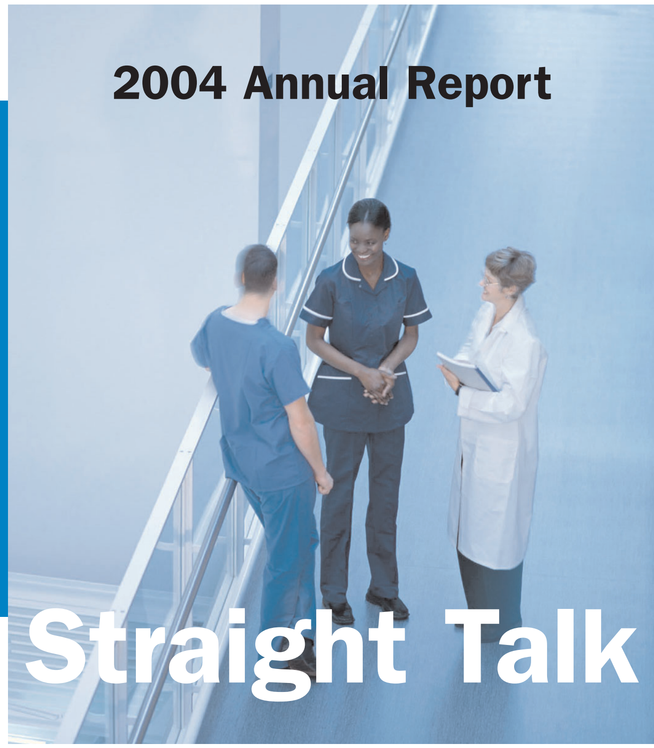
HOOPP



The full HOOPP Annual Report is online at www.hoopp.com

HOOPP

Annual Report 2004

Introduction to HOOPP

The Hospitals of Ontario Pension Plan (HOOPP) has a strong history of providing pensions to Ontario's health care community. It's one of the biggest and most respected pension plans in Canada and is an industry leader among multi-employer plans.

HOOPP was established in 1960 to meet the retirement needs of Ontario's health care workers. At the end of 2003, HOOPP had more than 145,000 active members, who work for 331 participating employers, and more than 67,000 pensioners.

As a defined benefit pension plan, HOOPP provides eligible members with a retirement income based on a formula that takes into account a member's earnings history and length of service in the Plan. Once eligible members start receiving a pension, they receive it for life. The liabilities of promised pension benefits are paid for through a combination of contributions from members and their employers, and investment returns. HOOPP's assets are actively managed using a diversified, long-term investment strategy.

HOOPP

Annual Report 2004

The HOOPP Trust Fund

With $21.1 billion in assets, the HOOPP Trust Fund is one of Canada's largest pension funds.

Approximately 85 per cent of the Fund is invested by investment professional staff at HOOPP. The remaining assets are handled by external investment management firms. Investment results are communicated to Plan members, pensioners, and employers each year via HOOPP's annual report.

HOOPP's Board of Trustees sets investment policy and oversees the investment management process, and monitors and evaluates investment performance and investment risk management to ensure the Plan's assets are invested prudently and effectively.

Governance

Board Composition

HOOPP is a jointly governed pension plan administered by a Board of Trustees. The following organizations, that are the settlors of HOOPP's Agreement and Declaration of Trust, appoint trustees to the Board:

- the Ontario Hospital Association (OHA)
- the Ontario Nurses' Association (ONA)
- the Canadian Union of Public Employees (CUPE)
- the Ontario Public Service Employees' Union (OPSEU)
- the Service Employees International Union (SEIU)

There are 16 voting trustees on the HOOPP Board. The OHA appoints eight of the trustees and the four other settlors appoint two trustees each.

Every two years, the Board selects its chair and a vice-chair – a union-appointed trustee, and the other an OHA-appointed trustee. After a year in their respective roles, the chair and vice-chair change positions for the second year of their term.

The Board also appoints external, independent advisors to assist the Board in fulfilling its fiduciary duties. Currently Board advisors include legal and actuarial advisors, an auditor, and four investment advisors.

Trustee Responsibility

The Board of Trustees is responsible for overseeing all aspects of the Plan and the HOOPP Trust Fund.

Among its responsibilities, the Board of Trustees:

- approves contribution and benefit payment levels
- makes changes to the Plan and its benefits
- establishes investment policy
- monitors investment performance
- approves annual operating budgets

In addition, as part of their duty the trustees must ensure that the Plan and the Trust Fund are administered in accordance with all relevant Canadian and Ontario legislation. The Plan is registered with both federal and provincial governments. This legislation includes:

- Canada's Income Tax Act
- Canada's Pension Plan Act
- Canada's Bankruptcy and Insolvency Act
- Ontario's Pension Benefits Act, which incorporates the investment regulations under the federal Pension Benefits Standards Act
- Ontario Securities Act
- Ontario Employment Standards Act
- Ontario Family Law Act

Governance (cont.)

As a member of a board governing a trust, each HOOPP trustee is a fiduciary and, as such, acts solely in the best interests of the Plan beneficiaries as a whole. The trustees' obligations arise out of common law trust principles, as well as under Ontario's Pension Benefits Act.

This fiduciary responsibility takes precedence over any allegiance a trustee may have to any other party or interest, including the organization that appointed the trustee to the Board. The fiduciary duty imposed on trustees is the highest standard known to law.

Role of Management

The President & CEO, who is also the Plan Manager, reports directly to the Board of Trustees and has been delegated with the responsibility for overall leadership and management of the organization, in accordance with Board-approved policies.

The CEO ensures that the Plan is administered efficiently and effectively. The CEO is also responsible for developing, implementing, and overseeing – in consultation with the Board – performance measurement programs, long-term strategies, and annual work plans to ensure that the organization best meets the needs of Plan beneficiaries.

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Chairs' Message
Managing today – for your future

The past several years have been challenging ones for pension plans, as issues of excess surplus were quickly replaced by those of funding shortfalls. By staying abreast of emerging trends and making prudent, well-researched decisions to manage the Plan in the best interests of members, pensioners, and employers, HOOPP remains well positioned to meet the pension promise today and well into the future.

More from the Chairs...

President & CEO's Message
Serving you today, for tomorrow

In 2004 HOOPP made tremendous strides along its path of continuous improvement in serving Plan members, pensioners, and participating employers.

More from the President & CEO...

Questions and Answers

What does “having an unfunded liability” mean? Answer...

How did the Board decide which benefits to change? Answer...

How does HOOPP’s financial position compare to other pension plans? Answer...

What’s an actuarial valuation? Answer...

Is HOOPP considering alternative investments as a way of maximizing returns? Answer...

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Chairs' Message

Kelly Butt, Chair

Dan Anderson, Vice-Chair

Managing today – for your future

The past several years have been challenging ones for pension plans, as issues of excess surplus were quickly replaced by those of funding shortfalls. By staying abreast of emerging trends and making prudent, well-researched decisions to manage the Plan in the best interests of members, pensioners, and employers, HOOPP remains well positioned to meet the pension promise today and well into the future.

As forecasted, 2004 was the year that the Plan's liabilities exceeded its assets for the first time in almost a quarter of a century. At year end, HOOPP's financial statements show an unfunded liability of $227 million. That unfunded liability represents approximately one per cent of the $21.3 billion in liabilities – in the form of pension benefits – the Plan owes to current and future retirees, meaning the Plan is approximately 99 per cent funded.

The Plan's financial status would have been considerably worse were it not for early action taken by the HOOPP Board of Trustees to limit the growth of the unfunded liability when it first began to emerge in actuarial projections in 2002. Two straight years of double-digit investment returns have also helped narrow the funding gap by adding value to the Plan's assets.

The effort to slow and reverse the unfunded liability will take many years. While this work continues, it's important for HOOPP members to know that there will continue to be sufficient money in the HOOPP Trust Fund to pay all current pension benefits.

How HOOPP has managed the situation

In 2002, HOOPP's actuarial projections first showed the likelihood that the Plan would face an unfunded liability in the future due to significant investment market losses in 2001 and 2002, and growing liabilities. With this knowledge in hand, and following much research, analysis, and consideration of the consequences of any decisions on all parties, the Board took action to secure the long-term financial health of the Plan.

First, in 2002, the Board announced that contribution price subsidies introduced when the Plan was in surplus would be lifted earlier than expected – moving to 90 per cent of full contribution rates in 2003, and the elimination of subsidies by 2004.

Next, in late 2003 – and continuing for the first six months of 2004 – HOOPP conducted an extensive Plan Review to determine if changes needed to be made to continue delivering reliable, affordable retirement benefits for health care workers in the years and decades to come. The Plan Review looked 10 to 15 years out in addressing HOOPP's funding requirements.

Following months of research and deliberation, the Board of Trustees announced in July 2004 some changes to benefits for active Plan members. Changes to disability benefits and the cost of living adjustment (COLA) provision will help slow the growth of the Plan's long-term liabilities while reducing the amount of unfunded liability. These changes also permitted the Board to continue member and employer contribution rates for 2005 at 2004 levels.

At the same time that decisions about managing the emerging liability were being made, the Board addressed concerns expressed by both members and employers about the possibility of a high number of retirements when the transition benefit was scheduled to end on Dec. 31, 2005. The Board believes that its decision to phase out the transition benefit – rather than ending it abruptly – will help avoid the loss of long-term, experienced staff in the health care system without introducing significant new costs to the Plan.

The difficult decision to make some benefit changes was made with the long-term financial health of the Plan in mind. The actions HOOPP took with the Plan Review, along with the Board's 2002 decision to lift contribution subsidies earlier than planned, are important steps in the process of balancing the Plan's assets and liabilities.

Messages
Chairs' Message

Advance notice
The Board also wanted to provide members with as much advance notice of these changes as possible. Benefit changes do not go into effect until the beginning of 2006, meaning that members were given 18 months' notice of most changes.

As well, the Board focused on changes that could be most easily restored at a future date, if the Plan's finances permit. For example, the Board has the flexibility to apply COLA increases responsibly in the context of the Plan's overall financial health, for the benefit of all members, pensioners, and employers. Should it find itself unable to provide COLA in a given year, the Board could approve a "catch up" in subsequent years – as it has in the past on more than one occasion.

How the unfunded liability arose
Today's unfunded liability is very different from the surplus position HOOPP faced a few years ago.
Details on how the Plan's funded status changed...

At the time that contribution rate subsidies and benefit improvements were being introduced as a prudent way to use up the surplus to comply with tax law, HOOPP was noting emerging demographic and economic changes that were beginning to increase the Plan's liabilities and costs.
Why HOOPP's liabilities and costs have been growing...

Within the past few years, the combination of price subsidies, benefit improvements, investment market losses, and growing liabilities, means that HOOPP's surplus is gone – and the Plan now has a modest unfunded liability.

The early approach taken by the Board to deal with the emerging unfunded liability – plus strong investment performance over the past two years – positions HOOPP to return to fully funded status ahead of the 15-year time limit required by pension legislation.

Consulting with Plan members
Making decisions about the Plan's benefits and contribution rates is taken very seriously by the Board of Trustees. As part of its deliberations, the Board reviews extensive research and analysis, and considers the impact of its decisions on all parties – Plan members, pensioners, and employers – as well as the overall long-term financial impact on the Plan itself.

"The pension industry faces a lot of challenges today, but HOOPP seems to rise above this."
John Clarke
Dunnville

The Board will continue to consider the input from ongoing consultation with these groups. That consideration will include the results of the survey made available to all HOOPP members and employers late in 2004 about the Plan's benefits and price.

Managing risk
In 2004, HOOPP undertook projects to improve data access and reporting on both the pension benefits (liabilities) and investment sides of its business. This work is part of a multi-year initiative to fully integrate all information pertaining to HOOPP's assets and liabilities to enhance funding risk management.

HOOPP's Board of Trustees will continue to monitor the Plan's funding status throughout the coming years. As well, HOOPP will review its funding policy in 2005 to ensure the Board has the framework it needs for monitoring and managing an unfunded liability.

Staying focused on members
With the extensive Plan Review and preparations for a new pension administration system in 2005 – along with the challenges of active management in the investment markets – 2004 was indeed a very busy and successful year for HOOPP. The Board would like to thank staff for their tireless efforts and dedication in consistently delivering the high quality of service that HOOPP members deserve.

Messages
President & CEO's Message

John A. Crocker, President & CEO

Serving you today, for tomorrow
In 2004 HOOPP made tremendous strides along its path of continuous improvement in serving Plan members, pensioners, and participating employers.

The timeliness of our day to day service is significantly better. Case processing turnaround times dropped by 26 per cent as improvements in training, peer review, and workflow management, begun in 2003, were realized. Cases in process were also reduced, despite a six per cent increase in incoming transactions.

For the second year in a row, our call centre shortened its telephone response time to an average better than the standard of most industries.

Client satisfaction ratings, from surveys of members who have recently transacted with the Plan, continued to exceed 80 per cent.

Communication with clients was also improved. The newsletter for members was introduced in an electronic version in both English and French. Employers receive a link to the newsletter that they can forward to their employees by e-mail. An online subscription service is also now available to members and pensioners to sign up to receive updates of interest to them, directly at the e-mail address they specify. These communications channels deliver Plan-related news to members more quickly while reducing work for employers.

As with the online annual report, employer administration manual, and other electronic information and tools delivered via the hoopp.com website, these initiatives also save on printing costs while ensuring that clients have the most up-to-date information at their fingertips.

Feedback from our membership is a critical component of HOOPP's continuous improvement strategy, and this feedback was especially significant in 2004. Members and employers were surveyed about the Plan's benefits and price, and several HOOPP employers were involved in pilot projects to help with the development of new tools and data collection methods. Employers also played a key role in the timely distribution of HOOPP surveys and communications to members.

I would like to thank members for their ongoing feedback that helps HOOPP better meet their needs. I would also like to thank employers for their important contribution to strengthening our partnership in serving members.

> "There's always some anxiety when you retire. HOOPP was excellent in providing information about my pension – and what I could expect – well in advance of my retirement."
>
> **Judy Lecuyer**
> North Bay

Adding value for your future
For the seventh year in a row, HOOPP exceeded its investment performance benchmarks.

Overall, the Fund provided an 11.35 per cent return, topping the composite benchmark by 119 basis points. This translates into more than $200 million of value added to the Fund over and above what passive investments, such as market indices, would have returned.

The Plan's assets – funds available to pay the pension benefits owed to HOOPP members – increased from $18.7 billion in 2003 to $21.1 billion at the end of 2004.

The Fund saw a particularly strong performance from its Private Equity and Special Situations portfolio, which soared over its benchmark with a return of 21.17 per cent. The longer term return of this portfolio is among the best in the pension industry. Real estate, with a return of 15.84 per cent, had its best performance in several years. Canadian equities, long bonds, and real return bonds, also had double-digit returns in 2004.

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President & CEO’s Message

HOOPP’s currency hedging policy again played a contributing role to the Fund’s strong 2004 investment performance. Over the past two years, this policy has helped portfolio returns as the value of several currencies, particularly the U.S. dollar, have declined compared to the Canadian dollar.

Investing in the people serving you
Providing stellar service to clients and achieving strong investment returns require the skills and hard work of dedicated professionals. To ensure HOOPP staff are supported, challenged, and developed to reach their best performance, a management development program was piloted in 2004 and will be rolled out as a training certification program for all managers over the next three years.

Ensuring that HOOPP can continue to invest the Trust Fund and pay pension benefits to members in the event of a disruption to business at our current offices is a top priority. HOOPP’s business continuity program continued to advance in 2004 with staff in both prime and alternate positions now fully trained and practised in business recovery procedures. Few organizations of HOOPP’s size can boast of this milestone.

Building for better service
During 2004, significant progress was made on our multi-year Client Relationship Excellence program, which is focused on improving the service we provide to clients while reducing operational risk. The design of improved pension administration processes was completed in 2004, along with a considerable amount of the construction of the supporting technology.

When implemented in mid-2005, HOOPP’s new pension administration system will:

- streamline processes to improve consistency, productivity, and efficiency
- automate routine transactions, enabling staff to focus more on their interaction with clients
- equip the Plan to respond more quickly and efficiently to any future legislated or other Plan changes
- support improved data for decision making
- serve as the foundation for future web-based client self service

HOOPP’s total expenses in 2004 were higher than the previous year, largely due to the new pension administration system. Other major pension plans that have replaced these systems also have seen their costs rise during development and implementation. This is not unusual for a project of this scope and complexity.

When the new system is implemented, it is expected that there will be some cost savings from the elimination of the maintenance costs involved with the old system. As well, there will be savings from the reduction of temporary staff involved in implementing the new system.

Ready for a new era of service
Looking ahead, the first six months of 2005 will be devoted to completing the new pension administration system construction before its mid-year launch. Work will also continue in 2005 on improved data collection processes and tools for employers, as well as the further development of the strategy for member, pensioner, and employer self-service.

All clients have a stake in the faster, higher-quality service that the new system will provide for years to come. I look forward to feedback on your experiences with what will be a new era at HOOPP.

Messages
Q&A

Dan Anderson,
Vice-Chair

Kelly Butt,
Chair

John A. Crocker,
President & CEO

Q: Why were benefit changes made to HOOPP?
A: The changes were made to stabilize the Plan’s financial health for the long term.

The benefit changes, announced in 2004 and taking effect in 2006, bring the cost of benefits down. When combined with a 2002 decision by HOOPP’s Board of Trustees to end contribution rate subsidies early, both actions help manage the Plan’s unfunded liability – a situation where the Plan’s liabilities, in the form of benefits owed to current and future members – exceed its assets.

The decision to reduce some benefits was a difficult one the Trustees took very seriously, given their duty to act in the best interests of all Plan members. Eliminating HOOPP’s unfunded liability will help ensure that the Plan is adequately funded for the future of all its members and pensioners.

Q: What does “having an unfunded liability” mean?
A: Having an unfunded liability doesn’t mean that the Plan is unable to pay pensions now or in the near future. There’s sufficient money in the HOOPP Trust Fund to pay benefits to existing pensioners.

It does mean that when assets and liabilities (benefits owed to members) are projected over the long term, based on a number of assumptions about membership trends, economic conditions and investment returns, a shortfall in assets is predicted at a future point in time.

Under pension law, when a pension plan files an actuarial valuation report with this type of unfunded liability, it must be eliminated within 15 years. It really isn’t that much different from a 15-year mortgage, except that the Plan owes the money to itself, rather than to some third party.

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Q&A

To the extent that it can't be paid by investment returns, the unfunded liability must be covered by increased contribution rates, reduced benefits, or both.

The early approach taken to dealing with the unfunded liability – plus strong investment performance over the past two years – puts HOOPP in a position to eliminate it ahead of the 15-year time limit required by pension legislation.

Q: How did the Plan get an unfunded liability?
A: Membership trends and changing demographics, together with two consecutive years of negative investment returns in 2001 and 2002, moved HOOPP from a surplus position to having a small unfunded liability within a matter of a few years.

HOOPP had a sizeable surplus in the late 1990s. Federal legislation at the time limited the surplus a registered pension plan could hold to 10 per cent of its liabilities. When this limit was reached, a pension plan had to either reduce or suspend contributions, improve benefits, or both.

Because HOOPP hit this limit, beginning in 1999, HOOPP allocated almost $4 billion for benefit improvements and contribution rate subsidies.

