HOOPP

Count on Us

2005 Annual Report

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

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 2005, HOOPP had more than 148,000 active members, who work for 336 participating employers, and more than 72,000 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 2005

The HOOPP Trust Fund

With $24.5 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, which 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 (continued)

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.

YEAR IN REVIEW | MD&A | FINANCIALS | LEADERSHIP | ABOUT HOOPP

Count on Us

To **invest** wisely ▸

To make your Plan **easy to understand** ▸

To work **with you** ▸

To have a **solid long-term funding** strategy ▸

Whether you're a member or an employer, whether you're working or retired, HOOPP wants you to know you can count on us. In this report, you'll meet some of the HOOPP people you can count on to answer your questions, to provide the services you require and to invest wisely on your behalf.

Count on Us

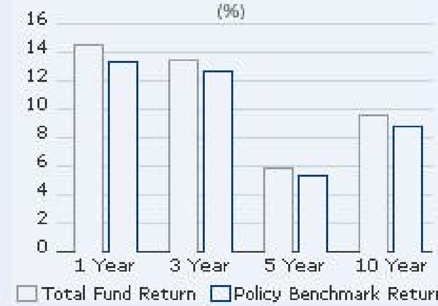
To **invest** wisely

To make your Plan **easy to understand**

To work **with you**

To have a **solid long-term funding** strategy

TOTAL FUND VS. POLICY BENCHMARK RETURNS (%)



Count on Us

To **invest** wisely

To make your Plan **easy to understand**

To work **with you**

To have a **solid long-term funding** strategy

Pensions can be complicated. HOOPP strives to simplify them. People are busy. That's why HOOPP makes information available through a variety of channels: online, newsletters, booklets, over the phone and in workplace presentations. Clearly explaining what you need to know, when you need to know it.

Count on Us

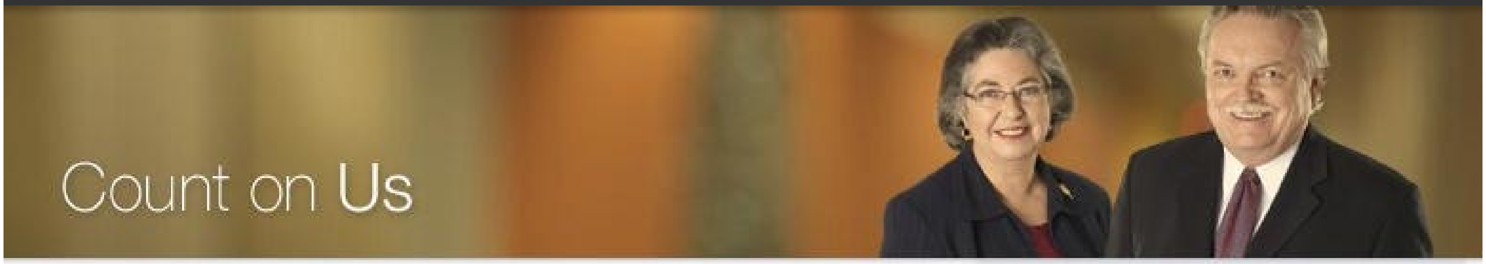
To **invest** wisely ▸

To make your Plan **easy to understand** ▸

To work **with you**

To have a **solid long-term funding** strategy ▸

HOOPP is more than numbers
Employees like **Gertrudes Suva**, Contributions & Receipts Administrator, and **Mohee Anantharajah**, Pension Analyst, are always looking for ways to make life easier for HOOPP's clients. Gertrudes helps employers take full advantage of electronic funds remittance. Mohee helps members maximize their pensions by assisting through the past service purchase process.

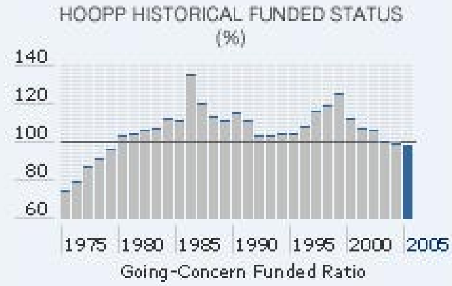


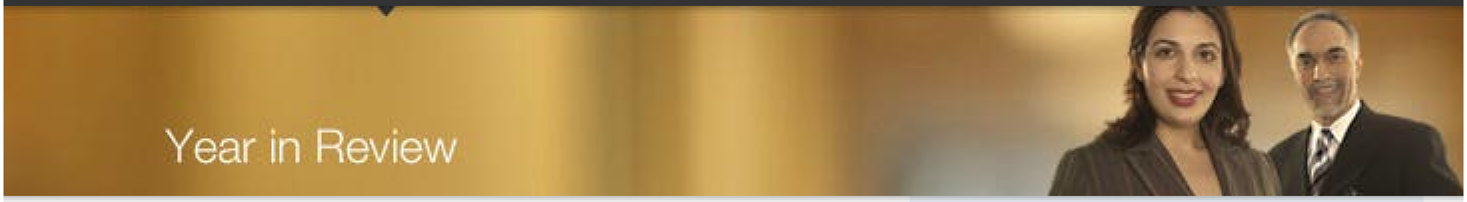
To **invest** wisely ▸

To make your Plan **easy to understand** ▸

To work **with you** ▸

To have a **solid long-term funding** strategy





2005 Highlights

Overview | Administration Accomplishments
Funding Accomplishments | Governance Accomplishments

Nataly Faga, Client Service Representative
Tony di Bella, Field Service Representative

People you can depend on
It's always nicer to deal with a friendly voice and a familiar face. In most cases, when Plan members and employers need help and information, the first people they turn to are service representatives like Nataly and Tony. They take a personal interest in working with clients to provide the service they deserve.

