2005 – $124 million), infrastructure investment liabilities of $55 million (2005 – $36 million) and private equity investment liabilities of $2 million (2005 – $nil).

ii) Includes net realized gain of $2,336 million (2005 – $2,269 million).

iii) Investment management expenses relate to corporate activity.

iv) Total investment income for Public markets and Private equity are as follows:

(Millions)	2006 Investment Income	2006 Net Gain/(Loss) on Investments and Derivatives	2006 Total Investment Income	2005 Investment Income	2005 Net Gain/(Loss) on Investments and Derivatives	2005 Total Investment Income
Public Markets						
Interest Bearing Investments						
Short-term deposits	$ 187	$ –	$ 187	$ 128	$ –	$ 128
Bonds and debentures	293	(42)	251	293	81	374
Mortgages and private debt	92	(16)	76	107	(15)	92
	572	(58)	514	528	66	594
Real return bonds	53	(102)	(49)	40	161	201
	625	(160)	465	568	227	795
Public Equity						
Canadian equities	175	1,835	2,010	146	1,754	1,900
Non-Canadian equities	299	2,180	2,479	248	1,174	1,422
	474	4,015	4,489	394	2,928	3,322
	$ 1,099	$ 3,855	$ 4,954	$ 962	$ 3,155	$ 4,117
Private Equity						
Canadian private equities	$ 80	$ 96	$ 176	$ 55	$ 163	$ 218
Non-Canadian private equities	12	221	233	9	210	219
	$ 92	$ 317	$ 409	$ 64	$ 373	$ 437

v) Total investment income for Real estate is as follows:

(Millions)	2006	2005
Revenue		
Rental	$ 990	$ 997
Investment	74	79
	1,064	1,076
Expenses		
Property operating and other expenses (i)	(588)	(560)
Operating income	476	516
Interest expense	(126)	(124)
	350	392
Net Gain/(Loss)		
Properties	608	386
Debt	26	7
Investments and other	37	8
	671	401
Total investment income	$ 1,021	$ 793

i) Includes audit costs of $1.4 million (2005 – $1.6 million) and legal costs of $4.0 million (2005 – $4.9 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.

	2006	2005
Interest bearing (i)	**4.7%**	7.0%
Real return bonds	**–2.9%**	15.2%
Canadian public equities	**21.3%**	23.6%
Non-Canadian public equities (ii)	**20.0%**	11.8%
Private equity (ii)	**17.7%**	23.2%
Infrastructure (ii)	**14.0%**	23.2%
Real estate (ii)	**26.2%**	26.0%
Total Plan	**16.4%**	16.0%

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

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

NOTE 11 – CONTRIBUTIONS

(Millions)	**2006**	2005
Employer and member contributions (i)	**$ 1,739**	$ 1,498
Transfers from other pension plans	**28**	15
Other contributions (ii)	**25**	21
	$ 1,792	$ 1,534

i) Employer and member contributions are funded equally by employers and members. For NRA 65 members, the contribution rate is 6.5 per cent (2005 – 6.0 per cent) of earnings up to $42,100 (2005 – $41,100) and 9.6 per cent (2005 – 8.8 per cent) of earnings for earnings above that level. For NRA 60 members, the contribution rate is 7.9 per cent (2005 – 7.3 per cent) of earnings up to $42,100 (2005 – $41,100) and 10.7 per cent (2005 – 9.8 per cent) of earnings for earnings above that level.

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

For the year ended December 31, 2006, contributions to the Plan were $1,780 million (2005 – $1,525 million) and to the RCA were $12 million (2005 – $9 million).

NOTE 12 – BENEFITS

(Millions)	**2006**	2005
Members' pensions	**$ 1,492**	$ 1,410
Commuted value payments and members' contributions plus interest refunded	**212**	160
Transfers to other pension plans	**40**	33
	$ 1,744	$ 1,603

For the year ended December 31, 2006, total benefit payments from the Plan were $1,740 million (2005 – $1,600 million) and from the RCA were $4 million (2005 – $3 million).