At the same time, the Plan's projections showed that trends in the membership, such as members retiring earlier and living longer, were driving up its liabilities and the Plan's annual cost. The combination of the increased liabilities and an unexpected double-digit growth in active members who joined the Plan when contribution subsidies were in effect accelerated the decline in the Plan's surplus.

However, it was back-to-back years of significant investment losses in 2001 and 2002 – losses that, despite beating HOOPP's investment benchmarks, exceeded even the worst-case scenarios in the Plan's actuarial projections – that quickly moved the Plan's financial position from one of surplus to one of an emerging unfunded liability. Poor investment markets and declining interest rates reduced the funded positions of defined benefit pension plans around the world.

The Board responded quickly in the fall of 2002 to phase out contribution rate subsidies beginning in 2003 and returning to full, unsubsidized contribution rates effective January 1, 2004. For the first time since 1998, surplus wasn't used to lower the cost of the Plan for members and employers.

The Fund had double-digit investment returns in 2003 and 2004 but those results are not enough to fully offset those years of negative returns.

The 2004 financial statements show that HOOPP no longer has a surplus and, in fact, has an unfunded liability of $227 million, which means the Plan's $21.3 billion in liabilities are approximately 99 per cent funded. More important, HOOPP has a strategy to bring the Plan back to a fully funded position in the coming years.

Defined pension plans worldwide are facing similar funding challenges, but not all have been as quick to address the issue as HOOPP.

As a result of HOOPP's advocacy efforts with other major Ontario pension plans regarding federal limits on excess surplus, new rules were introduced in 2003 that provide greater flexibility to pension plans such as HOOPP that have a cost-sharing arrangement between members and employers. These new rules will permit the build-up of larger surpluses in the future to better manage the cost of the Plan through periods of adverse experience. This was an important change in pension law given the long-term nature of the pension promise.

Q: Why have HOOPP's liabilities been growing?
A: HOOPP's liabilities are increasing because of changing demographics and economic conditions. The major trends driving up pension liabilities are:

- increased life expectancy, which means an increase in the number of pension payments
- higher projected increases in wages for health-care workers, which drive up the size of pensions
- continued high levels of early retirements, which increase the number of pension payments
- an increase in the number of members, which means more Plan benefits
- external factors such as the long-term rate of inflation, global markets, and the economy, which are used to set assumptions to determine the value of the liabilities

Messages
Q&A

Q: What benefits were changed?
A: Here's a summary of the changes:

- those eligible for the transition benefit as of December 31, 2005, will be able to retire after 2005 and still receive the benefit until they reach age 65
- disability pensions paid to members who apply after 2005 will not include service projected to age 65
- any COLA will be provided annually on an ad hoc basis, in other words at the discretion of the Board, for the portion of benefits based on contributory service built in 2006 or later; cost of living adjustments (COLAs) will continue to be guaranteed for the portion of benefits based on contributory service built to the end of 2005. The guaranteed COLA for pre-2006 contributory service is 75 per cent of the previous year's increase in the consumer price index (CPI) to a maximum CPI increase of 10 per cent
- for the first time, spousal pension benefits will be available for a new post-retirement spouse, provided certain conditions are met

Q: How did the Board decide which benefits to change?
A: A key factor was the ability to make changes that could be restored at a future date, if the Plan's finances permit it. This is particularly true in relation to the changes that were made to COLA.

In terms of Plan management, the change to COLA means the Board has the flexibility to apply COLA increases responsibly in the context of the Plan's overall financial health, for the benefit of all members, pensioners, and employers. In the case of COLA increases, should the Board decide not to provide COLA in a given year, it could approve a "catch up" in subsequent years – as it has in the past on more than one occasion.

The Board's decision to make Plan changes in 2004 was based on months of consideration and consultation that included research with members and employers. Formal client research into benefits and funding is carried out approximately every three years, or as required.

Surveys of active members and employers were conducted during the first quarter of 2004. Supplementary surveys were done at year end to provide a more in-depth understanding of member and employer preferences for any future price and benefit changes.

The proposed Plan changes were also tested using actuarial modelling and financial forecasts. Testing the Plan against a variety of hypothetical future events helps HOOPP evaluate the Plan's ability to withstand poor market returns and a range of trends that could increase liabilities, such as unexpected increases in membership or salaries, and to determine what levels of funding would be required to remain sustainable should these events occur.

The Board also conducted a detailed analysis of the impact of the Plan changes on all segments of the membership to ensure their effects were distributed as fairly and in the most even-handed manner possible in the Plan's current circumstances. Wherever possible, the Board strives to ensure that the interests of one segment of the membership population are not preferred over the interests of another and that one group is not advantaged at the expense of another or vice-versa.

Plan changes cannot always affect everyone in the same way but, in making changes, the Board takes a great deal of care to consider and balance all different stakeholder interests.

Q: Is COLA gone?
A: There's a myth out there that HOOPP will stop applying COLA beginning in 2006. This simply isn't true.

COLA is still guaranteed for any portion of a pension or deferred pension that is based on contributory service acquired before 2006. HOOPP's Board of Trustees can also provide "ad hoc" COLA to the guaranteed increase, moving it from the 75 per cent level up to as much as 100 per cent of the previous year's CPI increase, to a maximum CPI increase of 10 per cent.

In other words, COLA remains guaranteed for all current pensioners and deferred pensioners, and for every single year of contributory service that active members have in the Plan as of the end of 2005.

What's changed is that COLA will be provided on a "non-guaranteed" or "ad hoc" basis for service earned in 2006 and beyond.

The Board can set this ad hoc COLA at any level, from zero to 100 per cent of the previous year's CPI increase, again to a maximum CPI increase of 10 per cent, depending on the Plan's circumstances.

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Q&A

Q: Won't ad hoc COLA increases simply mean zero increases?
A: No. Some members have expressed concern that ad hoc will automatically mean a zero increase. While HOOPP can't predict the future, a look at recent history shows that the Board understands the importance of COLA to its retired members.

Before 1988, there was no guaranteed COLA at all. However, in 1979 and in every year from 1982 to 1988, pensions and deferred pensions received an ad hoc COLA equal to 75 per cent of the previous year's consumer price index (CPI) increase.

Guaranteed COLA was first introduced on service earned after 1988. Until 1998, COLA was not guaranteed on pension service that was acquired before 1989. Even though it wasn't guaranteed, 75 per cent of the consumer price index (CPI) was provided by the Board on an ad hoc basis. In addition, on two recent occasions – 1998 and again in 2001 – the Board provided "catch up" COLA to pensioners and deferred pensioners. The effect of these catch ups was to move pensions to where they would be if they had received the maximum COLA permitted by the Plan (i.e., 100 per cent of CPI) for every year since they went into payment, or the pension was deferred.

Remember too that the only way a member could get a COLA increase of zero would be if all that member's contributory service was built after 2005 – anyone with service before 2006 will always get a guaranteed increase on at least a portion of their pension.

Q: Why didn't HOOPP just cancel the transition benefit altogether – would this have prevented the changes made to COLA?
A: No. The cost of guaranteed COLA far outweighs the cost of the transition benefit.

If changes had not been made to the guaranteed COLA, changes to other benefits would have been required, or there would have been a substantial increase in contributions.

As well, the Board wants to avoid taking away benefits members have already built – for that reason, none of the July changes were retroactive – all were "go forward" changes.

Q: What would it cost to leave benefits as they are?
A: The increase in contribution rates would be big.

Long-term forecasts prepared during the Plan Review indicated that, without benefit changes, contribution rates would have had to increase by approximately 15 per cent for each of the next 15 years. Put another way, a member earning $40,000 per year would be contributing an extra 1% of their pay (more than $400) every year for the next 15 years if benefits hadn't been changed.

Q: Will there be more benefit changes?
A: No further changes for funding purposes are planned at this time.

HOOPP's Board of Trustees continues to carefully monitor the Plan's funded status. This includes monitoring the many factors that influence funding, including interest rates, inflation, investment returns, levels of enrolment, and retirements – most of which HOOPP cannot control.

Should further adverse experience occur, the Board will take the same proactive, considered, and consultative approach to making informed decisions about any future changes.

Independent of funding-related changes, the Plan does occasionally need to make changes to benefit provisions and their administration to comply with various pension and tax laws.

Q: Will my pension be there when I retire?
A: Yes. HOOPP is designed to run in perpetuity, and few retirement savings are as safe as the pension benefits you've earned in HOOPP.

Your pension is based on a formula and isn't directly tied to the ups and downs of financial markets.

The Board considers its commitment to pay promised pensions to be paramount.

Messages
Q&A

Q: Who made these decisions about benefits and contribution rates?
A: Decisions regarding the 2006 Plan changes were approved by HOOPP's Board of Trustees. The 16 Trustees who make up the Board are appointed by HOOPP's five Settlor organizations. The Settlors of the Trust are the Ontario Hospital Association (OHA) and these four unions:

- the Ontario Nurses' Association (ONA)
- the Canadian Union of Public Employees (CUPE)
- the Ontario Public Service Employees' Union (OPSEU)
- the Service Employees International Union (SEIU)

Half of the Trustees are appointed by the OHA and the other half by the four unions, with each union nominating two Trustees.

The Board is responsible for overseeing all aspects of the Plan and the HOOPP Trust Fund. Among its responsibilities, the Board:

- approves contribution and benefit payment levels
- makes changes to the Plan and its benefits
- establishes investment policy
- monitors investment performance
- approves annual operating budgets

It's important to realize that all HOOPP members – including the approximately 30 per cent who don't belong to any of the four unions – are represented by all 16 Trustees. Trustees have a legal fiduciary obligation to administer the Plan in the best interests of all its participants regardless of their union, employer, or other affiliation.

Q: How does HOOPP's financial position compare to other pension plans?
A: Most pension plans are dealing with growing liabilities, the effects of poor investment returns in 2001 and 2002, and a declining or depleted surplus.

HOOPP was one of the first of the plans to move to implement a plan to manage its emerging unfunded liability.

Q: Why are a large portion of HOOPP's assets in the stock market?
A: By law, pension plans are required to diversify their assets. This is to limit risk.

While equity investments, or stocks, have their ups and downs, they have proven their value over the long run. Stock market returns in both Canada and the U.S. have averaged more than eight per cent over the last 10 years. At the same time, guaranteed annual returns for Canada Savings Bonds have typically been in the range of five per cent. Although equities can be more volatile, these extra returns help pay for the pensions earned by members of the Plan.
To further limit risk, law prevents a pension plan from investing or lending more than 10 per cent of its assets to any one corporation.

Q: What's an actuarial valuation?
A: It's basically an actuarial balance sheet.

HOOPP conducts an actuarial or funding valuation every year to determine the Plan's liabilities – the amount of money needed to pay the benefits earned to date by members – and the Plan's assets. To project the growth in benefit obligations, the valuation uses assumptions about when members will retire, terminate, and die, as well as future rates of interest, inflation, and salary increases, to determine how much will be needed to pay benefits and for how long.

In estimating the value of the Plan's assets, the valuation uses a five-year average of investment return rates. This lessens the impact of short-term volatility in financial markets, to better match the value of assets to the long-term nature of the liabilities.

The valuation produces an actuarial balance sheet comparing the Plan's liabilities to its assets to determine if sufficient funds have been set aside to date. The valuation may show that the Plan is fully funded, in a surplus position, or has a funding deficiency.

Messages
Q&A

As part of the funding valuation, the actuaries project the Plan's assets and liabilities out for several years, to determine the future range of the Plan's financial position over different possible outcomes. These projections assist the Board in determining the amount of money the Plan needs, via member and employer contributions, to fund benefits as they continue to be earned.

HOOPP is required to file a valuation report with the Financial Services Commission of Ontario at least every three years. HOOPP's last filed valuation was effective December 31, 2003.

Q: How did the investment Fund do?
A: HOOPP's Fund performance has been strong, generating a return of 11.35 per cent in 2004, following a return of 14.86 per cent in 2003.

The last two years of double-digit results must be placed in context, however. They don't fully make up for the significant investment losses due to poor markets in 2001 and 2002.

Q: Why is the Plan still absorbing losses from years ago?
A: Like most pension plans, HOOPP uses market prices to determine the current value of its assets. An actuarial asset adjustment or "smoothing" method is then applied to show the market value based on a five-year average of investment return rates. This smoothing method allows decision making based on long-term investment returns, while avoiding short-term reactions to market events.

As a result of the actuarial asset smoothing or averaging method, HOOPP's financial position at December 31, 2004 shows the smoothed value of assets at a level that is $231 million greater than the market value of the Fund.

Q: What's the connection between investments and my pension?
A: HOOPP pensions are based on a formula that takes into account a member's earnings history and service in the Plan. This formula isn't directly affected by the ups and downs of the financial markets. Poor investment performance can have an effect on the overall funded status of the Plan and this, in turn, could affect contribution rates, benefits, or both, depending on the approach taken by the Board.

Generally speaking, 20 cents of every pension dollar you'll receive from HOOPP was paid by member and employer contributions. The other 80 cents will be covered from the Plan's returns on the investment of those contribution dollars.

Q: What's the outlook for investment returns?
A: There are signs of slower economic growth, leading to lower market returns, either slightly positive, neutral, or negative in the year ahead.

HOOPP is expecting that overall portfolio returns will be modest, most likely in the single-digit range.

Q: Is HOOPP considering alternative investments as a way of maximizing returns?
A: HOOPP already has approximately 10 per cent of its portfolio committed to alternative investments, including real estate, private equity and special situations, and activities relating to our derivatives portfolio. The Plan is constantly looking at new investment opportunities that will provide added return, lower risk, or ideally both. Before committing to any new opportunities, HOOPP must ensure that the resources, processes, and structure to manage any new asset class are in place.

Q: HOOPP's total administrative costs over the last few years have grown considerably. Why is this?
A: The increase in these costs is primarily the result of HOOPP's multi-year client service excellence strategy, with the key deliverable of this strategy being the launch of a new pension administration system in mid-2005.

Further enhancements to this system to improve electronic interaction with HOOPP members and employers are also planned for the next few years.

Other pension plans that have launched new pension administration systems also have seen their costs rise while the system is being developed and implemented. This isn't unusual for a major project of this nature.

When HOOPP's new system is implemented, it's expected that there will be some cost savings from the elimination of the maintenance costs involved with the old system. As well, there will be savings from the reduction of temporary staff who were involved in implementing the new system.

Messages
Membership Quotes

“After 36 years as a HOOPP member, I'm thrilled to be retiring and to be very comfortable with my pension. A lot of my friends in other industries are not in a position to retire early. HOOPP has always had excellent early retirement features. I'm a firm believer in joining a pension plan as soon as you can since years of service is so important in the calculation of your final pension amount.”

Linda Deshevy
Sudbury

“There's always some anxiety when you retire. HOOPP was excellent in providing information about my pension – and what I could expect – well in advance of my retirement. My husband, who is also a HOOPP pensioner, and I both rely on our monthly pensions to maintain our lifestyle, and HOOPP has always been there for us.”

Judy Lecuyer
North Bay

“My pension with HOOPP is an important part of my retirement income, and I know my monthly cheque is always there for me. Being retired for almost two years now, I've never been busier, and I attribute all the upfront retirement planning I did to giving me the freedom to enjoy these years.”

George Dockery
Sudbury

“Our hospital staff have a close relationship and feel very comfortable dealing with our HOOPP representative who visits us regularly to make presentations on the pension plan. He brings a wealth of knowledge to the discussion, and our staff are fully confident in the answers he provides to their questions.”

Jan Muyssen
Fergus

“HOOPP's website is a great source of information for us, and we use it all the time. When we need to call for service, HOOPP's knowledgeable staff either have the answers right away, or get back to us in a timely manner. Our hospital staff see HOOPP as a great benefit.”

Marla Faulkner
Stratford

“The pension industry faces a lot of challenges today, but HOOPP seems to rise above this. Through its representatives and communications materials, HOOPP keeps its members regularly updated on the status of the pension plan. This is greatly appreciated by our hospital staff. HOOPP has also made great improvements to its data collection reporting software, which is truly appreciated by we employers who are helping adminster the Plan.”

John Clarke
Dunnville

“HOOPP is certainly an important benefit and a drawing card for our new employees. Most employees are eager to join the Plan as soon as they're able to.”

Mia Manson
Hamilton

“The service team at HOOPP is very knowledgeable and very helpful. Whenever our hospital staff call with questions, HOOPP gets back to us in a prompt and timely manner.”

Stella Fortin
Kirkland Lake

Messages
Membership Quotes

“HOOPP's customer service certainly stands out. Whenever I call the service centre, I always get a polite, knowledgeable staff member who, if unable to answer my question, makes sure I'm directed to the right person. There's never any run around. When I leave a voicemail, the call is always returned promptly. It all makes for a great service experience.”

Beth Myers
Scarborough

“HOOPP's staff are committed to providing a high level of service. Every time I call in with a question, I generally get an answer right away and, if there's a need to get back to me, it's usually in a timely manner. Employees at our facility who have either been with the Plan for a long time – or who are nearing retirement – certainly have a great appreciation of this benefit.”

Mary McCall
Toronto

“HOOPP staff have been particularly helpful to me during member data collection time. When I have a question, the person on the other end stays on the line and works me through the process, step by step. The three years that I've been involved with HOOPP have been a great learning experience.”

Diane Smith-Coomber
Vineland

2004 Highlights

Client Services Accomplishments

- HOOPP completed 2,000 more cases than in 2003 and reduced a sizable number of cases in process
- In 2004, a considerable amount of the construction of the new pension administration system was finished
- All HOOPP client services staff received training in 2004 to promote excellent client service

Read more Client Services Accomplishments...

Governance in 2004

- HOOPP's Board of Trustees is charged with overseeing all aspects of the Plan and the Fund
- In 2004, eight policies governing the Board's operations were reviewed/amended/confirmed
- HOOPP's Trustees took part in education programs to increase their knowledge

Read more about Governance...

"Being retired for almost two years now, I've never been busier, and I attribute all the upfront retirement planning I did to giving me the freedom to enjoy these years."

George Dockery
Sudbury

"The service team at HOOPP is very knowledgeable and very helpful. Whenever our hospital staff call with questions, HOOPP gets back to us in a prompt and timely manner."

Stella Fortin
Kirkland Lake

2004 Highlights
Client Services Accomplishments

In 2004, HOOPP saw the culmination of its efforts to develop tools and training to better manage the processing of pension cases.

During the year, HOOPP was able to complete 2,000 additional incoming cases compared to 2003 while, at the same time, reducing a sizeable number of cases in process. These are pension benefit transactions that cannot be completed unless additional information is obtained from members, employers, or third parties. Reducing the number of cases in process is an important goal before the launch of HOOPP's new pension administration system in 2005.

During 2004, a considerable amount of the construction of this new pension administration system was completed. This platform is at the core of HOOPP's service improvement program, which will result in faster, higher-quality pension administration for clients for years to come.

For the second year in a row, HOOPP's call centre reduced its telephone response time to an average that is much better than the standard of most industries.

> "The HOOPP representative who visits us regularly... brings a wealth of knowledge to the discussion, and our staff are fully confident in the answers he provides to their questions."
>
> **Jan Muyssen**
> Fergus

In keeping with HOOPP's move to more cost-effective online communications, the full annual report was designed and produced in 2004 as an online document only in both English and French. A special edition of the member newsletter with annual report highlights was also provided to employers for distribution in April.