Administration Accomplishments

- The Plan launched a new pension administration system, marking a major milestone in the rollout of its multi-year Client Relationship Excellence program.
- HOOPP staff provided extra support to members whose pensions were affected by health care restructuring, including employees of Cancer Care Ontario and the District Health Councils.
- HOOPP continued to test and improve the rigour of its business continuity plan, to ensure it has the ability to manage the Plan and pay pensions from an off-site location if its offices become inaccessible for any reason.

Read more about our administration accomplishments...

Funding Accomplishments

- The HOOPP Fund achieved an investment return of 14.66 per cent in 2005, helping to push the Plan's net assets available for benefits to $24.5 billion.
- HOOPP's small unfunded liability remains manageable.
- Investment policies were updated – forging a stronger link between the Plan's funding and investment management and broadening investment opportunities.

Read more about our funding accomplishments...

Governance Accomplishments

- The Board conducted a review of its approach to governance.
- The Board approved a revised code of business conduct for Board members, HOOPP employees and, in some cases, independent contractors working for HOOPP.

Read more about our governance accomplishments...

Year in Review

Nataly Faga, Client Service Representative
Tony di Bella, Field Service Representative

2005 Highlights

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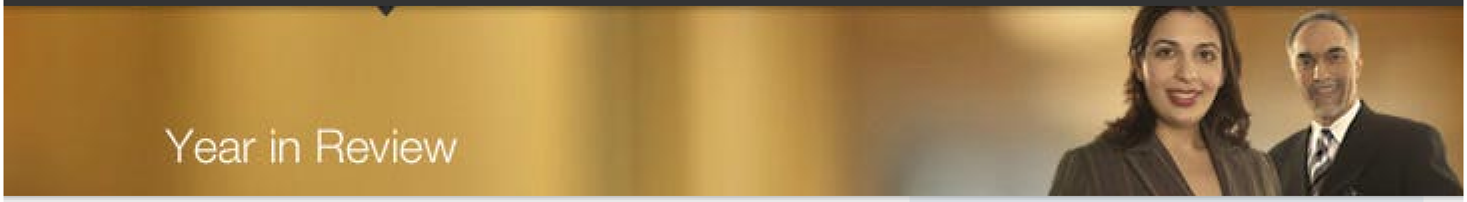
Administration Accomplishments

In 2005...

- The launch of HOOPP's new pension administration system in July 2005 marked a major milestone in the rollout of the organization's multi-year Client Relationship Excellence program. Among other things, the new system is designed to manage the data and benefit calculations for HOOPP's 148,000 members and 58,600 pensioners.
- HOOPP staff responded quickly to implement Plan changes, including new disability rules and new contribution rules for short-term leave periods.
- HOOPP generated 18,000 special statements for members who qualified for the early retirement transition benefit. These personalized documents were designed to alert members eligible for this temporary benefit to the change to the benefit and show its impact on their retirement plans, including the advantages of remaining in the workplace longer.
- A new easy-to-read booklet about the disability benefits available under the Plan was released for members on a health leave.
- Nearly 2,000 past service purchase quotes were produced for members who joined HOOPP from the former Cancer Care Ontario pension plan. HOOPP staff also provided over-the-phone support and conducted information sessions for these members throughout the province.
- Pension transfers for 164 individuals affected by the closure of 16 District Health Councils were arranged and expedited by HOOPP staff.
- The Plan's bilingualism policy was reviewed and updated. The revised policy paves the way for the production of personalized member and pensioner communications in both official languages by 2007.
- HOOPP managers completed a developmental program designed to ensure they are equipped to help staff deliver improved client service.
- Steps were taken to further test and improve the rigour of HOOPP's business continuity plan. Tests were designed to help ensure HOOPP has the capacity to manage core functions and pay pensions from an off-site location in the event of a disaster.
- By year end, HOOPP's three-member Field Services team had conducted 395 group and 123 individual information sessions for members across the province. They also had conducted a total of 296 administrative sessions for employers and delivered Member Data Collection Report seminars attended by 129 employers.
- A team of HOOPP employees facilitated a smooth change in Fund custodian. The switch to Northern Trust, which will result in cost and administrative efficiencies, involved reconfiguring investment systems to allow for enhanced data flow.
- HOOPP continued with the development and implementation of an investment data warehouse and performance measurement system. The new system will provide more timely and accurate reporting information to support enhanced investment decision-making.



Nataly Faga, Client Service Representative
Tony di Bella, Field Service Representative

2005 Highlights

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Funding Accomplishments

In 2005...

- HOOPP exceeded its investment benchmarks for the eighth straight year. Overall, the total Fund generated a 14.66 per cent return, exceeding the policy benchmark by 69 basis points.
- Strong investment returns contributed to an increase in the Plan's net assets available for benefits, which as of December 31, 2005 stood at $24.5 billion, up from $21.1 billion a year earlier.
- HOOPP's unfunded liability remains manageable due in large part to the Board's earlier pre-emptive measures, as well as strong investment results. HOOPP expects the unfunded liability, which is about two per cent of assets, to begin to decline over the next few years, provided demographic and economic experience, including investment returns, is in line with the Plan's expectations.
- The Board approved a new funding policy in 2005. This policy, which defines HOOPP's risk tolerance and objectives, gives the Board a practical framework for making informed funding decisions. More specifically, it sets "trigger points" for considering adjustments to contribution levels and/or benefits.
- Investment policies were updated to forge a stronger link between funding and investment management. The updated policies should enable HOOPP to add value to the Fund through broader investment opportunities, particularly in fixed income, as well as new mandates that complement existing investment activity.