NOTE 13 – PENSION ADMINISTRATIVE AND INVESTMENT MANAGEMENT EXPENSES

a) Pension administrative expenses (i)

(Millions)	**2006**	2005
Salaries and benefits	**$ 23**	$ 20
System development and other purchased services	**8**	7
Premises and equipment	**2**	4
Professional services (ii)	**2**	4
Travel and communication	**3**	1
	$ 38	$ 36

b) Investment management expenses (i)

			2006		
(Millions)	**Public Market**	**Private Equity**	**Infra-structure**	**Real Estate**	**Total**
Salaries and benefits	**$ 19**	**$ 8**	**$ 23**	**$ 1**	**$ 51**
System development and other purchased services	**7**	**2**	**–**	**1**	**10**
Premises and equipment	**2**	**–**	**2**	**–**	**4**
Professional services (ii)	**1**	**3**	**3**	**1**	**8**
Travel and communication	**4**	**2**	**1**	**–**	**7**
Investment operating and manager expenses	**51**	**34**	**2**	**2**	**89**
	$ 84	**$ 49**	**$ 31**	**$ 5**	**$ 169**

			2005		
(Millions)	Public Market	Private Equity	Infra-structure	Real Estate	Total
Salaries and benefits	$ 19	$ 16	$ 22	$ 1	$ 58
System development and other purchased services	6	1	–	–	7
Premises and equipment	4	1	1	–	6
Professional services (ii)	1	3	2	–	6
Travel and communication	1	1	–	–	2
Investment operating and manager expenses	45	32	2	2	81
	$ 76	$ 54	$ 27	$ 3	$ 160

i) Includes allocation of corporate expenses.

ii) Total professional services expenses include actuarial costs of $0.6 million (2005 – $1.0 million), audit costs of $0.7 million (2005 – $0.6 million) and legal costs of $5.5 million (2005 – $5.0 million).

NOTE 14 – EXECUTIVE COMPENSATION

The compensation amounts for 2006 and 2005 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 2004, 2005 and 2006 by the President and Chief Executive Officer ("CEO"), the individuals holding the position of Chief Financial Officer ("CFO") and the other individuals reporting directly to the CEO in 2006.

Name and Principal Position	Year	Base Earnings	Annual Incentive Plan (i)	Long-Term Incentive Plan (ii)	Other (iii)	Taxable Benefits (iv)	Total
Paul G. Haggis	2006	$ 450,000	$ 524,637	$ 133,123	$ –	$ 16,581	$ 1,124,341
President and CEO	2005	425,000	374,999	133,123	–	16,528	949,650
	2004	363,462	206,446	–	–	17,108	587,016
Patrick G. Crowley (v)	2006	$ 30,769	$ –	$ –	$ 826	$ 109	$ 31,704
Chief Financial Officer							
Paul G. Renaud (vi)	2006	$ 383,230	$ 566,138	$ 318,547	$ –	$ 23,737	$ 1,291,652
President and CEO	2005	360,000	346,500	105,547	–	19,927	831,974
OMERS Capital Partners Inc.	2004	55,385	50,000	–	–	2,027	107,412
(Private Equity)							
Paul Pugh (vii)	2006	$ 275,000	$ 231,357	$ 234,763	$ 10,740	$ 6,770	$ 758,630
Senior Vice President	2005	310,481	168,902	–	5,489	2,496	487,368
Public Investments	2004	242,308	256,800	–	–	1,605	500,713
Debbie Oakley	2006	$ 195,422	$ 112,343	$ 111,493	$ 10,740	$ 918	$ 430,916
Senior Vice President	2005	195,422	80,612	111,493	10,254	988	398,769
Corporate Affairs	2004	202,144	57,936	74,329	17,596	1,053	353,058
Selma M. Lussenburg (viii)	2006	$ 275,000	$ 275,000	$ 93,701	$ 10,740	$ 6,537	$ 660,978
Senior Vice President	2005	275,000	189,062	93,701	10,258	1,846	569,867
General Counsel and	2004	163,942	137,500	–	5,600	741	307,783
Corporate Secretary							
Floretta Paladino (ix)	2006	$ 175,000	$ 105,000	$ 68,060	$ –	$ 799	$ 348,859
Vice President	2005	182,456	63,525	68,060	–	864	314,905
Human Resources	2004	153,282	55,918	34,975	10,000	814	254,989
Jennifer Brown (x)	2006	$ 220,000	$ 220,000	$ 67,552	$ 10,740	$ 1,025	$ 519,317
Senior Vice President	2005	192,096	154,513	67,552	2,685	709	417,555
Pensions							
R. Michael Latimer (xi)	2006	$ 600,000	$ 600,000	$ 1,980,402	$ 30,000	$ 22,967	$ 3,233,369
President and CEO	2005	600,000	600,000	–	30,000	22,367	1,252,367
OPGI Management GP Inc.	2004	510,000	480,000	–	25,577	17,158	1,032,735
(Real Estate)							
Michael Nobrega (xi)	2006	$ 400,000	$ 796,000	$ 1,861,532	$ 39,231	$ 53,171	$ 3,149,934
President and CEO	2005	400,000	752,000	–	39,231	52,364	1,243,595
Borealis Capital Corporation	2004	346,154	600,000	–	35,839	37,179	1,019,172
(Infrastructure)							