The effectiveness of HOOPP's online communications was demonstrated following the announcement of the Plan changes in mid-2004. Not only were details of the Plan changes provided on HOOPP's website (hoopp.com) shortly after the announcement, but the pension calculator and employer administration manual were updated and posted in a very timely manner to reflect the changes.

Following a pilot program in 2003, all HOOPP client services staff completed skills training in 2004 that focused on behaviours leading to excellent client service. This program is being rolled out to other HOOPP staff in 2005.

2004 Highlights
Governance

HOOPP's Board of Trustees is responsible for overseeing all aspects of the Plan and the HOOPP Trust Fund. As a member of a Board governing a trust, each HOOPP Trustee is a fiduciary and, as such, acts solely in the best interests of the Plan beneficiaries as a whole.

Board Composition
HOOPP's Board has 16 Trustees. Half of the Trustees are appointed by the OHA and the other half by the four Settlor unions, with each union nominating two Trustees.

Two additional Board members are appointed to represent pensioners. These members do not have voting rights and, as observers, are appointed to observe the proceedings of the Board. One is appointed by the OHA and one by the Settlor unions. Read more...

Operating Structure
Among its responsibilities, the Board of Trustees:

- approves contribution and benefit payment levels
- makes changes to the Plan and its benefits
- establishes investment policy
- monitors investment performance
- approves annual operating budgets

"HOOPP's website is a great source of information for us, and we use it all the time."

Maria Faulkner
Stratford

A key feature of the Plan is its cost-sharing provision. Employer contributions range from 120 to 132 per cent of member contributions, and costs of any future Plan improvements are shared equally between members and employers. Read more...

Trustee Responsibility
The Trustees' fiduciary responsibility supersedes any allegiance a Trustee may have to any other party or interest, including the organization that appointed him or her to the Board. Read more...

Trustee Education
Pension plans like HOOPP are complex and technical. HOOPP invests extensively in Trustee education programs, and all new Trustees are enrolled in an orientation session. Increased knowledge of pension and investment matters enables Trustees to make more informed decisions and to thereby ensure that their fiduciary obligations are properly met.

Committee Structure
The Board of Trustees has established four Committees to assist it in fulfilling its duties:

- Plan
- Investment
- Governance
- Audit & Finance

Each Committee has a Board-approved mandate. The Committees receive information from HOOPP management and from HOOPP's external advisors. They fully analyze and assess the issues before them and then either decide the matter, if the authority has been delegated to the Committee by the Board, or make recommendations to the Board of Trustees.

2004 Highlights
Governance

Policies
HOOPP's Board of Trustees has established and approved more than 30 policies for the pension plan. In 2004, the following policies were reviewed/amended/confirmed:

- Board privacy policy
- delegation of management authority to Plan Manager, President & CEO
- auditor independence policy
- advocacy policy
- benefits & funding principles & policies
- benefit corrections policy & guidelines
- statement of investment policies & procedures
- investment policies & guidelines

Role of Management
The Plan Manager, as defined under the Agreement & Declaration of Trust, is the President & CEO. The President & CEO reports directly to the Board of Trustees. Read more about our executive team ...

Directory

Not pictured: Lesley Bell, Susan (Sally) Lewis

Trustees
(as of Dec. 31, 2004)[1]

Kelly Butt,
HOOPP Chair
Past Chair
Lawson Health Research Institute

Dan Anderson,
HOOPP Vice-Chair
Director/Chief Negotiator
Ontario Nurses' Association

David Alexander
Director, Grey Bruce Health Services and Director, South Bruce Grey Health Centre

Lesley Bell
Chief Executive Officer
Ontario Nurses' Association

Warren Chant
President & CEO, Leamington District Memorial Hospital

Helen Fetterly
Secretary-Treasurer
Ontario Council of Hospital Unions (Canadian Union of Public Employees)

Marcia Gillespie
Benefits Counselor
Ontario Public Service Employees' Union

Marcelle Goldenberg
Executive Vice-President,
SEIU Local 1.on
Service Employees International Union

Susan (Sally) Lewis
Vice-President, Performance Excellence
Trillium Health Centre

Deborah Menzies
Benefits Steward, SEIU Local 1
Service Employees International Union

Scott Potts
Senior Vice-President Corporate Services & Operations
Thunder Bay Regional Hospital

Louis Rodrigues
First Vice-President
Ontario Council of Hospital Unions (Canadian Union of Public Employees)

James Sanders
President, Local 142
Ontario Public Service Employees' Union

Deepak Shukla
Past Chair, Board of Directors
Markham Stouffville Hospital

Anthony Vines
President & CEO
Ross Memorial Hospital

Pensioner Observer[2]

Joyce Bailey
Former President
Wellesley Hospital

Directory

Board Committees

Investment Committee
Scott Potts (Chair), Lesley Bell, James Sanders, Deepak Shukla
External advisers: Lea B. Hansen, Eric Kirzner, Karen R. Shoffner, Jim Stothers

Plan Committee
Helen Fetterly (Chair), Marcia Gillespie, Susan Lewis, one vacancy

Governance Committee
Dan Anderson (Chair), Kelly Butt, Warren Chant, Marcelle Goldenberg

Audit & Finance Committee
Anthony Vines (Chair), David Alexander, Deborah Menzies, Louis Rodrigues

Executive

President & CEO

John A. Crocker
President & CEO

Executive

George B. Buse
Senior Vice-President
Plan Operations

G. Douglas Carr
Senior Vice-President
Finance &
Chief Financial Officer

J. Paul Grisé[3]
Senior Vice-President
Investment Management &
Chief Investment Officer

Laurie L. Hutchinson
Senior Vice-President
Pension & Corporate Affairs

Lina L. Lawrence
Senior Vice-President
Central Services

Josephine E. Marks[4]
Senior Vice-President
Investment Management &
Chief Investment Officer

David L. Miller[5]
General Counsel

Senior Management

Reno Bugiardini
Vice-President
Information Technology &
Facilities Operations

Michael Catford
Vice-President
Real Estate

Julie C. Cays
Vice-President
External Managers

Derek Dobson
Vice-President
Client Relationship Excellence Program

Jim Keohane
Vice-President
Equity & Derivative Trading

Clint Matthews
Vice-President
Investment Finance

Andrew Moysiuk
Vice-President
Private Equity & Special Situations

Michael Sirola
Vice-President
Fixed Income

Jeffrey Wendling
Vice-President
North American Equities

Professional Advisers

Actuary
Towers Perrin Inc.

Auditors
PricewaterhouseCoopers LLP

Legal
Blake, Cassels & Graydon LLP

1. One Board position was vacant as of December 31, 2004.
2. One pensioner observer position was vacant as of December 31, 2004.
3. Retired June 30, 2004.
4. Effective July 1, 2004.
5. Effective May 25, 2004.

View the list of current Trustees.

About HOOPP

How Your Pension Plan Works

A defined benefit plan like HOOPP provides you with a good idea in advance of what your monthly lifetime pension will be. The amount of your pension is based on a formula that takes into account your earnings history and service in the Plan, rather than basing your pension directly on investment returns.

The money to pay your pension comes from two sources – contributions from members and their employers, and investment returns.

Over time, approximately 80 per cent of pension benefits are paid from investment returns, while the other 20 per cent are paid from contributions. If the Plan has poor investment market returns over a prolonged period, one of the following needs to be implemented to keep the Plan adequately funded: increased contributions, reduced benefits, or a combination of both.

A surplus for a defined benefit plan arises when the value of assets exceeds what is required to pay out all the benefits owed to all participants. HOOPP had a surplus beginning in the late 1990s right through until the end of 2003.

An unfunded liability occurs when an actuarial valuation shows that what a pension plan owes in current and future benefits to all participants (liabilities) exceeds the value of its assets. Pension legislation requires that an unfunded liability must be eliminated in no more than 15 years. Positive experiences for a plan, such as an extended period of very strong investment returns, will enable it to eliminate an unfunded liability sooner than the legislated deadline.

HOOPP Profile

The Hospitals of Ontario Pension Plan (HOOPP) has a strong history of providing pensions to Ontario's health care community. It's one of the biggest and most respected pension plans in the country and is an industry leader among multi-employer plans.

More...

Our Mission

We contribute to the well-being of our members in retirement by providing pension benefits and services tailored to the unique needs of the health care community. This commitment shapes how we design and deliver pension benefits and services, and how we invest their pension assets.

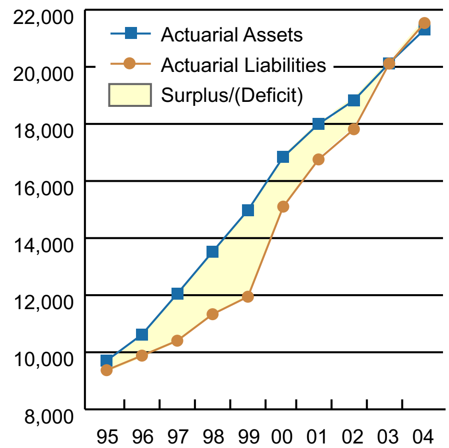
More...

Financial Highlights

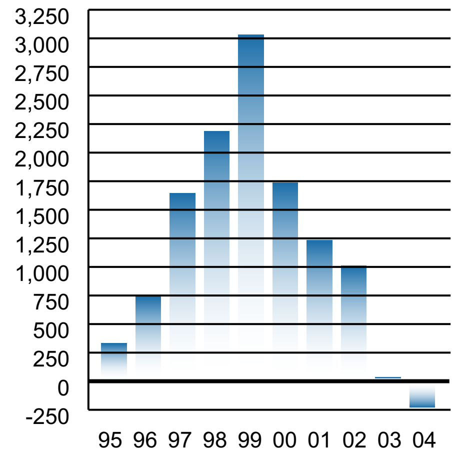
Following a tiny surplus of $15 million at the end of 2003, the 2004 year-end financial position showed HOOPP with a small unfunded liability of $227 million. Most major pension plans are facing unfunded liabilities as a result of negative years of investment market returns in 2001 and 2002. HOOPP foresaw the emergence of its unfunded liability and moved swiftly to minimize it to ensure the long-term financial health of the Plan.

Read more about Funding Risk Management...

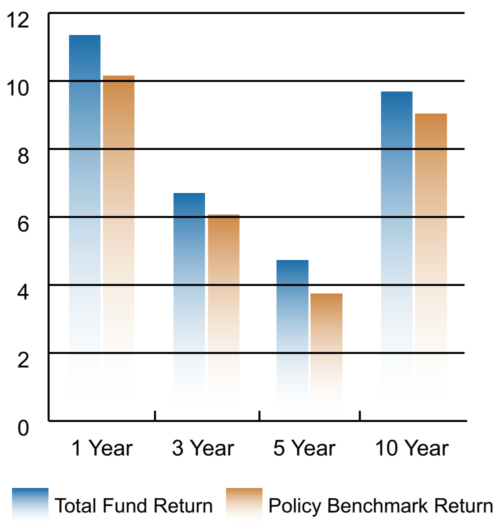
Actuarial Assets and Liabilities ($ millions)



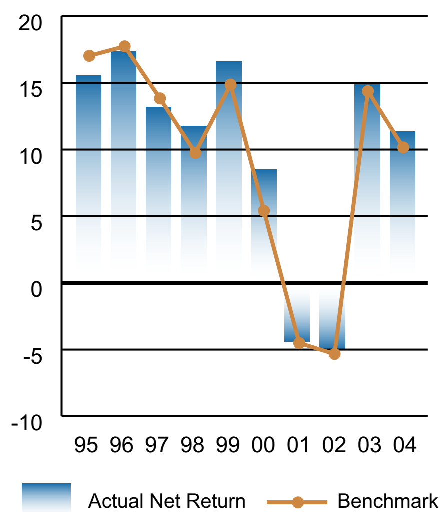
Financial Statement Surplus/(Deficit) ($ millions)



Total Fund vs. Policy Benchmark Returns (%)



Actual Net Return vs. Benchmark (%)



HOOPP had a strong year of investment performance in 2004. The Fund's active management style, combined with its asset mix strategy, helped add value of 119 basis points. The Fund generated a return of 11.35 per cent, outperforming the benchmark return of 10.16 per cent. HOOPP's average annual return over the last five years is 4.73 per cent compared to the composite benchmark of 3.74 per cent.

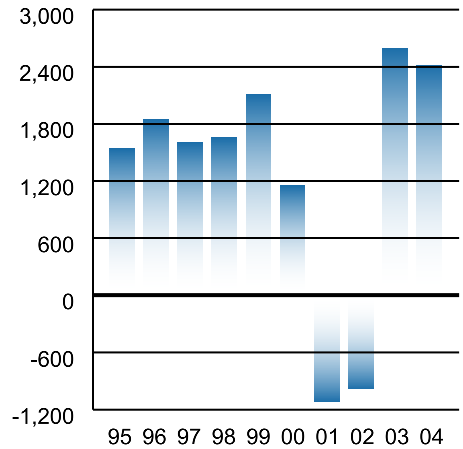
Read more about Major Portfolio Details...

Financial Highlights

The early approach taken to dealing with the unfunded liability, plus strong investment performance over the past two years, places HOOPP in a strong position to eliminate it ahead of the 15-year time limit required by pension legislation.
Read more about Funding Risk Management...

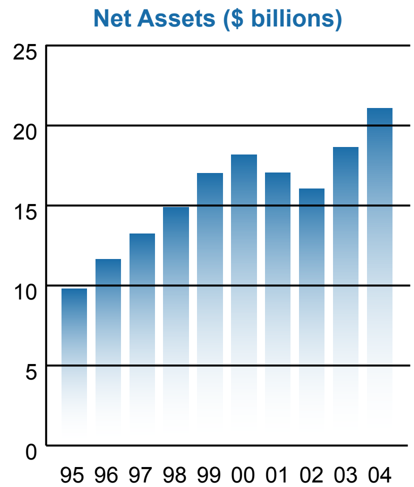
($ Millions)	**As at Dec. 31, 2004**	**As at Dec. 31, 2003**	**$ change**
Net assets	**$ 21,077**	$ 18,657	$ 2,420
Actuarial asset value adjustment	**231**	1,471	(1,240)
Actuarial value of net assets	**21,308**	20,128	1,180
Accrued pension benefits	**21,535**	20,113	1,422
Surplus/(Unfunded liability)	**(227)**	15	(242)

Change in Net Assets
($ millions)



Management's Discussion and Analysis

MD&A at-a-Glance

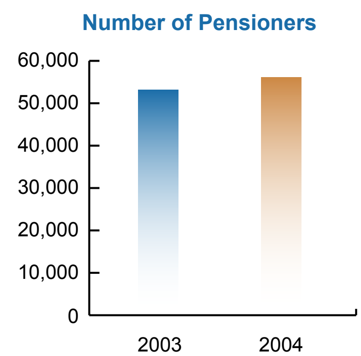


Like most pension plans, HOOPP uses market prices to determine the current value of its assets. An actuarial asset adjustment – or a "smoothing" method – is then applied to adjust the market value based on a five-year average of investment return rates. This smoothing method allows decision making based on long-term investment returns, while avoiding short-term reactions to market events.
Read more about Valuing the Assets.

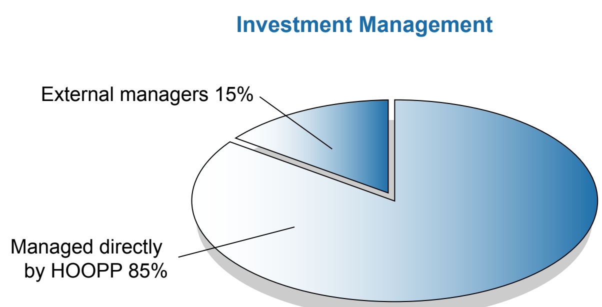
HOOPP's unfunded liability represents approximately one per cent of the $21.3 billion in liabilities – in the form of pension benefits – the Plan owes to current and future retirees, meaning the Plan is approximately 99 per cent funded. The unfunded liability would be higher if not for the proactive steps taken by the Board.
Read more about Valuing the Liabilities.

On a year-over-year basis, the Plan went from a surplus of $15 million at the end of 2003 to an unfunded liability of $227 million at December 31, 2004. This is primarily attributable to the gradual realization of the negative equity market returns in 2001 and 2002 using the asset smoothing method. The unfunded liability is expected to grow over the next year or two as the remaining investment losses still must be recognized from the negative market returns in 2001 and 2002.
Read more about Determining the Surplus/Unfunded Liability.

HOOPP experienced growth in the number of pensioners – 56,100 pensioners in 2004, compared to 53,200 pensioners in 2003, representing an increase of almost six per cent.
Read more about Contributions vs. Pension Benefits.



Approximately 85 per cent of the Fund is managed directly by investment professionals employed by HOOPP. External managers, operating under investment management mandates established by HOOPP, invest the balance of the Fund's assets, primarily in international equity investments.
Read more about Investment Management.



Over the course of 2005, HOOPP will continue work on its multi-year initiative to better integrate the management of asset and liability risks. A review of HOOPP's funding policy in 2005 will further strengthen the decision-making framework of the Board as it continues to deal with the funding challenges facing defined benefit pension plans worldwide. Read more about our Outlook.

Management's Discussion and Analysis
Overview

This section provides an overview of HOOPP's operations and a detailed explanation of the consolidated financial statements, and should be read along with those statements. Its purpose is to present readers with a view of the Plan by interpreting the trends and circumstances that affected results and the financial status of the Plan. In addition to historical information, this section contains forward-looking statements reflecting management's outlook and perspectives as of the date of this report.

ALL FINANCIAL DATA IN BASE CURRENCY (Cdn$)

Introduction

Financial results are a point-in-time measurement. A large pension plan like HOOPP is managed with a longer-term focus. Actuarial forecasts look many years out.

The 2004 year-end financial position showed the Plan with a small unfunded liability. Decisions made by HOOPP's Board of Trustees in 2002 to end contribution rate subsidies earlier than planned, along with the Plan changes announced in 2004, ensure the Plan remains on a strong financial footing, and is able to pay all promised benefits over time.

Most major pension plans are facing unfunded liabilities. HOOPP foresaw the emergence of its unfunded liability and has moved swiftly to minimize it to ensure the long-term financial health of the Plan.

As of December 31, 2004, the Plan's liabilities – in the form of pension benefits owed to current and future retirees – exceed its assets by about one per cent. This amount would be higher if not for the proactive steps taken by the Board.

Much of the unfunded liability is due to the poor equity markets in 2001 and 2002, leading to significant negative investment returns for HOOPP. For its actuarial valuations, HOOPP smoothes the value of its assets by averaging investment gains and losses over a five-year period. This means that some of the losses of 2001 and 2002 have yet to be fully absorbed.

The early approach taken to dealing with the unfunded liability, plus strong investment performance over the past two years, places HOOPP in a strong position to eliminate it ahead of the 15-year time limit required by pension legislation. HOOPP's Board of Trustees continues to monitor the Plan's funding status. Should further adverse experience occur, it will take the same proactive, considered, and consultative approach to any future changes that might be required to ensure the Plan stays on a strong financial footing.