Year in Review

Nataly Faga, Client Service Representative
Tony di Bella, Field Service Representative

2005 Highlights

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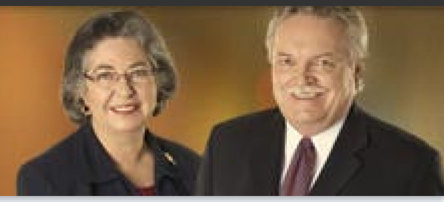
Governance Accomplishments

In 2005...

- The HOOPP Board conducted a review of its approach to governance. As part of this review, the Board considered the governance framework reflected in the self-assessment questionnaire developed by the Canadian Association of Pension Supervisory Authorities.
- The Board gave the go-ahead to begin a comprehensive review of HOOPP's systems of internal control. The review will be conducted over several years. While a preliminary review has indicated that HOOPP already has solid practices in place, the more detailed review will help identify any gaps.
- The Board approved a revised code of business conduct. The updated code, which applies to Board members, HOOPP employees and, in some cases, independent contractors working for HOOPP, reaffirms expectations for upholding ethical behaviour and avoiding conflict of interest.
- The Board approved a new whistle-blower protection policy that provides HOOPP employees with a process for reporting any employee wrongdoing.
- The Board appointed Towers Perrin, one of Canada's largest pension consulting firms, as its new actuarial adviser. HOOPP staff worked closely with the consulting firm to fast-track the transition of actuarial duties.
- The Board appointed Hugh O'Reilly of Cavaluzzo Hayes as its legal counsel, following a regularly scheduled review of this adviser.

Year in Review



Kelly Butt, Vice-Chair
Dan Anderson, Chair

Future-focused
For HOOPP's Board of Trustees, led in 2005 by Chair Dan Anderson and Vice-Chair Kelly Butt, moving the Plan back to fully funded status is a top priority. The Board, ever mindful of its fiduciary responsibility to act in the interests of all members, sets contribution rates and benefit levels, oversees investment policy and performance and approves the organization's operating budget.

Chairs' Message

Turning the corner toward full funding

HOOPP turned a critical corner in 2005 on the road to becoming an even stronger, more responsive pension plan.

In particular, better-than-expected progress was made in restoring HOOPP's fully funded position. HOOPP also launched several initiatives aimed at ensuring that the organization has the operational and governance structures needed to protect the pension promise over the longer term.

Securing the Plan's financial position remained the Board's number one priority in 2005. When HOOPP's unfunded liability was first reported in the 2004 HOOPP Annual Report, it was suggested that this number would continue to rise over the next few years. The unfunded liability did grow in 2005, but not as much as was expected, reaching $566 million by year end, up from $227 million a year earlier.

Like many defined benefit pension plans, a combination of factors caused HOOPP's unfunded liability.

In the late 1990s and early 2000s, Plan improvements and contribution subsidies were introduced to keep HOOPP's surplus within legal limits. In 2001 and 2002, investment markets tumbled, shaving 10 per cent off the value of HOOPP's assets. And in recent years, demographic trends have driven up Plan liabilities. All of these factors combined to push HOOPP into an unfunded position.

It's important to put the $566 million unfunded liability in perspective. It represents about two per cent of the $23 billion in assets that are required to meet the Plan's future pension obligations to all its members. There is more than enough to pay the less than $1 billion the Plan needs to look after pensions and other benefits annually. Equally important, the unfunded liability's lower-than-expected growth in 2005 is an early indication that the Board's multi-year strategy to return HOOPP to a fully funded position is not only on track, but ahead of schedule.

Managing the unfunded liability

When HOOPP's 2002 projections revealed that an unfunded liability would emerge within a few years, the Board made some carefully considered, difficult decisions to begin to manage the situation early on. Contribution rate subsidies were ended earlier than planned and, following an extensive review of the Plan's long-term funding risks, a number of Plan changes were announced that came into effect in 2006.

These steps, along with the strong investment returns of the last three years, should, over time, help restore HOOPP to a fully funded position, while allowing the Board to hold member and employer contributions at 2004 levels.

HOOPP's Board will continue to monitor the Plan's funding situation closely. If there is further adverse experience, the Board will again take a proactive, considered and consultative approach to determine what, if any, actions are needed to protect the Plan's financial position.

To assist with this monitoring and decision-making process, the Board approved a new funding policy in 2005. This policy, which defines HOOPP's risk tolerance and objectives, gives the Board a practical framework for making informed funding decisions. More specifically, it sets "trigger points" for considering adjustments to contribution levels and/or benefits.

The best of best practices

Good governance – the act of ensuring the Plan is well run – is a priority for the HOOPP Board. HOOPP believes that good governance is a process, not a final destination. With that in mind, the Board conducted a review of its approach to governance, including looking at the Canadian Association of Pension Supervisory Authorities self-assessment questionnaire for measuring Board effectiveness.

In keeping with best practices, the Board approved two key governance documents in 2005: a revised code of business conduct and a whistle-blower protection policy. The former requires employees and Board members to uphold ethical behaviour and avoid conflict of interest; the latter provides a process for reporting any wrongdoing by employees.

The Board also gave the go-ahead for a comprehensive review of HOOPP's internal controls and compliance. HOOPP already has solid practices in place. The review, to be conducted over the next two years, will help identify and address any gaps that may exist.

During 2005, HOOPP also began the development of its three-year strategic plan with a number of consultation sessions. These sessions are continuing in 2006, with the objective to put the final touches to this plan towards the end of the year. Through this process, we are confident HOOPP's strategy will serve members, pensioners and employers.

The July 2005 launch of HOOPP's new pension administration system marked an important step in efforts to strengthen our operational structure. Staff worked extremely hard to prepare for the launch of the new system, and to continue to serve clients even when new system challenges arose. The Board would like to thank staff for their tremendous dedication.