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/or investment return objectives over a multi-year performance period.

iii) Includes hiring, retirement, car and other allowances.

iv) Includes group retirement saving plan contributions, insurance, car and fitness benefits.

v) Joined OMERS on December 4, 2006.

vi) Joined OMERS on November 8, 2004 as Senior Vice President and CFO. Assumed the role of President and CEO of OMERS Capital Partners Inc. on May 25, 2006 and continued to act as interim CFO until December 4, 2006. The 2006 amounts reflect compensation from both positions.

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.

The following table represents disclosure of the present value of pension benefits and years of credited service for the President and Chief Executive Officer, the individuals holding the position of Chief Financial Officer and the other individuals reporting directly to the CEO in 2006 who are members of the Plan and the RCA at December 31, 2006.

Name and Principal Position	2006 Change in Pension Value	2006 Present Value of Total Pension	Number of Years of Credited Service
Paul G. Haggis President and CEO	$ 262,746	$ 675,191	3.3
Patrick G. Crowley Chief Financial Officer	$ 6,393	$ 6,393	0.1
Paul G. Renaud President and CEO OMERS Capital Partners Inc. (Private Equity)	$ 189,579	$ 374,588	2.2
Paul Pugh Senior Vice President Public Investments	$ 135,385	$ 316,032	2.7
Debbie Oakley Senior Vice President Corporate Affairs	$ 154,400	$ 1,664,643	25.7
Selma M. Lussenburg Senior Vice President General Counsel and Corporate Secretary	$ 121,482	$ 275,397	2.6
Floretta Paladino Vice President Human Resources	$ 121,372	$ 688,812	18.3
Jennifer Brown Senior Vice President Pensions	$ 195,014	$ 784,848	16.2

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 may not be limited to investments in infrastructure, real estate and private equity limited partnership agreements. As at December 31, 2006, these future commitments totaled $5.2 billion (2005 – $4.1 billion). The maximum amount payable under guarantees and standby letters of credit provided as part of investment transactions was $346 million as at December 31, 2006.

OMERS, in the normal course of business, indemnifies its and its subsidiaries' and affiliates' directors, officers, employees and certain others in connection with proceedings against them. In addition, OMERS may in certain circumstances in the course of investment activities, agree to indemnify a counterparty. Under the terms of such arrangements, OMERS and/or its subsidiaries and affiliates may be required to compensate these parties for costs incurred as a result of various contingencies such as changes in laws and regulations or legal claims. The contingent nature of the liabilities in such agreements and the range of indemnification prevent OMERS from making a reasonable estimate of the maximum amount that would be required to pay all such indemnifications.

As at December 31, 2006, 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.