Management's Discussion and Analysis
Overview

Year-End Financial Position
Strong added value from HOOPP's investment portfolio contributed to an increase in the Plan's net assets available for benefits to $21.1 billion at the end of December 31, 2004. This represented an increase of $2.4 billion from the $18.7 billion reported at the end of 2003.

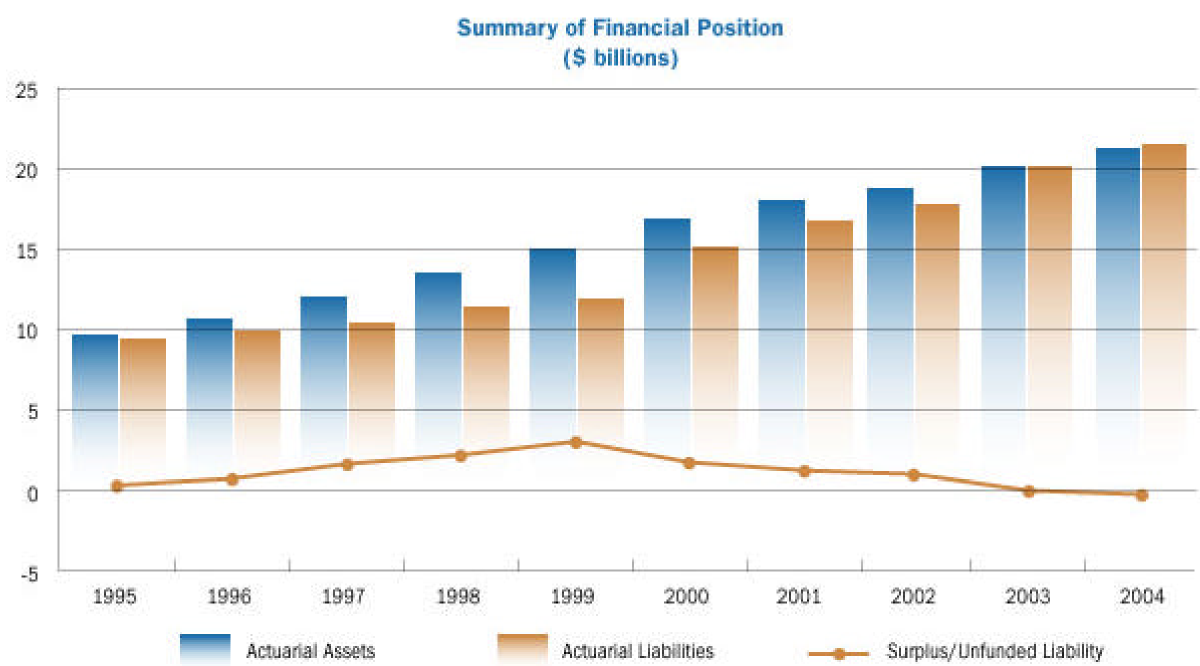
The $2.4 billion increase is attributed to $2.1 billion in net investment gains and $355 million in positive pension cash flow, less expenses of $70 million.

For actuarial purposes, the net assets available for benefits are adjusted or "smoothed" to reflect an average value over five years, which helps minimize the impact of short-term investment market volatility. This adjustment, referred to as the actuarial asset value adjustment, has increased the recorded value of the Plan's assets by $231 million at December 31, 2004.

With this adjustment, adjusted net assets available for benefits at the end of 2004 were $21.3 billion, approximately $1.2 billion higher than in 2003. The actuarial value of net assets available for benefits was $20.1 billion in 2003.

The Plan's accrued pension benefits for the year ended December 31, 2004 are $21.5 billion, which is $1.4 billion higher than the $20.1 billion reported as at December 31, 2003.

Although net assets increased $2.4 billion over the year, this was offset by the increase in accrued pension benefits of $1.4 billion, and the decrease in the actuarial asset value adjustment of $1.2 billion. As a result, the financial statement surplus of $15 million at December 31, 2003 has been eliminated, and the Plan has an unfunded liability of $227 million at December 31, 2004.



Management's Discussion and Analysis
Funding Risk Management

Introduction
The Income Tax Act sets limits on the amount of surplus – the amount by which assets exceed liabilities – that a pension plan can have.

The issue of excess surplus first came into focus for HOOPP in 1997 when actuarial forecasts showed that the Fund's very strong investment returns in the 1990s were pushing the Plan into a funded position that exceeded these limits. HOOPP's Board of Trustees responded by making a number of permanent and temporary benefit improvements for active members, pensioners, and deferred pensioners, and by introducing temporary contribution rate subsidies for both members and employers – all intended to use surplus and bring the Plan back within the government limits by the set timeframe.

While steps were being taken to reduce the surplus, demographic trends were driving up the Plan's liabilities. Members were retiring earlier and pensioners were living longer. An unexpected significant growth in new members also meant that more funds than expected were being used for contribution rate subsidies.

Overlaid on these events were the significant equity market downturns of 2001 and 2002 that led to the Fund losing 10 per cent of its value. The impact of all of these events led to the Plan's 2002 actuarial projections showing that an unfunded liability would emerge within a few years. In anticipation of this, the Board ended contribution rate subsidies earlier than expected – moving to 90 per cent of full contribution rates in 2003, and the elimination of subsidies by 2004.

Beginning in 2003, the Board also began an extensive review of the Plan's long-term funding risks. The outcome was the benefit changes that were announced in July 2004. The largest impact to the Plan of these changes was the removal of the guarantee on the cost of living adjustment (COLA) for service members earn after 2005. Ad hoc adjustments may, however, still be made by the Board when the Plan's circumstances permit.

Through its review of the Plan's long-term funding risks, the HOOPP Board now has a multi-year strategy to address the unfunded liability. The Board continues to monitor the Plan's funded status and, should there be further adverse experience, it will take the same proactive, considered, and consultative approach to any future changes to benefits or price that might be required.

Management's Discussion and Analysis
Funding Risk Management

Plan Funding
The cost of all current and expected future pensions is monitored regularly to ensure the Plan has sufficient funding to pay, over the long term, benefit obligations as they become due.

At least annually, the Plan Management team works closely with HOOPP's actuarial advisor to prepare financial estimates that are extrapolated over many years. The information and analysis derived from this work assists HOOPP's Board of Trustees in making decisions about the Plan's price and benefits.

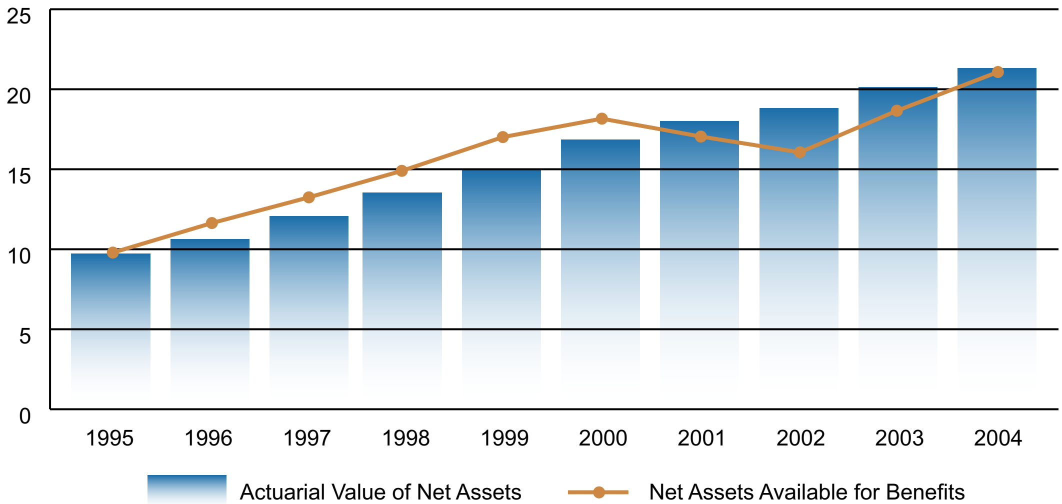
During 2004, HOOPP initiated a project to define funding risks and develop models for an integrated asset and liability approach to managing these risks. This set the stage for a review of HOOPP's funding policy in 2005 to ensure that the Board has the framework it needs for decision making during the next several years of managing the unfunded liability.

Management's Discussion and Analysis
Funding Risk Management

Valuing the Assets
Defined benefit pension plans such as HOOPP must be able to meet financial obligations – in the form of benefits owed to members – that may not be paid for many years. This means assets and liabilities must be assessed with a long-term view.

Like most pension plans, HOOPP uses market prices to determine the current value of its assets. An actuarial asset adjustment – or a "smoothing" method – is then applied to adjust the market value based on a five-year average of investment return rates. This smoothing method allows decision making based on long-term investment returns, while avoiding short-term reactions to market events.

Actuarial Value of Net Assets vs. Net Assets Available for Benefits ($ billions)

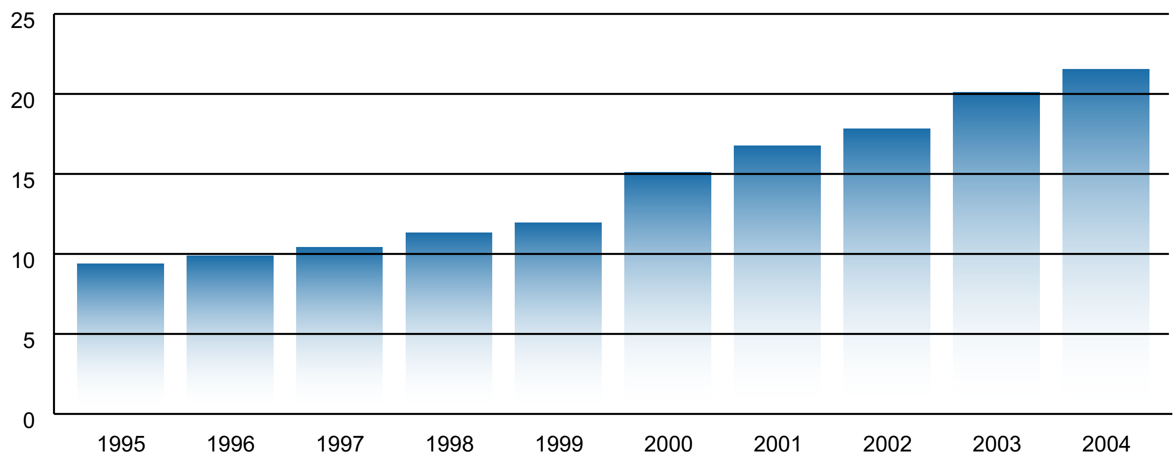


Management's Discussion and Analysis
Funding Risk Management

Valuing the Liabilities
The value of HOOPP's future liabilities is calculated using the projected accrued benefit method, prorated on service. This method determines the actuarial present value of pension benefits based on service accrued as of the reporting date, and also reflects anticipated events, such as salary increases, as well as active members "growing" into benefit entitlements as they earn more service.

To determine liabilities, HOOPP must forecast future economic, market, and demographic conditions. Based on these forecasts, certain assumptions are made about various factors, such as when members will retire, terminate employment, or die, as well as future rates of interest, inflation, and salary increases in the health care field. HOOPP reviews its economic forecasts annually, and conducts sensitivity analysis to determine whether these assumptions remain appropriate.

Liabilities
($ billions)



Management's Discussion and Analysis
Funding Risk Management

Determining the Surplus/Unfunded Liability

The actuarial surplus or unfunded liability at a point in time is determined by deducting the present value of accrued liabilities from the actuarial value of assets. To effectively manage the Plan's financial position as measured by long-term benefit security and short-term price stability, it's important to look at both the present and the future.

When projecting the Plan's financial position forward, consideration is given to the short-term demographic and economic outlook, including expected membership trends and expected Fund performance. As well, the impact of investment gains or losses already incurred – but not yet reflected under the asset smoothing method – is fully recognized in the valuation projections.

Often the outlook is quite different from the point-in-time valuation. HOOPP's Board of Trustees uses both approaches for decision making to ensure the focus remains on long-term benefit security, while managing short-term results to minimize price volatility for members and employers.

On a year-over-year basis, the Plan went from a surplus of $15 million at the end of 2003 to an unfunded liability of $227 million at December 31, 2004. This is primarily attributable to the gradual realization of the negative equity market returns in 2001 and 2002 using the asset smoothing method. The unfunded liability is expected to grow over the next year or two as the remaining investment losses still must be recognized from the negative market returns in 2001 and 2002.

While these investment losses have not been fully reflected in the 2004 financial statements, they already have been fully addressed by the Board in making its decisions about Plan changes announced in July 2004.

Management's Discussion and Analysis
Funding Risk Management

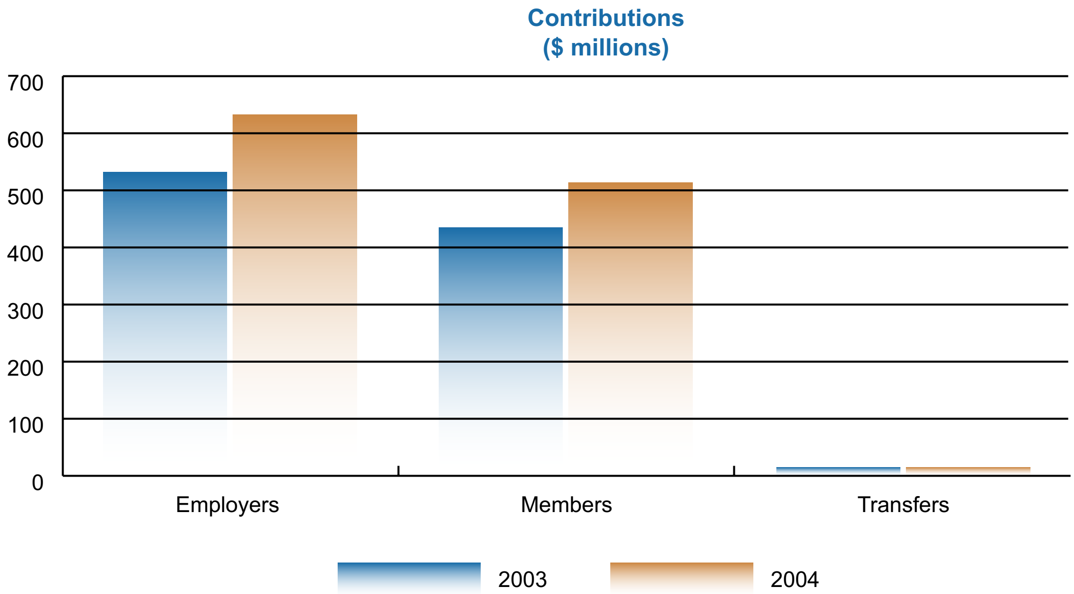
Contributions vs. Pension Benefits

Contributions: Contributions for the year totaled $1,162 million, compared to $982 million in 2003, an increase of $180 million, or 18 per cent.

The increase is due to:

- the ending of subsidized contribution rates effective January 1, 2004. HOOPP members and employers are now paying the full cost of providing HOOPP benefits.
- salary increases in the health care industry
- membership growth

Overall in 2004, employers contributed 55 per cent of the total, members contributed 44 per cent, and the remainder was from transfers.



Pensions and Benefits Paid: Pensions paid increased in 2004, the reasons for which are threefold:

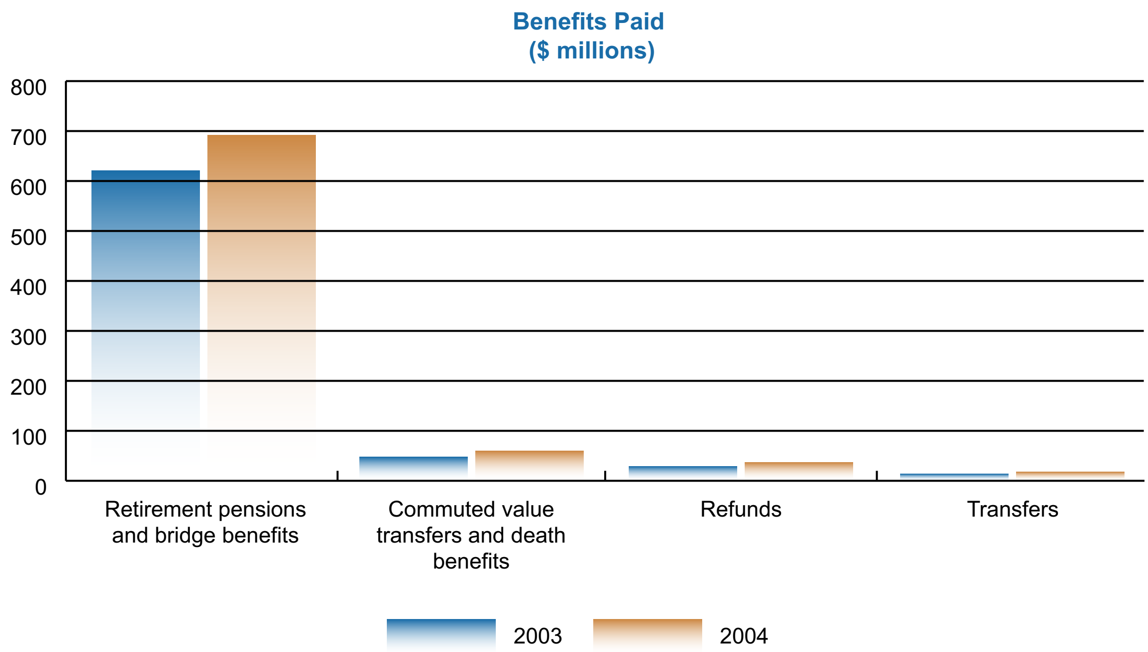
- HOOPP experienced growth in the number of pensioners – 56,100 pensioners in 2004, compared to 53,200 pensioners in 2003, representing an increase of almost six per cent.
- The pensions paid to new pensioners were, on average, higher than those paid to existing retirees.
- There was a 1.5 per cent cost of living adjustment for 2003, resulting in higher monthly pensions starting April 1, 2004.

This trend of increased pension benefits is expected to continue into the foreseeable future as a result of further pensioner growth and an increase in the average monthly pension due to salary increases. Over time, this will decrease as the temporary early retirement transition benefit stops being paid in 2015.

In 2004, pension benefits totaled $807 million, an increase of 13 per cent from the $712 million paid in 2003. Of the total payments, 86 per cent represented retirement pension payments, seven per cent were commuted value transfers out of the Plan and death benefits, five per cent were refunds of contributions, and the remainder was due to reciprocal transfers to other pension plans.

Pension payments increased by approximately 11 per cent for the reasons noted above, while a significant jump in lump sum payments compared to 2003 accounted for approximately two per cent of the increase.