Building for the future

The Board believes that a solid operational structure, good governance and financial stability are, at the end of the day, the best way to protect the Plan. With that in mind, HOOPP's focus heading into 2006 is three-fold: improving the Plan's funded status, completing the system transition and ensuring governance best practices.

The Board will continue to work diligently to ensure HOOPP is positioned to provide past, current and future generations of members and pensioners with a valued and secure benefit.

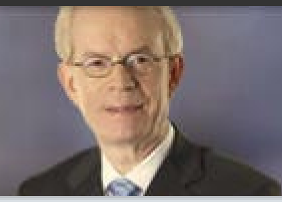
Dan Anderson

Dan Anderson
Chair

Kelly Butt

Kelly Butt
Vice-Chair

Year in Review



President & CEO's Message

John A. Crocker, President & CEO

Real leadership is good service
As President & CEO, John Crocker leads the overall management of the organization to ensure the Plan is administered efficiently and effectively and the HOOPP Trust Fund is invested prudently. He reports to the Board of Trustees and is assisted by a five-person executive team.

Investing for your future

2005 was a year of successes and challenges at HOOPP. Not only was investment performance particularly strong, but, with the launch of HOOPP's new pension administration system, an important milestone was passed along the road to client service excellence.

On the investment front, the Fund generated a robust return of 14.66 per cent, exceeding the policy benchmark for the eighth year running. The Plan's assets (funds available to pay the pension benefits owed to members) climbed to $24.5 billion, up from $21.1 billion at year end 2004.

HOOPP's real estate portfolio had its strongest year yet, generating a stellar 28.77 per cent return and beating its benchmark by 10.52 per cent. Canadian equities, as well as private equity and special situations, also performed well, turning in returns of 27.37 per cent and 18.15 per cent respectively. Double-digit returns were also reported for long bonds, real return bonds and international equities.

To support better integration of funding and investment management, HOOPP's Board approved updates to the Plan's investment policies in 2005. These updates should enable HOOPP's investment managers to add value while reducing risk through new mandates and increased diversification.

During the year, significant progress also was made in the development of HOOPP's investment data management system. Once fully up and running, this system will provide HOOPP with an expanded tool kit for monitoring investment performance and managing risk.

Striving for excellence

The launch of HOOPP's new pension administration system in July 2005 marked a major landmark in the rollout of the organization's multi-year Client Relationship Excellence program. Among other things, the new system is designed to manage the data and benefit calculations for HOOPP's 148,000 members and 58,600 pensioners.

While challenges were anticipated, transitioning to the new system has taken longer than expected. As a result, there have been some delays in benefit processing.

Temporary staff has been added to help reduce these delays and I am pleased to report that significant headway has been made. As the transition unfolds, we will continue to work toward shorter transaction times and provide the best service that circumstances will allow. As always, processing and paying pensions remains our number one priority.

Despite some setbacks, our goal for the new pension administration system remains unchanged – improved client service, increased automation and the capacity to offer web-based self-service tools to members, pensioners and employers. Once the current challenges have been met and the new system is fully functional, our clients will enjoy higher-quality service for years to come.

In the meantime, I want to thank our clients – members, pensioners and participating employers – for their patience and assistance during the transition period. In particular, I would like to thank those members and employers who sent in transaction requests earlier than normal, as well as the more than 200 employers who met the early deadline for submitting annual data reports.

Enriching the service experience

While the introduction of the new pension administration system is a key element of our Client Relationship Excellence program, we know that technology is only one piece of the puzzle. It is the improved skills of our people – combined with technology – that will ultimately enrich the service experience of our clients.

Advanced skills training was an important focus for HOOPP in 2005. Our managers completed a developmental program designed to ensure they are better equipped to help staff deliver improved client service going forward. For their part, processing staff devoted many hours to learning the new pension administration system while, at the same time, boosting service and output levels to ease the transition process.

HOOPP also continued to improve and test the rigour of its business continuity plan in 2005. A review by an independent auditor concluded that HOOPP's efforts in this area have placed it well ahead of many peer organizations. We also confirmed that HOOPP has the ability to manage the Plan and pay pensions from an off-site location if, for any reason, our regular offices became inaccessible due to a disaster.

Moving ahead

Heading into 2006, HOOPP's objectives and priorities remain clear. The investment goal is solid growth of the Plan's assets, without undue risk, to safeguard the future benefits of members. Client service efforts will be focused on completing the transition to the new pension administration system. Attention will then be turned to building and delivering improved data collection tools for employers, and advancing development of member, pensioner and employer self-service.

The road to client service excellence has not been without its challenges. But HOOPP believes it is a journey worth taking – and one that has enhanced, and will continue to enhance, the service experience of our clients.

John A. Crocker
President & CEO

Leadership

Board of Trustees

There are 16 voting members on HOOPP's Board of Trustees. Eight trustees are appointed by the Ontario Hospital Association (OHA) and four unions each appoint two trustees. The unions are the Ontario Nurses' Association (ONA), the Canadian Union of Public Employees (CUPE), the Ontario Public Service Employees' Union (OPSEU) and the Service Employees International Union (SEIU). There can be two non-voting pensioner observers on the Board.

Read more about the Board in governance.