Senior Executive Management Team

(l-r) **Paul G. Renaud**, President and CEO, OMERS Capital Partners Inc. (Private Equity), **Jennifer Brown**, Senior Vice President, Pensions, **John Liu**, Vice President and Chief Internal Auditor, **Michael Latimer**, President and CEO, OPGI Management GP Inc. (Real Estate), **Paul G. Haggis**, President and CEO, **Michael Nobrega**, President and CEO, Borealis Capital Corporation (Infrastructure), **Selma M. Lussenburg**, Senior Vice President, General Counsel and Corporate Secretary, **Flo Paladino**, Vice President, Human Resources, **Patrick Crowley**, Chief Financial Officer, **Paul Pugh**, Senior Vice President, Public Investments, **Debbie Oakley**, Senior Vice President, Corporate Affairs

Corporate and Board Governance

OMERS ability to fulfill its pension promise is rooted in our history of effective and transparent pension plan governance. Over the past 44 years, we have continuously sought to achieve the highest standards.

The New OMERS Act

A unique event in OMERS 44-year history occurred on June 30, 2006 with the proclamation of the new *Ontario Municipal Employees Retirement System Act, 2006* (the OMERS Act).

The new OMERS Act replaced the Government of Ontario as sponsor by establishing a new OMERS Sponsors Corporation ("SC") responsible for pension plan design and setting contribution rates for the OMERS pension plans, including the OMERS Primary Pension Plan and the Retirement Compensation Arrangement. In addition, the OMERS Act continued the Ontario Municipal Employees Retirement Board as the OMERS Administration Corporation ("OMERS"), responsible for pension administration, valuation of the actuarial liability and investment of the pension funds. The initial appointments to the SC and OMERS boards (14 members to each) were made by the Government of Ontario as set out in the legislation. Subsequent appointments will be as set out in the legislation or in SC by-laws.

The new OMERS Act also required that OMERS implement a supplemental pension plan to provide benefits to members of the police sector, firefighters and paramedics by July 1, 2008. Supplemental plans are stand-alone registered pension plans which offer benefits not available in the OMERS Primary Pension Plan and are not funded from the Plan. The legislation permits the SC to create additional supplemental pension plans in the future.

OMERS is committed to implementing the new governance structure and working with the SC to ensure the ongoing success of the organization. Highlights of OMERS ongoing activities in this area include:

- Confirmation of its Board of Directors (including Chair and Vice-Chair appointments) and committees.
- Finalization of new corporate by-laws.
- Approval of a consolidation and restatement of the OMERS Primary Pension Plan Text which will take the place of the former *OMERS Act and Regulation*. The restated Plan Text is subject to filing with and approval by our regulators.
- Initial orientation and education for the SC board members.
- Negotiation of funding agreement with the Government of Ontario for start-up costs associated with the implementation of the supplemental plan.
- Communication with members and employers to assure them that our mandate to administer the OMERS pension plans is unchanged.

Implementation of both the supplemental plan and the new governance structure is well underway and OMERS will continue to work effectively with the SC throughout 2007.

As part of the OMERS Act legislative process the government passed separate legislation stating that the new OMERS governance model will be reviewed no later than 2012 to assess its fairness, accountability and efficiency.

Board Governance

OMERS has policies and practices in place that support our commitment to best governance practices, including:

- Corporate By-laws and a Board member handbook.
- 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 non-audit consulting services.
- A Code of Ethics and Professional Conduct, covering areas such as conflict of interest, fiduciary duty, workplace harassment, discrimination, privacy and confidentiality, 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, senior management and appropriate investment and accounting staff must preclear their securities trades and disclose holdings and sign an annual certificate of compliance.
- 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 timely and accurate print and electronic communication. We regularly publish summaries of Board proceedings on the OMERS website.

Board Mandate

With its obligation to manage the Plan in the best interests of all Plan members the Board has a challenging mandate to achieve pension excellence. In carrying out this mandate, the Board has a number of key responsibilities, including:
- Administering the Plan and RCA;
- 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's actuary and approving the actuarial valuation and funding policy;
- Providing support to the OMERS Sponsors Corporation.

Board Membership

Currently, the OMERS 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)

Board Independence

The Board appoints the CEO, who is not a member of the Board, and reviews his/her performance regularly throughout the year. Day-to-day management of OMERS is delegated to the CEO. The Board also appoints the external auditor, master custodian and actuary, and has access to independent legal advice. The Board has regular *in camera* meetings without management present.