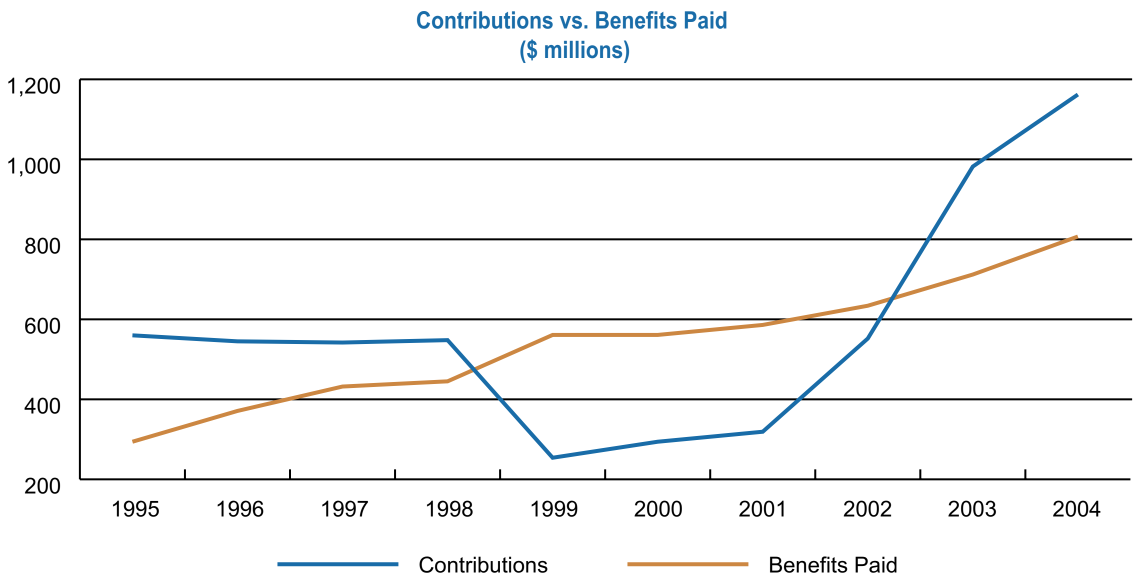
Management's Discussion and Analysis
Funding Risk Management



Management's Discussion and Analysis
Funding Risk Management

Net Pension Cash Flow
In 2004, HOOPP experienced its second consecutive year of positive net pension cash flow, totaling $355 million, compared to $270 million in 2003. The major reason for the increase was the ending of subsidized contribution rates effective January 1, 2004.

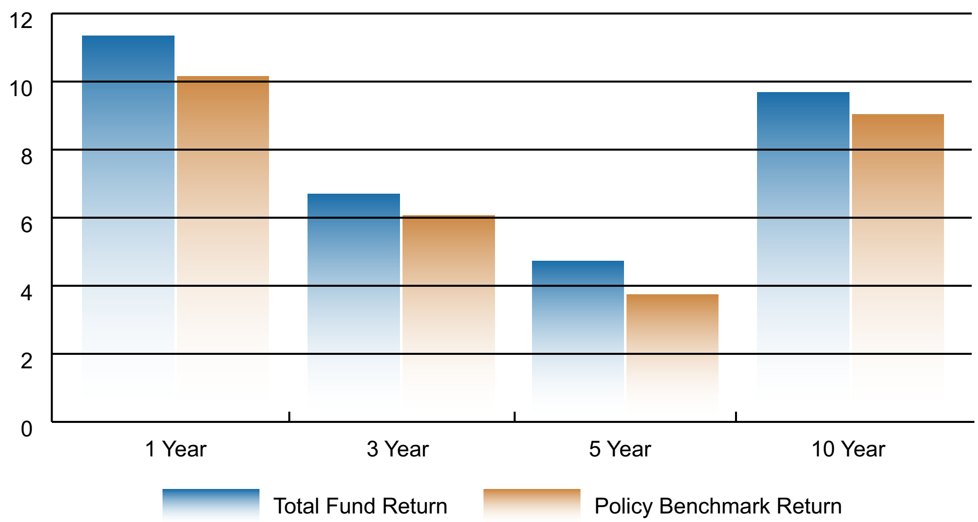
While negative cash flows between 1999 and 2002 were due to contribution subsidies, HOOPP expects positive cash flow to continue over the next several years.



Management's Discussion and Analysis
Investment Management

Introduction
2004 proved to be a strong year with HOOPP exceeding its investment benchmarks for the seventh straight year. Overall, the total Fund provided an 11.35 per cent return, exceeding the policy benchmark by 119 basis points.

Total Fund vs. Policy Benchmark Returns
(%)



Approximately 85 per cent of the Fund is managed directly by investment professionals employed by HOOPP. External managers, operating under investment management mandates established by HOOPP, invest the balance of the Fund's assets, primarily in international equity investments.

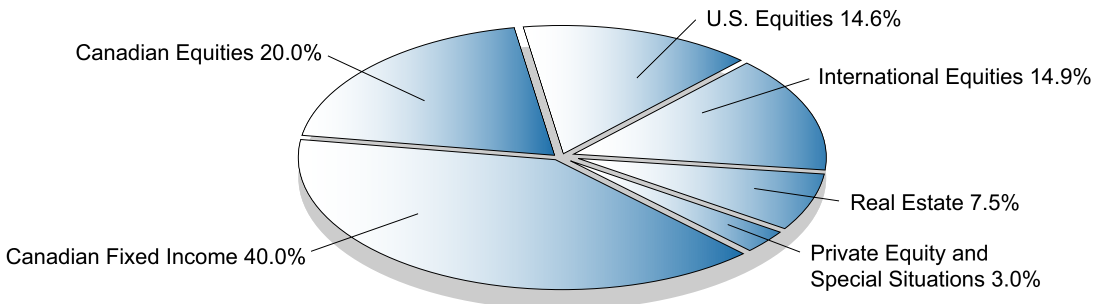
Management's Discussion and Analysis
Investment Management

Asset Mix Strategy
Investment diversification among asset classes is essential for HOOPP to meet its fiduciary responsibility to members. HOOPP has an asset mix policy of 60 per cent equities and 40 per cent fixed income. This policy reflects the expectation that equities will outperform fixed income securities over the long term.

The Plan's policy permits the asset mix to deviate from the 60/40 ratio by plus or minus three percentage points. This deviation allows for minor shifts in asset mix caused by changing values within the portfolio, as well as small deviations for strategic purposes.

For most of 2004, HOOPP maintained an overweight position in equity markets with an underweight position in fixed income. Active management of the asset mix position throughout the year contributed to HOOPP's investment portfolio reaching double-digit returns, and exceeding its benchmark. The Fund ended the year with the portfolio mix very close to the 60/40 ratio, with slight overweight positions in private equity offset by underweight positions in U.S. and international equities.

Fund Mix
(%)



Management's Discussion and Analysis
Investment Management

Derivatives
As part of its investment operations, HOOPP employs derivative strategies to:

- manage risk
- manage foreign exchange exposures
- enhance portfolio investment returns

Rather than changing asset mix by selling one asset class and purchasing another, derivative contracts are purchased or sold to overlay and counter balance the associated underlying asset class. This allows HOOPP to change the economic exposure of an asset class without conducting cash transactions in the underlying securities.

Derivatives have significantly lower transaction costs, as well as greater liquidity than the underlying assets. This allows faster and more cost-effective asset mix changes. All derivative contracts are fully backed by money market assets to prevent the use of leverage.

During 2004, HOOPP developed various strategies which involved short security positions to enhance Fund returns. In addition, a cash collateral securities lending program also was implemented to complement the existing non-cash collateral lending program. From a balance sheet perspective, these activities increased the Fund's gross asset and liability positions.

Management's Discussion and Analysis
Investment Management

Currency Hedging

At HOOPP, approximately 30 per cent of the total Fund is invested in foreign securities, creating foreign currency exposure. In accordance with HOOPP's currency policy, 50 per cent of this exposure is hedged back into Canadian dollars through the use of currency derivatives. Over the past two years, this policy has helped portfolio returns as the value of several currencies, particularly the U.S. dollar, declined compared to the Canadian dollar.

Management's Discussion and Analysis
Major Portfolio Details

Canadian Equities

HOOPP's combined internal and external portfolio return was 14.97 per cent, exceeding the benchmark by 113 basis points. By contrast, the Toronto Stock Exchange S&P/TSX60 composite index finished the year up 13.84 per cent.

The portfolio benefited from strong stock selection, particularly in the industrial, financial, and consumer discretionary sectors. It also benefited from being underweight in technology and health care stocks.

While the market moved higher during the fourth quarter of 2004, the portfolio assumed a more defensive position in anticipation of lower stock valuations, and a slowing North American economy in 2005. The strong Canadian dollar, combined with weakening global demand, is expected to have a negative effect on Canada's export-oriented economy.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Canadian equities – internal	15.36	13.84	S&P/TSX60 Total Return Index
Canadian equities – external*	1.97*	3.05*	S&P/TSX60 Total Return Index

* These reflect performance results and benchmark returns up to July 13, 2004 when the external manager's mandate was terminated.

Management's Discussion and Analysis
Major Portfolio Details

U.S. Equities (all performance numbers are in Canadian dollars)
The Standard & Poor's 500 was up for the second consecutive year, rising nine per cent in U.S. dollar terms. However, because of U.S. dollar weakness, this translated into a gain of just three per cent for Canadian investors.

HOOPP's internally managed portfolio return was 2.72 per cent. Although this return exceeded typical industry results, it underperformed the S&P 500 benchmark by 41 basis points.

HOOPP's internally managed portfolio benefited from stock selection in the health care, utilities, and materials sectors. However, this was offset by stock selection in the technology, financial, and consumer discretionary sectors.

The portfolio assumed a moderately defensive posture during the latter part of 2004 in anticipation of lower stock valuations, declining corporate profits, and a slowing North American economy in 2005. This defensive posture cost the portfolio in terms of relative performance, as the U.S. market rallied very strongly in the fourth quarter.

The underperformance of the externally managed U.S. mid-cap portfolio is primarily attributable to a manager whose mandate was terminated over the course of the year.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
U.S. equities – internal	2.72	3.13	S&P 500 Total Return Index
U.S. Mid-Cap equities – external	3.30	9.14	Russell Mid-Cap Total Return Index

Management's Discussion and Analysis
Major Portfolio Details

North American Equity Market Outlook
The U.S. economy is expected to enter a period of sub-par growth – or even recession – during 2005. Factors contributing to these conditions include higher interest rates, reduced fiscal stimulus, higher energy prices, and moderate corporate profit growth.

HOOPP's U.S. equity portfolio maintained its moderately defensive posture heading into 2005. A more defensive position may be assumed should the economy deteriorate further.

While HOOPP believes that the picture for the Canadian equity market is more positive, the high correlation between the two markets and economies means that increased caution with respect to Canadian equities is also warranted.

Resource stocks are expected to continue to benefit from robust international demand for commodities. Further weakness in the U.S. dollar should also benefit gold stocks.

The Canadian and U.S. portfolios maintained a modest bias towards cyclical stocks heading into 2005.

Management's Discussion and Analysis
Major Portfolio Details

International Equities (all performance numbers are in Canadian dollars)
Developing and emerging international equity markets were sluggish for much of 2004, but a strong fourth quarter helped boost returns for the year.

Improving economic conditions in Japan during the first quarter gave way to declining market results in many sectors as the year wore on. European markets struggled throughout the year with weak economic growth, persistently high unemployment, and low consumer confidence. The best performing markets tended to be in the smaller countries such as Austria, Norway, and Greece, with the U.K., France, and Germany lagging.

The six external managers responsible for managing international and global equities on behalf of HOOPP provided a total return of 9.37 per cent, underperforming the benchmark by 68 basis points. Strong returns came from those managers with a value rather than a growth style.

For 2005, global economic growth and corporate earnings are expected to be modest at best.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
International equities – external	9.37	10.05	Morgan Stanley Capital International All Country World Index Blend Total Return Index

Management's Discussion and Analysis
Major Portfolio Details

Real Estate
HOOPP's real estate portfolio had an exceptionally strong year in 2004, with a total return of 15.84 per cent, outperforming its benchmark by 712 basis points. In both absolute and relative terms, 2004 was the portfolio's best performance in several years.

Portfolio returns were attributable to income from HOOPP's property holdings, gains from the sale of non-core assets, and unrealized valuation gains on held properties. Continuing strong market demand from institutional advisors, real estate income trusts, and private and foreign investors, meant that non-core assets were typically sold at prices well exceeding cost.

In terms of acquisitions, HOOPP's preference was to be selective and to source off-market transactions through its network of contacts. Acquisitions during the year included:

- part interest in two regional shopping centres – one in Belleville and one in Montreal
- a fully leased industrial building with expansion capacity in Newmarket
- a 25-acre industrial site in Calgary, with construction of the first building commencing during the third quarter of 2004
- co-owner's 50 per cent interest in a large, suburban business park in Burnaby, British Columbia

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Real estate	15.84	8.72	Investment Property Databank (IPD)

Management's Discussion and Analysis
Major Portfolio Details

Private Equity and Special Situations

This portfolio had an excellent year with a return of 21.17 per cent, outperforming its benchmark by 1,367 basis points, or 13.67 per cent. The longer term return performance of this portfolio is among the best in the industry.

At December 31, 2004, the fair value of the portfolio was $618 million, with unfunded commitments to various limited partnerships of $394 million. During the year, $344 million was generated through investment realizations, while cash draw downs for new investment were $152 million.

The private equity and special situations portfolio has been growing systematically since the inception of the current long-term portfolio strategy in 1999. It's built around a limited partnership fund business model, with a complementary capacity to invest directly in operating companies. This is a typical way for an institution of HOOPP's size and expertise to gain diversified investment exposure to global private equity opportunities.

The portfolio focuses primarily on investments in Canada, the United States, and the U.K./Eurozone.

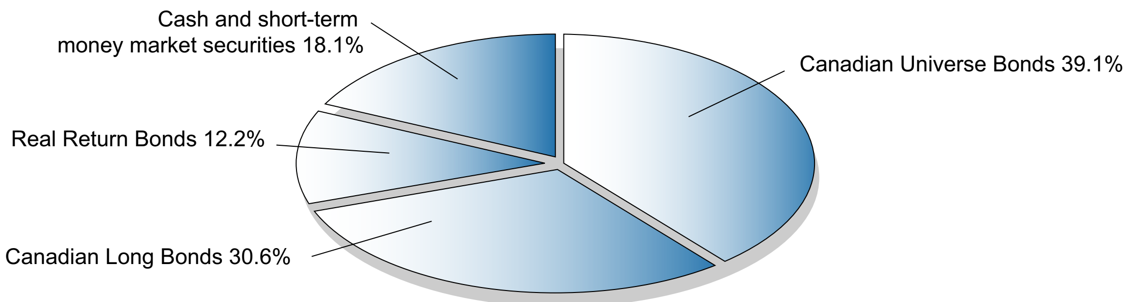
Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Private equity and special situations	21.17	7.50	Total Plan funding target

Management's Discussion and Analysis
Major Portfolio Details

Fixed Income
HOOPP's fixed income investments are divided into four mandates:

- Canadian universe bonds
- Canadian long bonds
- Real return bonds
- Short-term money market

Fixed Income Effective Asset Mix at December 31, 2004
(%)



Management's Discussion and Analysis
Major Portfolio Details

Canadian Universe and Canadian Long Bonds
HOOPP's economic outlook heading into 2004 remained bright. Improving labour markets, rising commodity prices, and ultimately rising inflation rates were expected to place downward pressure on bond prices.

Although this economic outlook proved correct, bond prices throughout the year were quite volatile, moving from one end of the valuation spectrum to the other. At such extremes, HOOPP adjusted its stance accordingly, remaining predisposed to a defensive stance given economic fundamentals.

Late in the fourth quarter, despite healthy economic news and building inflationary pressures, Canadian bond prices rose. Consistent with the longer term view, HOOPP began reducing duration. This decision proved premature as bond prices continued higher into year-end.

In 2004, the universe mandate provided a seven per cent return, underperforming the benchmark by 15 basis points. The long bond mandate provided a 10.01 per cent return, underperforming the benchmark by 25 basis points.

Heading into 2005, although economic growth is expected to moderate, the portfolios maintain their defensive stance. Historically low bond yields and rising inflationary prospects offer little "real return" potential.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Canadian bonds	7.00	7.15	SCM Universe Bond Index
Long bonds	10.01	10.26	SCM Long Bond Index

Management's Discussion and Analysis
Major Portfolio Details

Real Return Bonds
Real return bonds provided a 15.46 per cent return for the year. This component is designed to provide a hedge against pension liabilities, and is passively managed.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Real return bonds	15.46	15.46	Equal to portfolio return

Management's Discussion and Analysis
Major Portfolio Details

Short-term Money Market Securities and Cash

The money market component of the portfolio provided a 2.44 per cent return for 2004, compared to the benchmark of 2.30 per cent.

The Bank of Canada was forced to address the impact of the strong Canadian dollar on the economy by announcing that it would begin lowering rates. In anticipation, the average term of the HOOPP portfolio remained slightly longer than the benchmark.

Three-month treasury bills traded in a tight range during the second quarter. After the U.S. Federal Reserve raised short-term interest rates by 25 basis points on June 30, HOOPP maintained a fairly neutral position for the remainder of the year.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Short-term money market securities and cash	2.44	2.30	Government of Canada 91-day Treasury Bill Index

Management's Discussion and Analysis
Investment and Plan Expenses

Introduction
Total expenses were $70 million in 2004, compared to $64 million in 2003, representing an increase of nine per cent. As in previous years, HOOPP continues to manage and report on its expenses according to its two major lines of business – Plan expenses and Investment expenses.

Investment expenses of $35 million were higher in 2004 by approximately $3 million, or 9.9 per cent. External management fees, which are directly related to the higher market values on HOOPP's international investments, were higher for 2004, offset in part by a $1.7 million recovery in 2004 of Goods and Services Tax (GST) paid on these services prior to 1998. In addition, the strong investment performance for the total Fund resulted in an increase in incentive compensation paid to investment professionals.

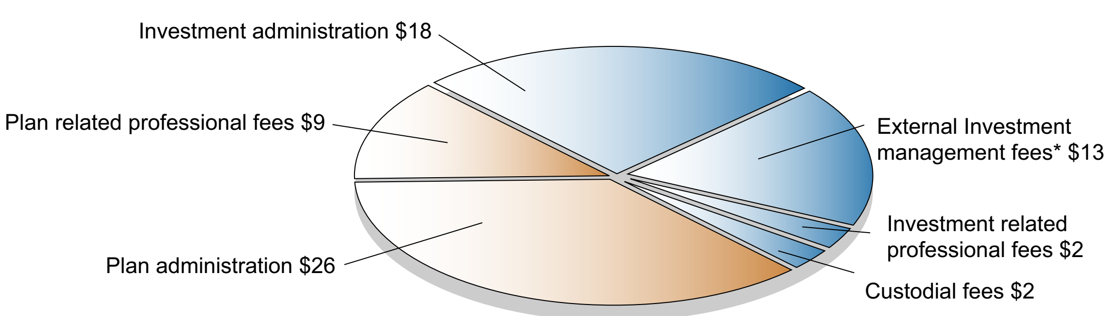
Investment expenses for 2004 also were higher as a result of increased project spending on the building of investment-related management systems.

On the Plan side of the business, HOOPP incurred expenses of $35 million, compared to $32 million in 2003. This increase was due primarily to professional fees relating to the development and construction of the new pension administration system.

Throughout 2004, HOOPP continued to focus on improving service levels and providing more timely delivery of information to members, pensioners, and employers, while controlling costs. In so doing, HOOPP made significant progress with its multi-year client service delivery initiative, which is designed to provide the tools and resources required to meet HOOPP's longer-term membership needs. The first major deliverable of this initiative occurs in mid-2005 with the implementation of a new pension administration system.