> Trustees
> Board Committees
> Executive
> Professional Advisers

Trustees

(as of December 31, 2005) [1]

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

Kelly Butt,
HOOPP Vice-Chair
Past Chair
Lawson Health Research Institute

David Alexander
Past Director, Grey Bruce Health Services and Past 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

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

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

Plan Committee
Marcia Gillespie (Chair), Warren Chant, Helen Fetterly, Susan Lewis

Governance Committee
Kelly Butt (Chair), Dan Anderson, Marcelle Goldenberg, Anthony Vines

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

Victoria S. Hubbell
Senior Vice-President
Strategic Planning &
Employee Services

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

David L. Miller
General Counsel &
Senior Vice-President
Governance

Senior Management

Reno Bugiardini
Vice-President
Information Technology &
Facilities

Michael Catford
Vice-President
Real Estate

Julie C. Cays
Vice-President
External Managers

Jim Keohane
Vice-President
Portfolio Strategy &
Derivatives

Clint Matthews
Vice-President
Investment Finance

Andrew Moysiuk
Vice-President
Private Equity & Special Situations

Carmela Pappas
Vice-President
Client Services

Jeffrey Wendling
Vice-President
North American Equities

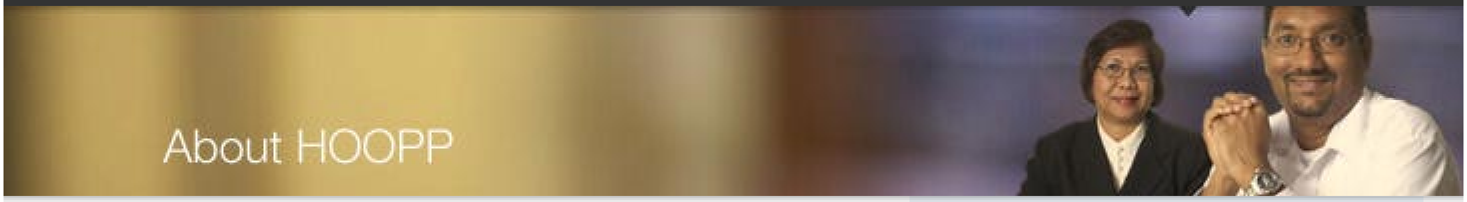
Professional Advisers

Actuary
Towers Perrin Inc.

Auditors
PricewaterhouseCoopers LLP

Legal
Cavalluzzo Hayes Shilton
McIntyre & Cornish LLP

(1) *One Trustee position was vacant at December 31, 2005*
(2) *One pensioner observer position was vacant at December 31, 2005*



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. That's because the amount of your pension is defined according to a formula, rather than basing your pension directly on investment returns or interest rates. HOOPP's formula takes into account your earnings history and service in the Plan. Generally, the longer you contribute to the Plan and the greater your earnings are, the bigger your HOOPP pension will be.

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

Gertrudes Suva, Contributions & Receipts Administrator
Mohee Anantharajah, Pension Analyst

Knowledgeable staff. Superior service.
Whether you are a member seeking assistance with a past service purchase or an employer with a question about remitting contributions, you can rely on experienced HOOPP employees like Mohee and Gertrudes to provide the answers you need.

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's long-term investment returns fall short of expectations, one of the following may need to be implemented to keep the Plan adequately funded: increased contributions, reduced benefits or a combination of both.

HOOPP is 98 per cent funded, as of year end 2005.

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...

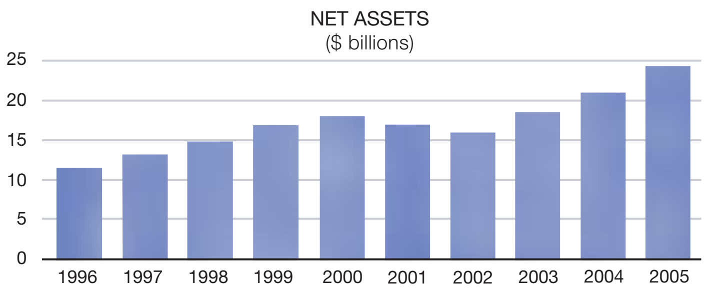
Management's Discussion & Analysis

Julie Cays, Vice-President, External Managers
Dan Lavallee, Portfolio Manager, North American Equities team

Investing for your future
Approximately 80 per cent of HOOPP pension benefits are paid from investment returns. Dan is part of HOOPP's own investment team that directly manages the majority of the HOOPP Fund. Julie works closely with the external firms that invest the balance of the Fund to ensure they meet HOOPP's performance standards and risk tolerances.

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 longer-term investment returns, while avoiding short-term reactions to market events.
Read more about Valuing the Assets...



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:

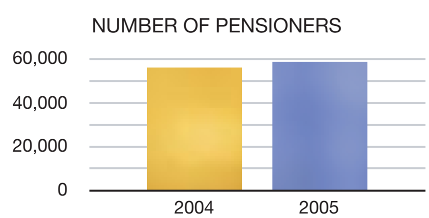
- when members will retire or terminate
- the life expectancy of members
- future interest and inflation rates, and
- future salary increases in the health care field

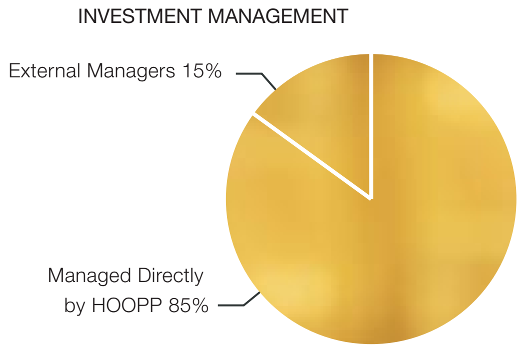
Read more about Valuing the Liabilities...

On a year-over-year basis, the Plan's unfunded liability increased to $566 million at year end 2005 from an unfunded liability of $227 million at year end 2004. This growth in the unfunded liability is largely attributable to asset smoothing, which takes into account market gains and losses from earlier years.