Board Remuneration

The Board members receive per diem payments authorized by Board policy which are consistent with Ontario Government Management Board Secretariat Guidelines. In the future Board remuneration will be determined by the Sponsors Corporation.

Board members receive per diem fees for Board and committee meetings and associated preparation time, other advisory meetings as well as mandatory education and eligible travel time. The Board Chair receives a $247 per diem; the Board Vice Chair receives a $225 per diem; and all other Board members receive a $192 per diem. The Board Chair, the Board Vice Chair and each Committee Chair are reimbursed for 2.5 days of preparation time per month, and all other Board members are reimbursed for 2 days of preparation time per month. Fees are generally paid to the Board member; however, in some cases fees are paid to the employer.

The following table includes remuneration paid to 2006 Board members for Board and committee meetings, as well as associated preparation time in 2006 with comparable numbers for 2005.

	2006	2005
David Kingston (Chair)	$ 22,230	$ 18,563
John Sabo (Vice Chair)	17,621	14,112
Frederick Biro	15,168	20,131
David Carrington	13,728	14,304
Edward DeSousa (i)	6,528	–
Richard Faber (ii)	17,376	7,680
Marianne Love (i)	10,350	14,976
Rick Miller	14,976	14,880
Ann Mulvale	17,280	12,864
David O'Brien (i)	4,896	–
Michael Power	12,672	11,520
Peter Routliff	17,568	12,384
Gerard Sequeira (i), (iii)	4,800	–
John Weatherup (ii)	12,192	864
Cameron Weldon (ii), (iii)	12,960	7,008
Other (iv)	–	16,224
Total Board Remuneration	**$ 200,345**	$ 165,510

(i) Part year in 2006
(ii) Part year in 2005
(iii) Remuneration for these Board members is paid directly to their employer.
(iv) Other includes Board members on the Board in 2005 but not in 2006.

The per diems paid for mandatory education and eligible advisory meetings and travel time in aggregate amounted to $77,202 in 2006 ($64,929 in 2005).

Directors also receive reimbursement for normal business expenses on behalf of OMERS. Board expenses by director are reported to the Audit Committee annually.

Board Attendance

Board attendance in 2006 was over 92 per cent.

Board Committees

The Board has five standing committees which assist the Board in discharging its responsibilities by reviewing and making recommendations consistent with the following mandates:

Investment Committee (Committee of the Whole)

- Reviews asset mix policy, reviews investment policy including the Statement of Investment Policies & Procedures, reviews and approves major investment decisions.

Pension Committee

- Reviews plan service quality and standards, pension communications, plan administration policy and Board-mandated administrative decisions. May consider and review, as appropriate, pension plan design and actuarial matters.

OMERS ADMINISTRATION CORPORATION BOARD OF DIRECTORS

David Kingston, Chair*
Retired Police Officer,
York Regional Police
Plan Member Representative for
Police Association of Ontario

Frederick Biro*
Executive Director, Regional
Municipality of Peel Police
Services Board
Employer Representative for
Ontario Association of Police
Services Boards

David Carrington*
Energy Advisor
Toronto Hydro Electric System Ltd.
Plan Member Representative for
Canadian Union of Public
Employees

Edward DeSousa
Director of Finance & Treasurer
Town of Halton Hills
Plan Member Representative for
Association of Municipal
Managers, Clerks and Treasurers
of Ontario

Richard Faber*
Retiree, formerly Director of
Administration for City of London
Plan Member Representative
for Retirees

Rick Miller*
Fire Fighter, Windsor Fire
Department
Plan Member Representative
for Ontario Professional Fire
Fighters Association

Ann Mulvale*
Past Mayor, Town of Oakville
Employer Representative for
Association of Municipalities
of Ontario

David O'Brien
President and CEO
Toronto Hydro Corporation
Employer Representative for
Other Employers

Michael Power*
Mayor, Municipality of Greenstone
Employer Representative for
Association of Municipalities
of Ontario