In 2004, HOOPP spent approximately $12 million on this long-term initiative, and expects to spend another $18 million in 2005. Costs for 2005 are predominantly for further development and construction of the new system, and other expenses involved in the implementation as the system goes live in mid-2005.

Investment and Plan Expenses
($ millions)



*External investment management fees for 2004 are reduced by approximately $1.7 million due to a recovery of GST initially charged on such fees prior to 1998.

Management's Discussion and Analysis
Investment and Plan Expenses

Cost per Member
HOOPP uses cost per member (CPM) to measure the cost efficiency of HOOPP's operations in delivering pension services.

CPM is a common external benchmark used by pension plans to compare activities and costs with other plans. Tracking and analyzing CPM allows HOOPP to continually evaluate its costs against other large pension plans, and to track its own experience over time.

HOOPP's CPM was $171 in 2004, compared to $161 in 2003. The increasing trend in cost, dating back to 2000 when CPM was approximately $135, is primarily a result of the investment in the multi-year Client Relationship Excellence program.

Based on the experience of other large pension plans, HOOPP expects CPM to stabilize and decline as the efficiencies resulting from the Client Relationship Excellence program are realized over the next few years.

Management's Discussion and Analysis

Risk Management and Controls

As a defined benefit pension plan, HOOPP faces a variety of risks associated with all areas of its operations. The following improvements to HOOPP's risk management framework were made in 2004:

- Improved governance practices in 2004 included adding responsibility for compliance with legislation and with HOOPP's own policies to the mandates of the Board's four committees.
- Following approval in 2003 by HOOPP's Board of Trustees for the development of a strategy for integrating funding and investment management, HOOPP initiated a project in 2004 to define funding risks and develop models for managing these risks. This will include a review of HOOPP's funding policy in 2005 to ensure the Board has the framework it needs for decision making on matters of Plan funding.
- During 2004, HOOPP began building the infrastructure for an investment data warehouse and performance measurement and attribution system that, when completed, will provide more timely and accurate reporting information to support investment decision making.
- HOOPP completed the final year of a three-year program to document all pension administration processes and procedures. Staff now have easy online access to step-by-step procedures for completing specific transactions.
- During 2004, HOOPP's business continuity plan continued to be made more rigorous. Staff in both prime and alternate positions are now fully trained and practised in business recovery procedures. An external review also confirmed the ability of the program to recover HOOPP's critical business functions in the event of a disaster.

Management's Discussion and Analysis

Advocacy

There are occasions where it's appropriate for HOOPP to represent the interests of its membership through advocacy efforts. Through advocacy, HOOPP seeks to:

- better serve the Plan's beneficiaries and, where appropriate, its other stakeholders
- play a role, when appropriate, in the development of public policy affecting the Plan and Fund
- bring to light areas where pension, investment, or other reform is needed

During 2004, HOOPP worked with other large Ontario pension plans to influence changes to the solvency rules under the Ontario Pension Benefits Act and other related regulations. The pension plans are requesting that these rules provide greater funding flexibility for managing price volatility while preserving benefit security.

A final decision on this had not been reached by the end of the year, and the pension plans intend to continue meeting with the government in 2005 until the matter is resolved.

HOOPP is also a member of the Canadian Coalition for Good Governance (CCGG), a group founded by several of Canada's largest institutional investment managers and pension funds. The mission statement of the CCGG is to improve the performance of publicly traded corporations through the promotion of good governance practices across Canada.

During 2004, the CCGG met with more than 100 Canadian corporations to discuss governance best practices, and how governance could be improved by their boards and management. In addition, the CCGG was instrumental in convincing the Toronto Stock Exchange to modify its stock symbol methodology so that subordinated voting arrangements are clearly indicated to investors.

Management's Discussion and Analysis

Outlook

On the investment front, HOOPP anticipates the U.S. economy may enter a period of sub-par growth – or even recession – during 2005. Factors contributing to these conditions in North America may include higher interest rates, reduced fiscal stimulus, slowing corporate earnings growth, and higher energy prices. HOOPP's equity and fixed income portfolios assumed defensive positions heading into 2005.

HOOPP's Board of Trustees will continue to monitor the Plan's funding status from a forward-looking perspective.

Over the course of 2005, HOOPP will continue work on its multi-year initiative to better integrate the management of asset and liability risks. A review of HOOPP's funding policy in 2005 will further strengthen the decision-making framework of the Board as it continues to deal with the funding challenges facing defined benefit pension plans worldwide.

The past several years have been challenging ones for pension plans, as issues of excess surplus were quickly replaced by those of unfunded liabilities. By staying abreast of these and other emerging trends, HOOPP will remain well positioned to secure its pension promise.

Management's Discussion and Analysis

Glossary

Derivatives
Securities which depend on, or are contingent upon, the values of other underlying securities, such as commodities, bonds, equities or market indexes. Examples are options, futures and swaps.

S&P/TSX60 Total Return Index
Standard & Poor's index of 60 Canadian stocks. Most Canadian index derivatives use this index as a reference price.

S&P 500 Total Return Index
This Standard & Poor's composite index comprises 500 U.S. stocks and is used as a benchmark for U.S. large-cap equity portfolios.

Russell Mid-Cap Total Return Index
This is a composite index that measures the performance of 800 U.S. corporations with market capitalization of between approximately U.S.$2 billion to U.S.$10 billion The average market capitalization is approximately U.S.$4 billion.

Morgan Stanley Capital International All Country World Index Blend Total Return Index
This is a composite index of equities listed on exchanges in developing and emerging markets throughout the world, including the U.S. and Canada.

Investment Property Databank
This is the index of the majority of institutionally-owned and managed properties in Canada with an approximate total aggregate value of $50 billion.

Total Plan Funding Target
This is the target rate of return the HOOPP Fund needs to earn on an annual basis over the long term, which together with the achievement of all other actuarial assumptions, will enable the Plan's assets to be sufficient to pay all promised benefits.

Consolidated Financial Statements

Management's Responsibility for Financial Reporting

The consolidated financial statements of the Hospitals of Ontario Pension Plan (HOOPP) have been prepared by management and approved by the Board of Trustees. Management is responsible for the contents of the consolidated financial statements and other sections of the annual report.

HOOPP maintains appropriate processes to ensure the integrity and fairness of the data presented and that relevant and reliable information is produced. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and comply with the financial reporting requirements of the *Pension Benefits Act* of Ontario. These consolidated financial statements include certain amounts that are based on management's estimates and judgments. The significant accounting policies used and which management believes are appropriate for HOOPP are described in note 1 to the consolidated financial statements. The financial information presented throughout the annual report is consistent with that found in the consolidated financial statements.

HOOPP has developed and maintains systems of internal control, as well as supporting procedures, to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include an organizational structure that provides a well-defined division of responsibilities, accountability for performance and the timely communication of policies and guidelines throughout the organization.

The Audit & Finance Committee assists the Board of Trustees in discharging its responsibilities of approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. Prior to recommending approval of the audited consolidated financial statements, the Audit & Finance Committee reviews the consolidated financial statements, the adequacy of internal controls and the audit and financial reporting process with both management and the external auditors.

PricewaterhouseCoopers LLP was appointed the independent external auditors by the Board of Trustees upon the recommendation of the Audit & Finance Committee. The auditors have conducted an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the Audit & Finance Committee to discuss any findings related to the integrity of the Plan's financial reporting and the adequacy of internal control systems.

John A. Crocker
President & Chief Executive Officer

G. Douglas Carr
Senior Vice-President, Finance and Chief Financial Officer

February 8, 2005

Consolidated Financial Statements

Auditors' Report

To the Members of the Hospitals of Ontario Pension Plan

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and deficit/surplus of the Hospitals of Ontario Pension Plan (the Plan) as at December 31, 2004, and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in deficit/surplus for the year then ended. These consolidated financial statements are the responsibility of 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 available for benefits and accrued pension benefits and deficit/surplus of the Plan as at December 31, 2004 and the changes in its net assets available for benefits, changes in accrued pension benefits and changes in deficit/surplus for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Canada
February 8, 2005

Consolidated Financial Statements

Actuaries' Opinion

Towers Perrin Inc. was retained by the Board of Trustees for the Hospitals of Ontario Pension Plan (the Plan) to perform an actuarial valuation of the assets and the going concern liabilities of the Plan as at December 31, 2004. This valuation is for the purpose of inclusion in the Plan's consolidated financial statements, prepared in accordance with Section 4100 of the Canadian Institute of Chartered Accountants Handbook.

We have undertaken such a valuation and provided the Board with our related actuarial report. As this valuation was undertaken for purposes of the Plan's consolidated financial statements under Section 4100 of the Canadian Institute of Chartered Accountants Handbook, it might not be appropriate for other purposes and should not be relied upon or used for any other purpose.

The valuation of the Plan's going concern liabilities was based on:

- Membership data provided by the Hospitals of Ontario Pension Plan as at December 31, 2003 with projection based on emerging 2004 experience through to December 31, 2004;
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumption about future events (for example, future rates of inflation and future rates of return on the pension fund) which, having been developed by Plan management and Towers Perrin, have been adopted by Plan management as its best long-term estimate of future events.

Changes have been made to the plan provisions and actuarial assumptions since the previous valuation for the purpose of the Plan's consolidated financial statements at December 31, 2003 as described in the notes to the consolidated financial statements.

The valuation of the Plan's assets was based on financial information provided by the Hospitals of Ontario Pension Plan.

The objective of the consolidated financial statements is to fairly present the financial position of the Plan as at December 31, 2004 as a going concern. While the actuarial assumptions used to estimate liabilities for the Plan's consolidated financial statements are reasonable in our opinion, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any difference between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have reviewed the data used for the valuation, and have made tests of reasonableness and consistency and, in our opinion, the data is sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation and the assumptions are appropriate for the purposes of the valuation.

Our opinions have been given, and our valuation has been performed, in accordance with the accepted actuarial practice.

Towers Perrin Inc.

Stephen P. Bonnar
Fellow, Canadian Institute of Actuaries

Gerald F. Schnurr
Fellow, Canadian Institute of Actuaries

February 8, 2005

Consolidated Financial Statements

Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Deficit/Surplus

As at December 31

($ Millions)		**2004**		**2003**
NET ASSETS AVAILABLE FOR BENEFITS				
Assets				
Investments [note 2]	**$**	**26,203**	$	19,757
Amounts receivable [note 4]		**153**		124
Total assets		**26,356**		19,881
Liabilities				
Investment related liabilities [note 2]		**5,258**		1,224
Other liabilities		**21**		14
Total liabilities		**5,279**		1,224
Net assets available for benefits		**21,077**		18,657
Actuarial asset value adjustment [note 1(e)]		**231**		1,471
Actuarial value of net assets available for benefits	**$**	**21,308**	$	20,128
ACCRUED PENSION BENEFITS AND DEFICIT/SURPLUS				
Accrued pension benefits [note 9(a)]	**$**	**21,535**	$	20,113
(Deficit) / Surplus		**(227)**		15
Accrued pension benefits and deficit/surplus	**$**	**21,308**	$	20,128

See Description of Plan and accompanying notes to financial statements

On Behalf of the Board of Trustees

Kelly Butt
Chair of the Board

Dan Anderson
Vice-Chair of the Board

Consolidated Financial Statements

Consolidated Statement of Changes in Net Assets Available for Benefits

Years ended December 31

($ Millions)	**2004**	2003
CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS		
Increase in net assets		
Net investment income [note 5]	**$ 2,135**	$ 2,393
Contributions [note 6]	**1,162**	982
Total increase	**3,297**	3,375
Decrease in net assets		
Benefits [note 7]	**807**	712
Investment and Plan administration expenses [note 8]	**70**	64
Total decrease	**877**	776
Net increase in net assets available for benefits	**2,420**	2,599
Net assets available for benefits, beginning of year	**18,657**	16,058
Net assets available for benefits, end of year	**$ 21,077**	**$** 18,657

See Description of Plan and accompanying notes to financial statements

Consolidated Financial Statements

Consolidated Statement of Changes in Accrued Pension Benefits

Years ended December 31

($ Millions)		**2004**		**2003**
CHANGES IN ACCRUED PENSION BENEFITS				
Accrued pension benefits, beginning of year	**$**	**20,113**	$	17,814
Increase in accrued pension benefits				
Accrued interest on benefits		**1,354**		1,271
Benefits accrued		**1,126**		1,076
Changes in actuarial assumptions [note 9(c)]		**–**		109
Total increase		**2,480**		2,456
Decrease in accrued pension benefits				
Benefits paid [note 7]		**807**		712
Changes in plan provisions [note 9(d)]		**128**		–
Data adjustment experience gain/(loss) [note 9(e)]		**88**		(433)
Estimated experience gain/(loss) [note 9(f)]		**35**		(122)
Total decrease		**1,058**		157
Net increase in accrued pension benefits		**1,422**		2,299
Accrued pension benefits, end of year	**$**	**21,535**	$	20,113

See Description of Plan and accompanying notes to financial statements

Consolidated Financial Statements

Consolidated Statement of Changes in Deficit/Surplus

Years ended December 31

($ Millions)	**2004**	2003
CHANGES IN DEFICIT/SURPLUS		
Surplus, beginning of year	**$ 15**	$ 1,010
Increase in net assets available for benefits	**2,420**	2,599
Decrease in actuarial asset value adjustment	**(1,240)**	(1,295)
Increase in actuarial value of net assets available for benefits	**1,180**	1,304
Net increase in accrued pension benefits	**(1,422)**	(2,299)
(Deficit)/Surplus, end of year	**$ (227)**	$ 15

See Description of Plan and accompanying notes to financial statements

Notes to Consolidated Financial Statements

Description of Plan

The following description of the Hospitals of Ontario Pension Plan Trust Fund (HOOPP or the Plan) is a summary only. An exact and complete description of the Plan provisions can be found in the *Hospitals of Ontario Pension Plan Text*, the official Plan document.

a. General

The Plan is a contributory defined benefit multi-employer pension plan, established under an *Agreement and Declaration of Trust* (as amended) for the benefit of eligible employees of participating employers.

HOOPP is registered with the Financial Services Commission of Ontario (FSCO), and with the Canada Revenue Agency (CRA), Plan Registration Number 0346007.

In conjunction with its Registered Pension Plan (RPP), HOOPP operates a Retirement Compensation Arrangement (RCA). The RCA is administered as part of the overall Plan, but its assets are held in a segregated account.

b. Funding

Plan benefits are funded by contributions and investment earnings. The Plan's funding policy aims to secure the pension promise and achieve long-term stability in contribution rates for both employers and members. Actuarial funding valuations are conducted to determine pension liabilities and the funded position and price of the Plan.

Under the terms of the Plan, contributions are set to cover the total annual cost of benefits. This includes the current service cost of benefits (with recognition of the administrative expenses of HOOPP), plus special payments required to amortize unfunded liabilities and solvency deficiencies, less any surplus amortization amounts.

c. Contributions

Contributions are determined in accordance with provisions of the Plan Text, and on the recommendation of the Plan's actuary. During 2004, members contributed 6.9 per cent of their annualized earnings up to the 2004 year's maximum pensionable earnings (YMPE), and 9.2 per cent of their annualized earnings above the 2004 YMPE. The YMPE is a figure that is set annually by the federal government and used to calculate Canada Pension Plan (CPP) contributions and benefits. Employers contributed 126 per cent of member contributions during the period. Contribution rates will remain unchanged for 2005.

d. Pensions

The formula used to calculate a HOOPP retirement pension takes into account a member's contributory service, average annualized earnings, and the average YMPE. Members can receive an unreduced pension at the earlier of age 60 or as soon as they have completed 30 years of Plan membership, provided they are at least 55 years old. Members are eligible to retire at age 55, usually with a reduced pension.

Members who retire early will receive a bridge benefit until age 65 or death, whichever occurs first. The bridge benefit is designed to supplement a member's basic HOOPP pension until age 65 when CPP benefits normally begin. An early retirement transition benefit, which provides an additional supplement, payable until age 65, is also available to retiring members who by December 31, 2005 have met certain eligibility requirements.

Members who choose to retire after the normal retirement age of 65 receive an upward adjustment in recognition of the fact that they have chosen to retire later.

e. Disability Pensions

A disability pension is available at any age to a disabled member who has at least two years of Plan membership and meets other eligibility requirements. For those whose date of disability is prior to 2006, the disability pension is based on the projected contributory service a member would have earned, to a maximum of 35 years or age 65, had the member not become disabled, but is capped at the YMPE for the year the pension commences. For those whose date of disability is after 2005, the disability pensions will be based on the member's contributory service accrued to the date of disability without projection.

f. Death Benefits

Death benefits may be available to a surviving spouse or designated beneficiary upon the death of a member. Depending upon eligibility requirements, the benefit may be paid in the form of a surviving pension or lump sum payment.

g. Portability from the Plan

A vested member terminating their employment can move their commuted value benefit out of HOOPP to another pension plan or registered retirement vehicle, subject to locking-in provisions and certain age restrictions.

Non-vested members terminating their employment would be entitled to a refund of contributions with interest. Members wanting to transfer their contributions or benefits from another registered pension plan to HOOPP can do so providing HOOPP is able to accept the transfer.

Notes to Consolidated Financial Statements

h. Inflation Protection

Retirement pensions earned for service through the end of 2005 are annually adjusted by an amount equal to 75 per cent of the previous year's increase in the consumer price index (CPI), to a maximum CPI increase of 10 per cent. The Board has the authority to provide ad hoc indexing equal to 75 per cent of the previous year's increase in CPI on retirement pension earned for service after 2005 depending on the Plan's financial status as well as other factors. Subject to these same factors, the Board also has the authority to increase indexing up to 100 per cent of CPI.

i. Income Taxes

HOOPP is a seamless plan offering both an RPP and RCA, as defined by the *Income Tax Act (Canada)* ("ITA"). The RCA is designed to provide members of the Plan with benefits in excess of what an RPP can provide, due to ITA limits. No taxes are paid on the contributions made to the Plan under the RPP or on the investment income it earns. However, funds earned in or contributed to HOOPP's RCA are taxable. Depending on the contributions received, benefit payments made, and investment income earned through the RCA, a portion of taxes may be refundable and are disclosed in note 4 as recoverable refundable withholding tax on contributions. From the member's perspective, they contribute to a seamless plan. Required contributions to both the RPP and RCA are tax-deductible.