The unfunded liability should begin to decrease over the next few years – provided economic and demographic experience remains stable, and investment returns stay on track.
Read more about Determining the Surplus/Unfunded Liability...

The number of HOOPP pensioners continued to grow; there were 58,600 pensioners in 2005, compared to 56,100 in 2004 – an increase of almost five 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...

On the funding side, HOOPP's Board of Trustees will continue to monitor and manage the Plan's funding status, through the framework established by the new funding policy. The Board will continue to make informed, forward-thinking decisions which integrate investment policy with funding objectives.

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.
Read more about our Outlook...

Management's Discussion & Analysis

Julie Cays, Vice-President, External Managers
Dan Lavallee, Portfolio Manager, North American Equities team

Overview

Introduction | Year-End Financial Position

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 interpret the many factors that have affected investment performance 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 IS REPORTED IN CANADIAN DOLLARS

Introduction

While financial results provide a point-in-time measurement, a large pension plan like HOOPP must be managed with a longer-term focus. With that need in mind, HOOPP conducts actuarial forecasts that look many years out.

The 2005 year-end financial position showed the Plan with a modest unfunded liability. (This is the amount by which the Plan's projected liabilities exceed its projected assets.) These days, an unfunded liability isn't unusual.

In HOOPP's case, the unfunded liability is due to a combination of factors, primarily the introduction of contribution subsidies and benefit improvements made in the late 1990s and the early part of this decade when the Plan was in surplus (when tax law limited the surplus), followed by a period of poor investment market returns in 2001 and 2002.

As of December 31, 2005, the Plan's liabilities – in the form of pension benefits owed to current and future retirees – exceeded its assets by approximately two per cent. Even with strong investment performance in recent years, the unfunded liability has grown since the value of HOOPP's assets is "smoothed," meaning that investment gains and losses are averaged over a five-year period.

HOOPP foresaw the emergence of its unfunded liability and quickly took steps to keep it in check. In 2002, HOOPP's Board of Trustees put an early end to a contribution rate subsidy. In 2004, the Board announced Plan changes.

These proactive measures, combined with strong investment performance in recent years, have placed HOOPP in a good position to eliminate its unfunded liability over the next several years.

HOOPP is cautiously optimistic that the unfunded liability will begin to decrease over the next few years – provided economic and demographic experience remains stable, and investment returns stay on track. That said, if experience and investment returns do not meet expectations, the unfunded liability could edge upward.

HOOPP's Board of Trustees continues to monitor the Plan's funding status and will, in the event of adverse experience, take the proactive and prudent steps necessary to ensure that the Plan is able to meet its benefit obligations now and in the future.

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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. As of December 31, 2005, net assets available for benefits stood at $24.5 billion, up from $21.1 billion a year earlier.

The $3.4 billion increase is attributed to $3.1 billion in net investment gains and $425 million in positive pension cash flow, less expenses of $85 million. (Net pension cash flow is equal to the contributions and benefit transfers flowing into the Plan less the benefit payments and transfers out.)

For actuarial purposes, net assets available for benefits are adjusted or "smoothed" to reflect an average value over five years – a measure that helps minimize the impact of short-term investment market volatility. The adjustment, referred to as the actuarial asset value adjustment, resulted in the actuarial value of assets being $1.7 billion below the market value as at December 31, 2005.

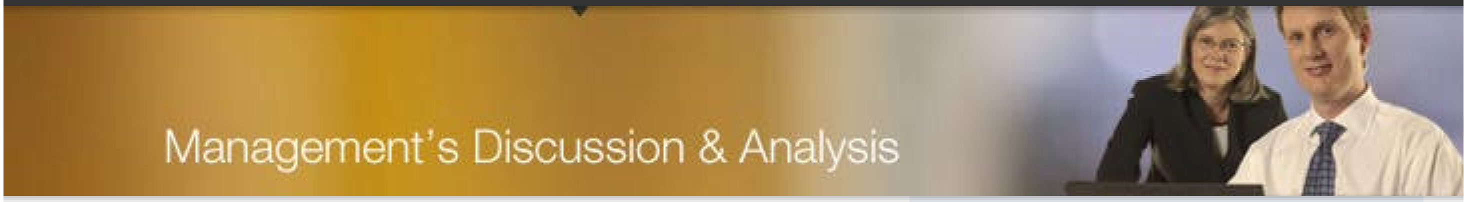
This means, for actuarial valuation purposes, the value of the adjusted net assets available for benefits at year end 2005 was $22.9 billion, approximately $1.6 billion higher than year end 2004 when they stood at $21.3 billion.

The Plan's accrued pension benefits for the year ended December 31, 2005 were $23.4 billion, up $1.9 billion from the $21.5 billion reported at year end 2004.

The $1.6 billion increase in adjusted net assets was offset by the $1.9 billion increase in accrued pension benefits. As a result, the Plan reported an unfunded liability of $566 million at December 31, 2005, compared to $227 million at December 31, 2004.

This slight decline in the funded position was anticipated in the short term. The increase in the unfunded liability is largely attributable to asset value smoothing.

The unfunded liability should begin to decrease over the next few years, provided demographic and economic experience, including investment returns, is in line with the Plan's expectations.



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Funding Risk Management

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Introduction

HOOPP's 2002 actuarial projections revealed that an unfunded liability would emerge within a few years. In anticipation of this, HOOPP's Board moved quickly. It ended contribution rate subsidies earlier than expected. It also conducted an extensive review of the Plan's long-term funding risks and subsequently announced a number of Plan changes that took effect in 2006.

As a result of the Board's quick action, HOOPP has been able to curb the growth of the unfunded liability. In fact, the unfunded liability should begin to decrease over the next few years – provided economic and demographic experience remains stable and investment returns stay on track.