Peter Routliff*
International Representative,
International Brotherhood of
Electrical Workers
Plan Member Representative for
Other Plan Members

John Sabo, Vice Chair*
Associate Director,
Corporate Services and
Treasurer of the Board
York Catholic District School Board
Employer Representative for
Ontario School Boards

Gerard Sequeira
Director, Finance &
Administration, Municipal
Property Assessment Corporation
Employer Representative for
Other Employers

John Weatherup
President, CUPE 4400
Plan Member Representative
for Canadian Union of Public
Employees

Cameron Weldon*
Treasurer, City of Toronto
Employer Representative for
City of Toronto

*Indicates a graduate of The Directors College

Audit Committee

- Monitors the integrity of OMERS financial reporting processes and system of internal control regarding financial reporting and accounting compliance, reviews financial statements, identifies and monitors management of principal risks that impact financial reporting, monitors the enterprise risk management program and 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 for the CEO and Senior Executive Management team, 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, reviews all policies relating to Directors, ethical business conduct and external relations and communications.

Proxy Voting

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

OMERS beneficially owns shares valued at over $22 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.

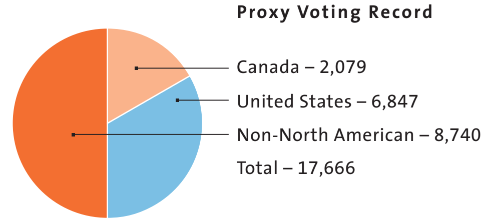
The most important tool we have for influencing policy among investee companies is by exercising our ownership rights through our proxy votes. OMERS votes proxies diligently in accordance with specific guidelines that we believe will optimize the long-term value of our investments. Our Proxy Voting Guidelines 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 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 website, www.omers.com.

OUR KEY PROXY VOTING PRINCIPLES

Proxy Voting Record



OMERS proxy voting guidelines are based on a number of key principles, including:

- Proper sharing of the rewards of 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 VOTES IN 2006

During 2006, OMERS voted a total of 17,666 ballots covering 1,912 shareholder meetings globally. In Canada, OMERS cast 2,079 ballots in 283 shareholder meetings. Outside of Canada, OMERS cast 15,587 ballots in 1,629 shareholder meetings.