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

The consolidated financial statements of the Plan reflect the financial position and the changes in its net assets available for benefits. These consolidated statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and comply with the requirements of CICA Handbook Section 4100. Certain comparative amounts have been reclassified to conform to the current year's presentation. The significant accounting policies followed in the preparation of these consolidated financial statements are summarized below:

a. Principles of Consolidation

The consolidated financial statements include the assets, liabilities and the changes in net assets of HOOPP and its wholly owned subsidiaries, as well as its proportionate share of the fair value of assets, liabilities, and other operations resulting from real estate joint ventures, after elimination of all intercompany transactions and balances.

b. Investments

i. Valuation of Investments

Fair values of investments are determined as follows:

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

b. Bonds are valued on the basis of market quotes using the average of the bid and ask prices. Where quoted year-end prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

c. Equities are valued at year-end quoted market prices.

d. Private equities are valued based on estimated fair values determined using appropriate valuation techniques, and management's best estimates.

e. Real estate, consisting primarily of income-producing properties, is generally valued based on appraisal values determined at least once every three years by accredited external appraisers.

f. All derivative financial instruments which include foreign exchange forward contracts, bond and equity futures contracts, equity index swaps, asset swaps, equity and bond option contracts, and credit default swaps are recorded at fair value using year-end market prices. Where quoted market values are not readily available, appropriate valuation techniques are used to determine fair value.

ii. Investment Transactions and Income

Investment transactions are recognized on a trade-date basis. Investment income, comprising interest income, and real estate operating income net of expenses, is recorded on an accrual basis; dividend income is recognized on the ex-dividend date. Realized gains and losses on the sale of investments include gains and losses on disposition, and investment write-offs. Unrealized gains and losses on investments represent the change in the difference between the cost-based values and the fair values of investments at the beginning and end of each year. Gains and losses on derivative financial instruments are included in realized and unrealized gains and losses on investments.

c. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year-end date. Income and expenses are translated into Canadian dollars at the rate of exchange prevailing on the dates of the transactions. The realized gains and losses arising from these transactions are included in realized gains and losses on the sale of investments in the period incurred. Unrealized gains and losses on translation are included in the change in unrealized gains and losses on investments.

d. Accrued Pension Benefits

Accrued pension benefits are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. The year-end valuation of accrued pension benefits is based on data extrapolated to the current valuation date of December 31, 2004. The valuation uses the projected accrued benefit actuarial cost method pro-rated on service and management's estimate of certain future events.

e. Actuarial Asset Value Adjustment

The actuarial value of net assets available for benefits has been determined in a manner that reflects long-term market trends consistent with assumptions underlying the actuarial present value of accrued pension benefits.

This value has been determined by taking an average of the current market value and the market values for the four preceding years brought forward with interest at the asset valuation rate and adjusted for contributions, benefit payments, and administrative expenses.

The impact of this adjustment is to increase the net assets available for benefits by $231 million (2003: increase of $1,471 million). This is a common actuarial practice and has the effect of stabilizing the price of the Plan during periods of short-term market volatility.

Notes to Consolidated Financial Statements

f. Contributions

Contributions from members and employers due to the Plan as at year-end are recorded on an accrual basis. Contributions for past service purchases and transfers are recorded when received. Effective August 1, 2004, members are no longer permitted to use lump sums (funds transferred from an RRSP, refundable contributions, and additional voluntary contributions) at retirement to increase their pensions.

g. Benefits

Benefit payments to members and pensioners are recorded in the period in which they are paid. Any benefit payment accruals not paid are reflected in the accrued pension benefits.

h. Use of Estimates

In the preparation of these consolidated financial statements, management uses estimates and assumptions based on current available information. Such estimates and assumptions may affect the reported amounts of assets and liabilities, revenue and expenses and related disclosures. Actual results could differ from those estimates.

Notes to Consolidated Financial Statements

Note 2: Investments

The investment objective of the Plan is to earn an average rate of return that exceeds its long-term funding target by employing appropriate asset mix policies and risk diversification strategies. In 2004, the nominal long-term return target of the Plan was 7.50 per cent.

a. Summary of Investments Before Allocating the Market Exposure of Derivative Financial Instruments

The following schedule summarizes the fair value and cost of the Plan's investments before allocating the market exposure related to derivative financial instruments, as at December 31:

($ Millions)	2004		2003	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Fixed Income				
Cash and short-term money market securities	**$ 1,824**	**$ 1,824**	$ 1,564	$ 1,564
Lending collateral investments	**1,468**	**1,468**	–	–
Bonds				
Canadian	**13,299**	**12,636**	8,943	8,516
Other global	**389**	**434**	324	348
	16,980	**16,362**	10,831	10,428
Equities and Equity Type				
Canadian	**657**	**555**	1,874	1,656
United States	**2,591**	**2,615**	1,733	1,617
Other global	**2,173**	**2,014**	1,941	1,895
Real estate	**2,231**	**2,071**	1,914	1,816
Private equity and special situations	**622**	**674**	694	679
	8,274	**7,929**	8,156	7,663
Investment related receivables				
Receivables from derivative financial instruments	**639**	**–**	559	–
Accrued investment income	**186**	**186**	154	154
Pending trades	**124**	**124**	57	57
	949	**310**	770	211
TOTAL INVESTMENTS	**$ 26,203**	**$ 24,601**	$ 19,757	$ 18,302
Investment related liabilities				
Obligations related to securities sold short	**(2,316)**	**(2,160)**	–	–
Obligations related to securities lending	**(1,468)**	**(1,468)**	–	–
Real estate mortgages	**(649)**	**(649)**	(533)	(531)
Accrued liabilities for derivative financial instruments	**(625)**	**(28)**	(592)	–
Pending trades	**(190)**	**(190)**	(85)	(85)
Accrued liabilities	**(10)**	**(10)**	–	–
	(5,258)	**(4,505)**	(1,210)	(616)
NET INVESTMENTS	**$ 20,945**	**$ 20,096**	$ 18,547	$ 17,686

b. Risk Management

Fundamental to the risk management process is the understanding of risks associated with all areas of the Plan's business and its operating environment, and the articulation of strategies for dealing with those risks.

The Plan's investment portfolio is subject to risks that could adversely affect its cash flows, net assets available for benefits, and income.

The Plan controls investment – related risks through its Statement of Investment Policies and Procedures (SIP&P) and Investment Policies and Guidelines (IP&G), which prescribe a long-term debt-equity asset mix policy; require portfolio investment diversification; set guidelines on investment categories; and limit exposure to individual investments, major asset classes, geographic markets and currency.

i. Interest Rate Risk

Interest rate risk is the risk that the market value of the Plan's investments will fluctuate due to changes in market interest rates. It arises from the potential variation in the timing and amount of cash flows related to the Plan's assets and liabilities.

The value of the Plan's investments is affected by short-term changes in nominal interest rates and equity markets. Pension liabilities are influenced by expectations of long-term inflation and salary escalation, as well as long-term rates of return on investments.

To manage the Plan's interest rate risk, guidelines on the weighting and duration for the fixed income portfolio are set and monitored. Derivatives are also used as economic hedges against the Plan's exposure to interest rate risk.

Notes to Consolidated Financial Statements

The remaining terms to contractual maturity or repricing dates, whichever dates are earlier, of interest-bearing investments before derivatives as at December 31 are as follows:

($ Millions, except %)	2004					2003	
Interest Bearing Instruments	**Within 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**	**Effective Yield**	**Total**	**Effective Yield**
Short-term securities	$ 2,044	$ –	$ –	$ 2,044	2.52%	$ 1,511	2.55%
Government of Canada bonds	821	1,438	1,545	3,804	3.67%	3,546	4.21%
Provincial and municipal bonds	726	3,326	1,795	5,847	3.68%	2,324	4.50%
Real return bonds	–	–	1,019	1,019	1.53%	893	2.75%
Corporate bonds	1,882	1,164	741	3,787	3.42%	2,180	4.44%
Other global bonds	131	146	112	389	3.01%	324	3.20%
	$ 5,604	$ 6,074	$ 5,212	$ 16,890	3.33%	$ 10,778	3.94%

ii. Currency Risk
Currency risk is the risk that the value of the Plan's investments will fluctuate due to changes in foreign exchange rates. The Investment Policies and Guidelines require approximately 50 per cent of the Plan's foreign currency exposure to be hedged, which it accomplishes by entering into foreign currency forward contracts or swaps for the purchase or sale of foreign currencies.

The Plan's investments by currency of risk including related derivative financial instruments, as at December 31, are as follows:

(C$ Millions)	2004			2003
Currency	**Currency Exposure**	**Net Foreign Currency Hedge** (1)	**Net Currency Exposure**	**Net Currency Exposure**
Canadian dollar	$ 18,413	$ 3,278	$ 21,691	$ 15,785
United States dollar	3,953	(2,016)	1,937	1,677
Euro	1,085	(551)	534	454
Other European currencies	883	(407)	476	489
Japanese yen	543	(265)	278	247
Other Pacific currencies	165	(38)	127	196
Emerging market currencies	226	(1)	225	106
	$ 25,268	$ –	$ 25,268	$ 18,954

(1) *The fair value of foreign currency hedges is $12.1 million and is included with the Derivative Financial Instruments* (note 3).

iii. Credit Risk
Credit risk is the risk that a loss could arise from a securities issuer being unable to meet its financial obligations. Credit risk is mitigated by adherence to investment policy limits on exposure to individual corporate entities and derivative counterparties. Credit risk arising from derivative financial instruments is discussed in note 3.

iv. Market Risk
Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all securities traded in the market. The Plan's policy is to invest in a diversified portfolio of investments, based on criteria established in the investment policy and to utilize derivative financial instruments to mitigate the impact of market risk.

v. Securities Lending
To enhance the portfolio return, the Plan lends securities to approved borrowers. Credit risk associated with the securities lending program is mitigated by requiring the borrower to provide daily securities collateral with market values exceeding the market value of the loaned securities. The securities lending program was expanded in 2004 to include transactions with cash as collateral. The cash is reinvested in short-term money market securities and expected to earn a rate of return in excess of the net rebate paid to the securities borrower. As at December 31, the fair value of loaned securities was $1,975 million (2003: $1,028 million). Associated collateral totaling $2,032 million (2003: $1,077 million) comprised securities of $564 million and cash of $1,468 million.

vi. Securities Borrowing

The Plan borrows securities from financial institutions for securities that have been sold short. Such sales reduce the Plan's effective exposure to issuers but never result in a net short position.

vii. Securities Collateral
Securities with a fair value of $2,785 million (2003: $108 million) have been deposited or pledged with various financial institutions as collateral or margin.

Notes to Consolidated Financial Statements

Note 3: Derivative Financial Instruments

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, interest rates, indices, or exchange rates. Fair value represents the amount of consideration at which derivative financial instruments could be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

a. Derivative Product Types

Types of derivative contracts transacted by HOOPP either directly with counterparties or on regulated exchange markets, include:

i. Foreign exchange forwards

A foreign exchange forward contract is a customized agreement negotiated between two parties to buy or sell a specific amount of a foreign currency at a price specified at origination of the contract, with settlement at a specified future date. Forward currency contracts are used to modify the Plan's exposure to currency risk.

ii. Bond and equity futures

Futures contracts involve an agreement to buy or sell a standardized amount of bonds or equity indices, at a predetermined future date and price, in accordance with terms specified by a regulated futures exchange and are subject to daily cash margining. These types of derivatives are used to efficiently modify exposures without actually purchasing or selling the underlying asset.

iii. Equity index swaps

An equity index swap is a contractual agreement between two parties to exchange a series of cash flows based on an equity index return. One party typically agrees to pay a floating interest rate in return for receiving a return on specified equity indices. Equity index swaps are used to adjust exposures to particular indices without directly purchasing or selling the securities.

iv. Asset and credit default swaps

An asset swap is a contractual agreement between two parties to exchange a series of cash flows. Under an asset swap agreement, one party typically agrees to pay a floating interest rate in exchange for a fixed return. Asset swaps are used to manage interest rate exposures. A credit default swap is a contractual agreement between two parties where typically one party pays the other a premium over a specified term and the other party makes no payment unless a specified credit event such as a default occurs, at which time a payment is made and the swap terminates. Credit default swaps are used to manage credit diversification by effectively changing the credit profile of the Plan.

v. Equity and bond options

An option contract is a contractual agreement under which the seller grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) at or until a specified future date a specified amount of a particular financial instrument at a predetermined price. The seller receives a premium from the purchaser for this right. Options are used to manage the exposures of market risk to a particular financial instrument without directly purchasing or selling the underlying security.

b. Investment Objectives for Derivatives

The Plan's investment objectives for the use of derivatives are to enhance returns by facilitating changes in the investment asset mix, both within and across certain asset classes, to enhance equity and fixed income portfolio returns, and to manage foreign content exposures. As a risk management tool, derivatives are used to reduce the market exposures related to holding certain investments. Provisions within the SIP&P and IP&G dealing with derivatives specify that the Plan cannot use leverage or create effective net short security positions through its use of derivatives. In addition, derivatives are only permitted if their value is based on some component of equities, bonds, or money market instruments, and not on any other asset class. To mitigate credit risk associated with derivative financial instruments, contracts can only be transacted with counterparties that have a credit rating of A or higher.

c. Derivative Related Credit Risk

Credit risk is the risk of loss in the event the counterparty to a transaction defaults, or otherwise fails to perform under the terms of a contract. Credit risk exposure for derivative financial instruments is measured by the positive fair value of the contractual obligations with the counterparties, less any collateral or margin received, as at the reporting date. For futures contracts, credit risk exposure is limited, as the contracts are transacted over an exchange as opposed to with a counterparty. All derivative contracts currently held by HOOPP have daily, quarterly or semi-annual resets, most of which settle within one year.

The following schedule summarizes the notional, fair value and credit exposure of the Plan's derivatives position, as at December 31:

i. Notional value

Notional values represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged, and are therefore not recorded as assets or liabilities in these consolidated financial statements. Notional amounts do not represent the potential gain or loss associated with the market risk or credit risk of such instruments.

ii. Fair value

Fair value is based on quoted market prices for exchange traded derivatives. For over-the-counter derivatives, fair value is determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

iii. Credit risk exposure

Credit risk exposure represents the replacement cost of all contracts that have a positive fair value at current market rates.

($ Millions)	2004					2003				
	Notional Value Long	Notional Value Short	Gross Asset FV	Gross Liability FV	Credit Risk Exposure	Notional Value Long	Notional Value Short	Gross Asset FV	Gross Liability FV	Credit Risk Exposure
Foreign Currency Management										
Foreign exchange forward contracts	$ 1,989	$ 1,989	$ 35.2	$ (23.1)	$ 35.2	$ 1,874	$ 1,874	$ 25.0	$ (34.1)	$ 25.0
Return Enhancement Strategy										
Equity option	144	29	1.3	(29.4)	1.3	–	–	–	–	–
Bond option	–	22	–	(2.1)	–	–	57	–	(2.3)	–
Equity swaps	8,954	2,771	335.2	(129.3)	335.2	9,144	7,083	400.3	(320.7)	400.3
Asset swaps	5,212	216	77.1	(247.8)	77.1	2,551	–	44.4	(141.8)	44.4
Credit default swaps	743	1,072	189.5	(191.3)	189.5	636	361	85.6	(92.4)	85.6
Asset Mix Management										
Futures	1,420	638	0.8	(2.3)	–	2,250	307	3.3	(0.3)	–
TOTAL			$ 639.1	$ (625.3)	$ 638.3			$ 558.6	$ (591.6)	$ 555.3

($ Millions)	2004						2003					
Derivative Financial Instruments by Term to Maturity (Notional Values)	Within 1 year		1 to 5 years		Over 5 years		Within 1 year		1 to 5 years		Over 5 years	
	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
Foreign Currency Management												
Foreign exchange forward contracts	$ 1,989	$ 1,989	$ –	$ –	$ –	$ –	$ 1,874	$ 1,874	$ –	$ –	$ –	$ –
Return Enhancement Strategy												
Equity option	–	29	144	–	–	–	–	–	–	–	–	–
Bond option	–	–	–	22	–	–	–	38	–	19	–	–
Equity swaps	8,954	2,771	–	–	–	–	8,275	6,214	869	869	–	–
Asset swaps	1,418	30	3,709	132	85	54	588	–	1,911	–	52	–
Credit default swaps	180	403	380	615	183	54	153	135	431	226	52	–
Asset Mix Management												
Futures	1,420	638					2,250	307				

d. Summary of Investments After Allocating the Market Exposure of Derivative Financial Instruments

The following schedule summarizes the fair value of the Plan's investments before and after the allocation of market exposure of derivative financial instruments and investment related receivables and payables:

($ Millions, except %)	2004			2003		
	Fair Value	Effective Exposure	Effective Asset Mix	Fair Value	Effective Exposure	Effective Asset Mix
Fixed Income						
Cash and short-term money market securities	**$ 1,824**	**$ 1,517**	**7.2%**	$ 1,564	$ 473	2.6%
Lending collateral investments	**1,468**	**–**		–	–	
Bonds						
Canadian	**13,299**	**6,860**	**32.8%**	8,943	6,735	36.3%
Other global	**389**	**–**	**–**	324	–	–
	16,980	**8,377**	**40.0%**	10,831	7,208	38.9%
Equities and Equity Type						
Canadian	**657**	**4,188**	**20.0%**	1,874	3,724	20.0%
United States	**2,591**	**3,064**	**14.6%**	1,733	2,698	14.6%
Other global	**2,173**	**3,112**	**14.9%**	1,941	2,804	15.1%
Real estate	**2,231**	**1,582**	**7.5%**	1,914	1,423	7.7%
Private equity and special situations	**622**	**622**	**3.0%**	694	690	3.7%
	8,274	**12,568**	**60.0%**	8,156	11,339	61.1%
Investment related receivables						
Receivables from derivative financial instruments	**639**	**–**		559	–	
Accrued investment income	**186**	**–**		154	–	
Pending trades	**124**	**–**		57	–	
	949	**–**		770	–	
TOTAL INVESTMENTS	**$ 26,203**	**$ 20,945**		$ 19,757	$ 18,547	
Investment related payables						
Obligations related to securities sold short	**(2,316)**	**–**		–	–	
Obligations related to securities lending	**(1,468)**	**–**		–	–	
Real estate mortgages	**(649)**	**–**		(533)	–	
Accrued liabilities for derivative financial instruments	**(625)**	**–**		(592)	–	
Pending trades	**(190)**	**–**		(85)	–	
Accrued liabilities	**(10)**	**–**		–	–	
	(5,258)	**–**		(1,210)	–	
NET INVESTMENTS	**$ 20,945**	**$ 20,945**		$ 18,547	$ 18,547	

The Plan has established a policy asset mix of approximately 60 per cent equities and 40 per cent fixed income instruments with three per cent deviation.

Notes to Consolidated Financial Statements

Note 4: Amounts Receivable

($ Millions)	**2004**	2003
Contributions receivable		
Employers	**$ 50**	$ 43
Members	**40**	33
Recoverable refundable withholding tax on contributions	**55**	37
Other assets	**8**	11
	$ 153	$ 124

Note 5: Net Investment Income

Investment income is summarized in the schedule below. Income from individual portfolios is presented, before allocating the effect of derivative contracts and prior to allocating the realized and unrealized gains and losses for the year ended December 31. Gains from derivative financial instruments of $533 million (2003: gains of $738 million) are included as part of the net change in realized and unrealized gains and losses on investments. As the Plan uses various strategies which hedge exposures to fixed income, equity securities and currencies, these strategies may increase or decrease investment income and create corresponding losses and gains, which may be either realized or unrealized.