HOOPP's Board now has a multi-year strategy in place to address the unfunded liability and closely monitors the Plan's funded status. If there is further adverse experience, the Board will again take a proactive, considered and consultative approach to any price or benefit changes needed to address the situation.

The emergence of an unfunded liability was due to a combination of factors. The Income Tax Act (ITA) limits the amount of surplus that a pension plan can have.

Back in 1997, HOOPP's actuarial forecasts showed that very strong investment returns were pushing the Plan's surplus above the ITA limits. HOOPP's Board had no choice but to keep the surplus in line with the ITA limit. The Board made a number of permanent and temporary benefit improvements and introduced temporary contribution rate subsidies for both members and employers – all intended to help manage the surplus.

While clients benefited from contribution rate subsidies and Plan improvements, other factors were at play. In 2001 and 2002, a significant decline in equity markets shaved approximately 10 per cent from the value of Plan assets. At the same time, historically low interest rates and demographic factors drove up the Plan's liabilities. These factors converged to create an unfunded liability.

As a result of HOOPP's advocacy efforts with other major Ontario pension plans regarding federal limits on excess surplus, new rules have been introduced 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 buildup of larger surplus in the future, which will enable HOOPP to better manage the cost of the Plan through periods of adverse experience.

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Plan Funding

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

At least annually, HOOPP works closely with its actuarial adviser to prepare financial estimates that are projected over many years. The information and analysis generated by this work helps HOOPP's Board of Trustees make decisions about the Plan's price and benefits.

As part of its longer-term strategy, the Board took significant steps in 2005 to integrate funding and investment management at HOOPP.

As an initial step, the Board approved a new funding policy. This policy, which defines HOOPP's risk tolerance and objectives, gives the Board a framework for making informed funding decisions. More specifically, it sets "trigger points" for considering adjustments to contribution levels and/or benefits.

The Board also updated its investment policies later in the year with an eye to forging a stronger link between funding and investment management. The updated policies broaden HOOPP's investment opportunities in fixed income assets, which historically were quite limited in scope, and may increase its flexibility in managing the Plan's risk relative to liabilities. The policies also expand HOOPP's potential to add value through new investment mandates that complement existing activity and control the risk associated with active management.

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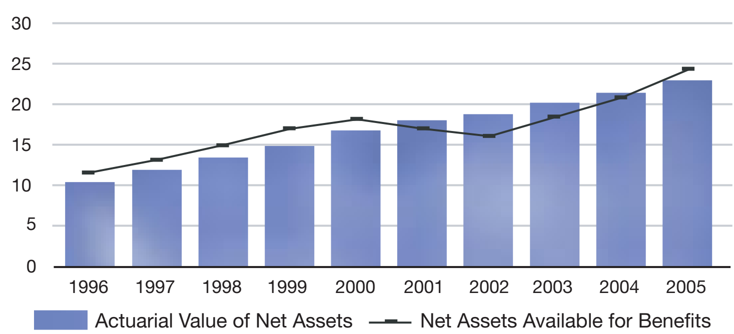
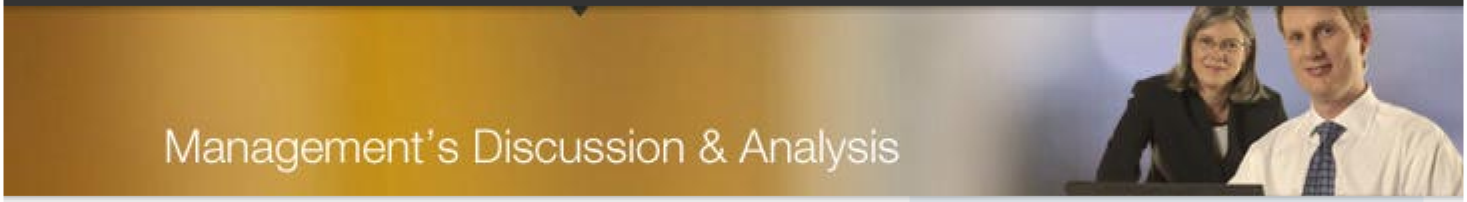
Valuing the Assets

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 longer-term investment returns, while avoiding short-term reactions to market events.

ACTUARIAL VALUE OF NET ASSETS vs. NET ASSETS AVAILABLE FOR BENEFITS
($ billions)





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Valuing the Liabilities

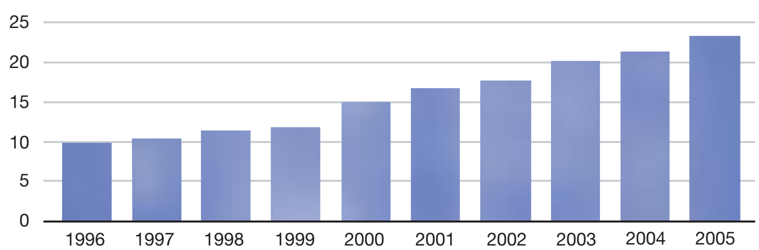
The value of HOOPP's future liabilities is calculated using the projected accrued benefit method, prorated on service. This method determines the actuarial present value of pension benefits based on service accrued as of the reporting date. It also reflects anticipated events, such as salary increases,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