Ten Year Financial Review

($ Millions)	**2006**	2005	2004	2003	2002	2001	2000	1999	1998	1997
NET ASSETS as at December 31										
Public markets	**43,573**	39,338	30,283	30,168	23,823	27,755	30,941	30,303	28,026	26,173
Private equity	**2,911**	2,391	1,460	914	1,021	1,031	1,128	849	508	474
Infrastructure	**5,585**	3,719	2,314	1,426	349	279	–	–	–	–
Real estate	**8,541**	6,180	6,898	6,920	7,747	8,181	4,707	4,126	3,995	2,729
	60,610	51,628	40,955	39,428	32,940	37,246	36,776	35,278	32,529	29,376
Other investment assets	**699**	765	494	578	733	652	637	493	297	244
Investment liabilities	**(13,088)**	(10,772)	(5,267)	(7,297)	(3,540)	(3,977)	(860)	(280)	(916)	(102)
Net investment assets	**48,221**	41,621	36,182	32,709	30,133	33,921	36,553	35,491	31,910	29,518
Non investment assets/(liabilities)										
Due to administered funds	**(741)**	(639)	(553)	(496)	(440)	(487)	(528)	(502)	(437)	(395)
Other assets/(liabilities)	**125**	83	26	(120)	(188)	(191)	(150)	(59)	(93)	(15)
Net assets	**47,605**	41,065	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108
CHANGES IN NET ASSETS for the period ended December 31										
Net assets, beginning of year	**41,065**	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108	25,378
Changes due to Investment Activities										
Total investment income	**6,803**	5,767	3,907	3,751	(2,358)	(1,362)	2,114	4,711	2,949	3,778
Investment management expenses	**(169)**	(160)	(147)	(158)	(103)	(69)	(62)	(52)	(50)	(40)
	6,634	5,607	3,760	3,593	(2,461)	(1,431)	2,052	4,659	2,899	3,738
Income credited to administered funds	**(104)**	(92)	(66)	(51)	28	4	(47)	(85)	(52)	(62)
Net investment income	**6,530**	5,515	3,694	3,542	(2,433)	(1,427)	2,005	4,574	2,847	3,676
Changes due to Pension Activities										
Contributions										
Employer and member	**1,739**	1,498	1,363	404	–	–	–	–	364	869
Other contributions	**53**	36	46	42	47	36	30	27	8	21
	1,792	1,534	1,409	446	47	36	30	27	372	890
Benefit payments to members										
Pensions paid	**(1,492)**	(1,410)	(1,353)	(1,246)	(1,153)	(1,034)	(916)	(817)	(761)	(699)
Commuted value and other payments	**(252)**	(193)	(145)	(110)	(149)	(159)	(129)	(188)	(159)	(113)
	(1,744)	(1,603)	(1,498)	(1,356)	(1,302)	(1,193)	(1,045)	(1,005)	(920)	(812)
Pension administrative expenses	**(38)**	(36)	(43)	(44)	(50)	(48)	(45)	(46)	(27)	(24)
Net assets, end of year	**47,605**	41,065	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108
APPLICATION OF NET ASSETS TO ACTUARIAL LIABILITIES AND SURPLUS/(DEFICIT) as at December 31										
OMERS Primary Pension Plan										
Net assets	**47,576**	41,046	35,643	32,087	29,500	33,236	35,867	34,921	31,372	29,100
Actuarial value adjustment of net assets	**(5,791)**	(2,707)	1,168	3,888	6,048	2,239	(1,913)	(3,957)	(3,135)	(3,310)
Actuarial assets	**41,785**	38,339	36,811	35,975	35,548	35,475	33,954	30,964	28,237	25,790
Actuarial liabilities	**(44,167)**	(41,123)	(37,774)	(35,466)	(33,034)	(30,955)	(28,104)	(25,462)	(22,283)	(21,105)
Surplus/(Deficit)	**(2,382)**	(2,784)	(963)	509	2,514	4,520	5,850	5,502	5,954	4,685
RCA										
Net assets	**29**	19	12	6	5	7	8	9	8	8
Actuarial liabilities	**(172)**	(157)	(149)	(69)	(63)	(71)	(54)	(42)	(41)	(39)
Deficit	**(143)**	(138)	(137)	(63)	(58)	(64)	(46)	(33)	(33)	(31)
TOTAL ANNUAL RATE OF RETURN for the period ended December 31										
Time weighted return on market value	**16.4%**	16.0%	12.1%	12.7%	–7.1%	–3.4%	6.2%	15.2%	10.1%	14.8%
Benchmark	**13.7%**	13.2%	9.9%	15.5%	–7.4%	–4.2%	4.1%	14.7%	10.7%	15.1%
Funding requirement (including inflation)	**5.9%**	6.4%	6.4%	6.3%	8.1%	5.0%	7.5%	6.8%	5.3%	5.0%

Glossary

Absolute Return Strategies – Strategies expected to generate positive returns regardless of the movements of the financial markets due to their low correlation to broad financial markets. Absolute return strategies may be used with the objective of increasing the overall investment portfolio risk-adjusted return while contributing to the stability of the overall investment portfolio returns.

Active Management – Attempts to add value through asset mix decisions and the buying and selling of undervalued or overvalued securities. The objective is to outperform a passive market benchmark.

Actuarial Smoothing – A common practice accepted in the actuarial profession and by pension regulators to reduce the effect of short-term market fluctuations on pension plan funding by deferring and amortizing changes in net assets above or below the long-term funding objective over five years.

Actuarial Valuation Report – A report issued by the Plan's actuary on the funded status of the Plan. An actuarial valuation is based on a set of assumptions, as approved by the Board, that include demographic and economic assumptions.

Autonomy – Self-governing.

Basis Point – One basis point equals 1/100th of one percentage point.