($ Millions)	**2004**	2003
Fixed Income		
Cash and short-term securities	**$ 28**	$ 48
Bonds		
Canadian	**586**	499
Other global	**10**	14
	624	561
Equities and Equity Type		
Canadian	**7**	27
United States	**144**	39
Other global	**297**	231
Net real estate operating income[1]	**114**	99
Private equity and special situations	**21**	12
	583	408
	1,207	969
Net Realized Gains on Investments	**940**	529
Net Change in Unrealized Gains/(Losses) on Investments	**(12)**	895
TOTAL	**$ 2,135**	$ 2,393

[1] *Net of interest expense of $39 million (2003: $27 million)*

Notes to Consolidated Financial Statements

Note 6: Contributions

($ Millions)	**2004**	2003
Employers	**$ 633**	$ 532
Members		
Regular	**502**	422
Others	**12**	13
Transfers from other plans	**15**	15
	$ 1,162	$ 982

Notes to Consolidated Financial Statements

Note 7: Benefits

($ Millions)	**2004**	2003
Retirement pensions and bridge benefits	**$ 692**	$ 621
Commuted value transfers and death benefits	**60**	48
Refunds	**37**	29
Transfers to other plans	**18**	14
	$ 807	$ 712

Notes to Consolidated Financial Statements

Note 8: Investment and Plan Administration Expenses

($ Millions)	**2004**	2003
Operating expenses		
Investment:		
Administration	**$ 18**	$ 16
External investment fees*	**13**	13
Legal, actuarial and other professional fees	**2**	1
Custodial fees	**2**	2
Total	**35**	32
Plan:		
Administration	**26**	24
Legal, actuarial and other professional fees	**9**	8
Total	**35**	32
	$ 70	$ 64

**External investment fees for 2004 are reduced by approximately $1,685,000 due to a recovery of GST initially charged on such fees prior to 1998.*

Fees paid to auditors pertaining to statutory audit fees are $205,000 (2003: $180,000) and $82,300 (2003: $90,500) for non-audit fees.

Notes to Consolidated Financial Statements

Note 9: Accrued Pension Benefits

a. Accrued Pension Benefits

Accrued pension benefits are based on management's estimated assumptions as described in note 9(c) and includes an implicit provision for expenses. In the determination of the accrued pension benefits, the estimated impact of the grandparenting of the transition benefit, the additional experience expected from this benefit and other actuarially determined liability amounts payable as at December 31, 2004 have been recognized.

b. Actuarial Methodology for Financial Reporting

For the determination of the actuarial present value of accrued pension benefits as at December 31, 2004 an actuarial valuation was conducted by Towers Perrin Inc. The valuation uses the projected accrued benefit method (pro-rated on service) with respect to all benefits and assumes that the Plan will continue on a going-concern basis. For each individual member, the projected accrued benefit cost method results in a cost that increases each year. For a Plan with a stable demographic profile, the cost tends to remain stable over time. The data used in the valuation was based on actual membership data as at December 1, 2004 projected forward to the valuation date using management's estimates. The earnings estimates were determined based on 2003 experience and estimate assumptions.

Using this method and data, the accrued pension benefits at December 31, 2004 were $21,535 million (2003: $20,113 million).

c. Actuarial Assumptions

Estimates used for financial reporting purposes reflect management's expectations of long-term economic and demographic conditions. For accrued pension benefits determined as at December 31, 2004, the following economic assumptions were analyzed and reviewed by management and the Plan's actuarial advisors for reasonability and were determined to be appropriate for financial reporting purposes:

	2004	**2003**
Rate of return	**6.75%**	6.75%
Inflation rate	**2.50%**	2.50%
Real interest rate[1]	**4.25%**	4.25%
Salary escalation rate	**5.00%**	5.00%

[1] *Includes 0.25% reduction for expenses*

d. Plan Provisions

Plan provisions were considered up to date on the valuation date. Plan provisions have changed in the period from the prior valuation date to December 31, 2004. The transition benefit has been grandparented for the closed group of individuals who will be eligible as of December 31, 2005. Service projection will be removed from the calculation of disability pensions for members whose date of disability occurs after 2005. Contractual indexing has been removed with respect to pension service after December 31, 2005. The impact of these changes together with the effect of changing the retirement rate assumption due to the grandparenting of the the transition benefit reduced the obligation of the accrued benefits by $128 million as of December 31, 2003.

e. Data Adjustment Experience Gains and Losses

Data adjustment experience gains and losses represent the difference in accrued pension benefits based on using projected data versus actual data, including any change in pension benefits payable on a year-over-year basis. Projected data is used for determining the accrued pension benefits. Once actual data is available a subsequent valuation is conducted on the same basis. The difference in results is the data adjustment experience gain or loss and is recorded in the year in which it is measured. The 2004 data adjustment resulted in an experience gain of $88 million (2003: experience loss of $433 million).

f. Estimated Experience Gains and Losses

Estimated experience gains and losses represent the change in accrued pension benefits due to the difference between actual economic and demographic experience and expected experience. During 2004, there was an estimated experience gain of $35 million (2003: loss of $122 million).

Notes to Consolidated Financial Statements

Note 10: Retirement Compensation Arrangement (RCA)

The RCA was established by the Plan effective January 1, 1996, to formalize the funding and payment of supplementary pension benefits in excess of the benefits that may be paid under the RPP. The RCA is registered with CRA, Registration Number RC8100724, and is administered in accordance with the requirements of the *Income Tax Act (Canada) and Regulations*. A 50 per cent refundable tax is paid to CRA in respect of contributions and investment earnings. However, based on the benefit payments paid from the RCA, a portion of the tax will be refunded at the end of each taxation year.

The RCA is a seamless arrangement and is funded by the overall investment portfolio of the Plan, but assets are segregated under a separate account from the assets of the RPP. It allows members to accrue pension benefits that exceed those amounts permitted under the Income Tax Act (Canada) for a registered pension plan.

The RCA is partially funded from employer contributions that have not been allocated to the RPP, and from investment earnings on those contributions. The allocation of contributions to the RCA and RPP is based on a rate determined periodically by management in a manner that is expected to be sufficient to pay the benefits as they fall due. The pension benefits are payable under the terms and conditions of the Plan, without distinguishing between the portion payable from the RPP account and the portion payable from the RCA account.

Notes to Consolidated Financial Statements

Note 11: Funding Valuation (Regulatory Filing Valuation)
In accordance with the *Pension Benefits Act of Ontario* and the *Income Tax Act (Canada) and Regulations*, an actuarial valuation is required to be filed at least every three years to estimate the Plan's surplus or deficit, and to determine the Plan's funding requirements. The last actuarial valuation for regulatory funding purposes was prepared by our previous external actuary, Watson Wyatt & Company, as at December 31, 2003, and a copy of this valuation was filed with the Financial Services Commission of Ontario and CRA.

The funding valuation method used to determine the Plan's pension liabilities is the projected accrued benefit actuarial cost method (pro-rated on service). Under this method, pension liabilities are determined by calculating the actuarial present value of benefits based on the projected final average earnings. The actuarial present value of benefits is then pro-rated to determine the actuarial current service cost of benefits, a portion of which is covered by member contributions.

The economic and demographic assumptions used for regulatory funding valuations can vary from those used to determine amounts disclosed for financial statement purposes. The funding valuation may use actuarial assumptions that are more conservative since the primary purpose of the funding valuation is to promote benefit security. These actuarial assumptions are recommended by the external actuary, in consultation with management, to ensure there is sufficient funding to meet all long-term liability requirements. The economic assumptions used for the December 31, 2003 regulatory funding valuation were as follows:

Rate of return	6.75%
Inflation rate	2.50%
Real interest rate	4.25%
Salary escalation rate	5.00%

The most recent regulatory funding valuation conducted as at December 31, 2003 disclosed actuarial assets of $20,128 million with accrued pension liabilities of $19,897 million, resulting in a surplus of $231 million. The funding valuation also confirmed that the Plan is fully funded on a solvency basis.

Notes to Consolidated Financial Statements

Note 12: Commitments

The Plan has committed to purchase limited partnership units, which will be funded over the next several years in accordance with the terms and conditions agreed to. The Plan has also made commitments to invest in real estate. As at December 31, 2004, these commitments totaled $394 million and $37 million respectively (2003: $350 million and $20 million respectively). The Plan has also committed to purchasing services relating to the pension administration system extending to the year 2023 totaling approximately $67 million.

Notes to Consolidated Financial Statements

Note 13: Guarantees

Guarantees comprise contracts requiring the guarantor to make payment where the guaranteed party fails to perform under an obligating agreement; indirect guarantees of the indebtedness of another party whereby that party has failed to pay its indebtedness; and indemnification agreements that require the indemnifying party (guarantor) to make payments to the indemnified party (guaranteed party).

A guarantee includes a contract that contingently requires the guarantor to make payments to the guaranteed party based on the changes in the underlying interest rate, foreign exchange rate, equity or commodity instruments, index of prices or rates, or any other variables relating to an asset, liability or equity security of the guaranteed party.

In the normal course of its business, HOOPP may, from time to time, provide guarantees to various counterparties which may be considered material within the context of the Fund. The significant guarantees made to third parties would include the following:

Indemnification Agreements

According to the Agreement of Declaration of Trust, HOOPP indemnifies its trustees against certain claims that may be made against them.

Derivative Instruments (note 3)

HOOPP enters into written credit derivative contracts under which a counterparty is compensated for losses on a specified referenced asset, typically a bond, if a default or other defined triggering event occurs. Typically, a rated regulated entity is the counterparty to the written credit derivatives contracts, which meet the characteristics of guarantees described above.

Significant Investments

Investments with market value exceeding $25 million as at December 31, 2004 (excluding derivatives)

	Maturity Date	Coupon Rate %	Fair Value ($ Millions)
Fixed Income			
Bonds*			
Government of Canada and guaranteed	2005–2033	3.00–12.75	$ 3,696
Real return	2026–2032	4.00–4.50 plus CPI*	998
Corporate	2005–2032	1.63–10.63	1,842
Provincial and Municipal	2005–2043	2.58–11.00	5,178
Short-term Securities	2005	2.52	1,386

CPI – Consumer Price Index* * Fair value numbers for Bonds were revised on June 3, 2005 to correct a clerical error.*

	No. of Shares (in millions)	Fair Value ($ Millions)
Equities		
Canadian Equities		
ATI Technologies Inc.	1.2	$ 29.1
Alcan Inc.	1.7	99.0
BCE Inc.	4.0	114.3
Bank of Montreal	1.0	57.6
The Bank of Nova Scotia	2.1	84.6
Barrick Gold Corporation	2.3	66.3
Brascan Corporation	1.0	41.7
Cameco Corporation	0.6	26.8
Canadian Imperial Bank of Commerce	0.6	45.4
Canadian National Railway Company	1.4	99.4
Canadian Natural Resources Limited	1.1	54.9
Canadian Pacific Railway Limited	0.8	31.2
EnCana Corporation	2.0	139.5
Enbridge Inc.	0.6	35.2
George Weston Limited	0.3	28.0
Husky Energy Inc.	0.8	27.3
Imperial Oil Limited	0.4	26.0
Inco Limited	0.9	39.2
Loblaw Companies Limited	0.5	32.6
Magna International Inc.	0.4	37.0
Manulife Financial Corporation	2.3	126.0
Nortel Networks Corporation	16.5	68.7
NOVA Chemicals Corporation	0.5	27.7
Petro-Canada	1.1	69.4
Placer Dome Inc.	2.1	48.1
Potash Corporation of Saskatchewan Inc.	0.3	34.7
Research in Motion Limited	0.8	74.4
Rogers Communications Inc.	1.1	33.1
Royal Bank of Canada	1.1	71.1
Sun Life Financial Inc.	1.4	58.0
Suncor Energy Inc.	1.8	78.3
Talisman Energy Inc.	1.8	59.3
Teck Cominco Limited	0.8	29.3
TELUS Corporation	1.5	53.5
The Thomson Corporation	0.7	25.7
The Toronto-Dominion Bank	1.5	74.3
TransCanada Corporation	2.3	69.3

Significant Investments

U.S. Equities			
Altria Group Inc.	0.4	$	29.9
American International Group Inc.	0.4		31.6
Bank of America Corporation	0.8		44.9
Cisco Systems Inc.	1.5		34.5
Citigroup Inc.	0.9		52.9
Dell Inc.	0.5		25.1
Exxon Mobil Corporation	0.9		53.7
General Electric Company	1.7		74.3
Intel Corporation	1.0		27.8
International Business Machines Corporation	0.3		32.1
JP Morgan Chase & Co.	0.6		28.7
Johnson & Johnson	0.4		33.2
Microsoft Corporation	2.0		63.7
Pfizer Inc.	1.2		39.5
Wal-Mart Stores Inc.	0.6		38.1
International Equities			
Banco Bilbao Vizcaya Argentaria SA	1.2	$	25.3
Melexis NPV	2.0		29.4
Mitsubishi Tokyo Financial Group Inc.	0.0		31.2
Nestle SA	0.1		34.0
TOTAL SA	0.1		35.8
UBS AG	0.3		31.7
Vodafone Group PLC	8.3		27.1
Private Equities			
BC European Capital VII – 1			
Perkins Food plc.			
Teramira Holdings Inc.			
TD Capital Private Equity Partners (QLP)			

	Ownership
Real Estate Properties	
Pensionfund Realty Inc.	
Coquitlam Shopping Centre	42.39%
CN Hotel and Office Complex	17.26%
Slater/Metcalfe	86.00%
Penlea Investments Ltd.	
1500 West Georgia	100.0%
HOOPP Realty Inc.	
141 Adelaide Street West	100.0%
4711 Yonge Street	75.0%
Monterey Park	50.0%
Telus	100.0%
Vancouver Centre	50.0%
Whistler Market Place	100.0%
2001 University	100.0%
LeMail Champlain	50.0%
Quinte Mall	50.0%
Other Properties	
200 Kent	50.0%
Exchange Tower	25.0%
Foothills Equities	100.0%
Place Rosemere	33.33%
Sussex Place	100.0%

Ten-Year Review

For the years ended December 31

($ Millions)	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
CHANGE IN NET ASSETS										
Increase in net assets										
Net investment income/(loss)	**$ 2,135**	$ 2,393	$ (845)	$ (799)	$ 1,471	$ 2,463	$ 1,586	$ 1,520	$ 1,695	$ 1,295
Contributions										
Employers	**633**	532	297	172	158	138	316	313	314	322
Members	**514**	435	244	137	130	109	227	224	226	231
Transfers	**15**	15	11	10	6	7	5	5	5	7
Total Increase/(Decrease)	**3,297**	3,375	(293)	(480)	1,765	2,717	2,134	2,062	2,240	1,855
Decrease in net assets										
Benefits	**807**	712	634	586	561	561	445	432	371	294
Investment and Plan administration expenses	**70**	64	57	54	52	46	33	23	22	20
Total Decrease	**877**	777	691	640	613	607	478	455	393	314
NET INCREASE/ (DECREASE) IN NET ASSETS	**$ 2,420**	$ 2,599	$ (984)	$ (1,120)	$ 1,152	$ 2,110	$ 1,656	$ 1,607	$ 1,847	$ 1,541
NET ASSETS										
Investments										
Fixed Income										
– Canadian	**$16,591**	$10,507	$ 8,154	$ 9,490	$ 8,301	$ 5,739	$ 5,753	$ 5,669	$ 4,879	$ 3,803
– Other global	**389**	324	254	318	141	160	130	107	82	74
Equities										
– Canadian	**657**	1,874	2,117	2,739	4,324	6,180	4,823	4,304	3,929	3,122
– Other global	**4,764**	3,674	3,401	2,587	3,372	3,478	2,840	1,987	1,657	1,743
Real estate properties, private equity & resource properties	**2,853**	2,608	2,406	2,265	2,033	1,542	1,287	1,018	965	911
Investment related receivables	**949**	770	504	353	293	3	–	–	–	–
	26,203	19,757	16,836	17,752	18,464	17,102	14,833	13,085	11,512	9,653
Other assets	**153**	124	76	51	39	126	209	167	132	141
Total Assets	**26,356**	19,881	16,912	17,803	18,503	17,228	15,042	13,252	11,644	9,794
Liabilities										
Investment related liabilities	**(5,258)**	(1,210)	(839)	(747)	(330)	(207)	(137)	–	–	–
Other liabilities	**(21)**	(14)	(15)	(14)	(11)	(11)	(5)	(8)	(7)	(4)
Total Liabilities	**(5,279)**	(1,224)	(854)	(761)	(341)	(218)	(142)	(8)	(7)	(4)
NET ASSETS	**21,077**	18,657	16,058	17,042	18,162	17,010	14,900	13,244	11,637	9,790
Actuarial asset value adjustment	**231**	1,471	2,766	946	(1,322)	(2,033)	(1,378)	(1,193)	(1,016)	(86)
Actuarial value of net assets	**21,308**	20,128	18,824	17,988	16,840	14,977	13,522	12,051	10,621	9,704
Accrued pension benefits	**21,535**	20,113	17,814	16,756	15,102	11,946	11,333	10,405	9,882	9,372
(DEFICIT)/SURPLUS	**$ (227)**	$ 15	$ 1,010	$ 1,232	$ 1,738	$ 3,031	$ 2,189	$ 1,646	$ 739	$ 332
INVESTMENT PERFORMANCE										
Investment rate of return – net	**11.35%**	14.86%	(5.02)%	(4.41)%	8.50%	16.61%	11.77%	13.18%	17.34%	15.54%
Benchmark return	**10.16%**	14.38%	(5.33)%	(4.51)%	5.41%	14.87%	9.75%	13.84%	17.74%	17.03%
Long-term return target	**7.50%**	7.75%	7.75%	7.75%	7.25%	7.25%	7.25%	8.00%	8.00%	8.00%

Schedule of Investment Returns vs. Benchmark Returns

The one-year investment returns and the related benchmarks, by investment portfolio, are as follows:

Years ended December 31 (Unaudited)

	2004		2003	
Rate of return (net of fees)	**Investment Returns %**	**Benchmark Returns %**	**Investment Returns %**	**Benchmark Returns %**
Fixed Income				
Short-term money market securities	**2.44**	**2.30**	3.05	2.91
Bonds				
Canadian	**7.00**	**7.15**	6.74	6.69
Long bonds	**10.01**	**10.26**	9.05	9.07
Real return	**15.46**	**15.46**	11.53	11.53
Equities				
Canadian	**14.97**	**13.84**	25.45	25.51
United States	**2.78**	**3.73**	5.12	6.19
Other global	**9.37**	**10.05**	12.82	12.61
Real estate	**15.84**	**8.72**	8.86	7.83
Private equity & special situations	**21.17**	**7.50**	8.94	7.75
NET INVESTMENTS*	**11.35**	**10.16**	14.86	14.38

**Includes derivative-related return enhancement strategies*

Certain comparative returns have been restated to conform to the current year's presentation.

The Plan uses the following benchmarks to evaluate the performance of the investment management process. The performance of each portfolio is measured against the benchmarks that reflect the results of the markets in which they invest.

Portfolio	Benchmarks
Short-term Securities	Government of Canada 91-day Treasury Bill Index
Canadian Bonds	Scotia Capital Markets Universe Bond Index
Long Bonds	Scotia Capital Markets Long Bond Index
Real Return Bonds	Equal to portfolio return
Canadian Equities	S&P/TSX60 Total Return Index
U.S. Equities	Blended S&P 500 Total Return Index and Russell Mid-Cap Total Return Index
Other Global Equities	MSCI ACWI Blend Total Return Index
Real Estate Properties	Investment Property Databank
Private Equities	Total Plan funding target