Benchmark – A benchmark is a standard or point of reference against which performance of an investment is measured. It is generally a passive external index (i.e. ,the S&P/TSX Equity Only Composite Index) or predetermined operating budget.

Benefit Accrual – The accumulation of pension benefits based on a formula using years of credited service, pensionable earnings and an accrual rate. This is expressed in the form of an annual benefit to begin payment at normal retirement age.

Board – This is the Board of the OMERS Administration Corporation or its predecessor as appropriate.

Bridge Benefit – A temporary benefit provided to employees who retire prior to age 65. The bridge benefit supplements the pension income until age 65. The bridging benefit is not necessarily related to the size of the prospective government benefits.

Commercial Paper – Short-term unsecured debt instruments issued by companies typically to meet short-term financing needs.

Commuted Value – The lump sum needed today to replace a member's future pension amount based on the member's service and earnings to date. The commuted value fluctuates with changes in factors such as the member's age, current inflation and interest rates.

Currency Hedging – A technique used to offset the risks associated with the changing value of currency.

Custom Benchmark – A benchmark calculated based on the weighted average allocation to two or more underlying benchmarks (i.e., 50 per cent S&P/TSX Equity Only Composite Index + 50 per cent Scotia McLeod Universe Bond Index).

Debentures – Bonds that are not secured by the assets of a firm.

Debt Financing – The long-term borrowing of money by government or a business, usually in exchange for debt securities or a note, in order to obtain working capital or to retire other indebtedness.

Defined Benefit Plan – In a defined benefit plan members' benefits are determined by a formula usually based on years of service times earnings, rather than by the investment returns made on their pension contributions.

Derivative / Derivative Financial Instrument – A financial contract that derives its value from changes in underlying assets or indices. Derivatives transactions can be conducted on public exchanges or in the over-the-counter market using investment dealers. Derivatives contracts include forwards, futures, swaps and options and are discussed in more detail in note 4 of the Consolidated Financial Statements.

Discount Rate – A discount rate is the interest rate used to compute the present value of anticipated future cash flows.

Enterprise-wide – This refers to all of OMERS including Pension Division, Public Investments, Borealis Infrastructure, OMERS Capital Partners, Oxford Properties Group and corporate functions.

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.

Modified Pay-As-You-Go Funding Policy – Promised retirement benefits are not fully prefunded, instead contributions are paid into the Retirement Compensation Arrangement (RCA) to fund benefits. This variation of the funding method is used by OMERS for the RCA, in order to minimize the 50 per cent refundable tax applicable to RCA plans.

Nominal Bonds – Bonds that pay interest and principal without contractual adjustments for inflation.

OMERS – This is the OMERS Administration Corporation, the administrator of the OMERS Primary Pension Plan.

Passive Investments – Investing in a manner that replicates the performance of a market index (i.e., S&P/TSX Equity Only Composite).

Plan Sponsor – The organization or body, which has the final authority to create a pension plan and/or make revisions to an existing pension plan. Usually the plan sponsor is an employer, but it can also be a union, an association, the government, or a mixture. For the OMERS Primary Pension Plan, the Sponsors Corporation is the sponsor and is made up of employer and member representatives.

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

Proxy Voting – Proxy voting is the process by which a shareholder expresses their views, on proposed corporate actions, by submitting their vote at a company's annual meeting.

Public Markets – Public market investments are investments in securities (i.e., equities, trust units, warrants, mutual fund units, bonds, etc.) listed on recognized public exchanges.

Real Rate of Return – Nominal return adjusted to exclude the impact of inflation.

Real Return Bonds – Interest bearing marketable bonds that pay a semi-annual coupon rate calculated based upon the sum of the principal amount and an inflation compensation component that adjusts for changes in the inflation.

Secured Debt – Debt backed or secured by collateral to reduce the risk associated with lending for creditors given that if the debtor defaults the creditor may seize the collateral as repayment of the debt.

Supplemental Plan – A stand-alone registered pension plan which offers benefits not available in the OMERS Primary Pension Plan and which is not funded from the OMERS Primary Pension Plan.

Unsecured Debt – Debt which is not backed or secured by collateral property.

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