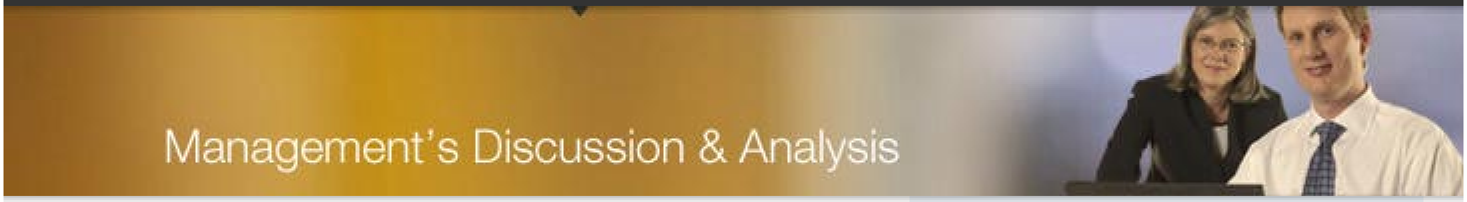
To determine liabilities, HOOPP must forecast future economic, market and demographic conditions. Based on these forecasts, certain assumptions are made about various factors, such as:

- when members will retire or terminate
- the life expectancy of members
- future interest and inflation rates
- future salary increases in the health care field

HOOPP annually reviews its assumptions and economic forecasts for appropriateness in the current environment.

LIABILITIES
($ billions)





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Funding Risk Management

Determining the Surplus/Unfunded Liability

The actuarial surplus or unfunded liability is determined by deducting the present value of accrued liabilities from the actuarial value of assets as of a specific date. To manage the Plan's financial position effectively – 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's unfunded liability increased to $566 million at year end 2005 from an unfunded liability of $227 million at year end 2004. This growth in the unfunded liability is largely attributable to asset smoothing, which takes into account market gains and losses from earlier years.

The unfunded liability should begin to decrease over the next few years – provided economic and demographic experience remains stable, and investment returns stay on track.

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Funding Risk Management

Contributions vs. Pension Benefits

Contributions: Contributions for the year totalled $1,281 million, compared to $1,162 million in 2004, an increase of $119 million (or 10 per cent).

The increase is due to both:

- salary increases in the health care industry
- membership growth

Overall, employers contributed 54 per cent of the total, while members contributed 43 per cent. The remainder came from transfers into the Plan.

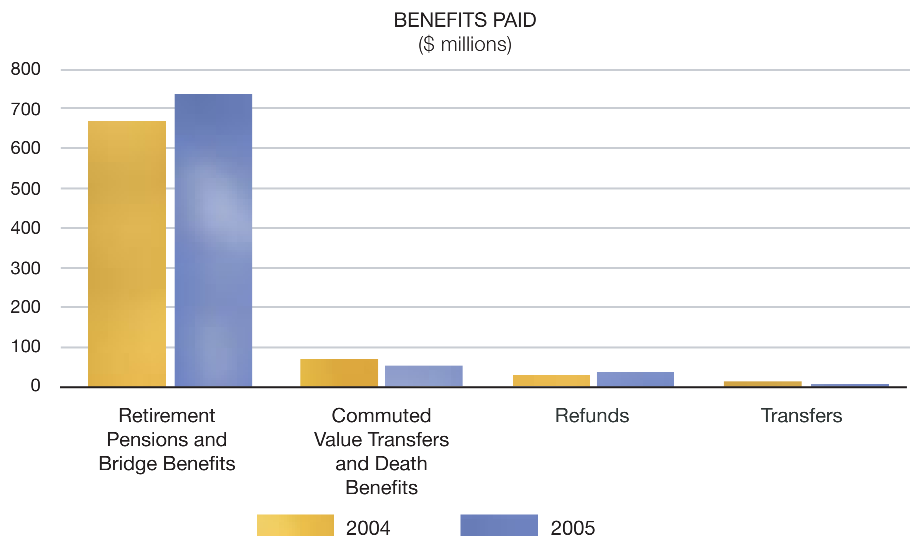
Pensions and Benefits Paid: Pension benefit payments rose to $856 million in 2005, up $49 million – or six per cent – from $807 million in 2004. Pension payments accounted for approximately eight per cent of the overall increase, while overall lump-sum payments, such as commuted value transfers, death benefits, refunds and transfers to other plans reduced the overall amount by two per cent.

The increase in pension payments is attributable to three key factors:

- the number of HOOPP pensioners continued to grow; there were 58,600 pensioners in 2005, compared to 56,100 in 2004 – an increase of almost five per cent
- the pensions paid to new pensioners were, on average, higher than those paid to existing retirees
- there was a 1.59 per cent cost of living adjustment for 2004, resulting in higher monthly pensions starting April 1, 2005

Pension payments are expected to continue a slight upward trend for the foreseeable future as pensioner numbers grow and both salary increases and inflation-related increases push the average monthly pension higher. However, this will be offset by the phasing out of the temporary early retirement transition benefit (the last payments will be made in 2015).

Of the total payments made in 2005, 87 per cent were retirement pension payments, seven per cent were commuted value transfers (including death benefits) and five per cent were refunds of contributions. The remaining payments were the result of transfers to other pension plans.



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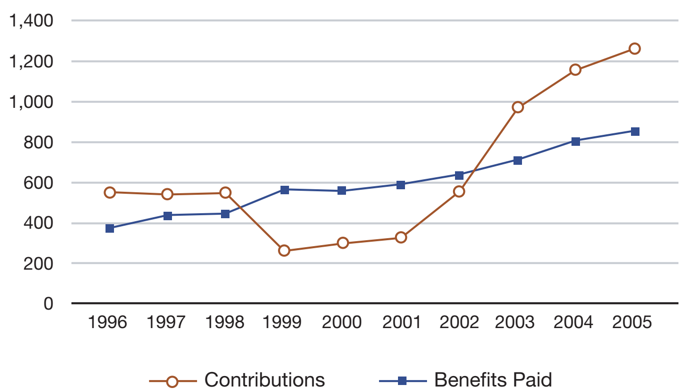
Net Pension Cash Flow

In 2005, net pension cash flow was positive for the third consecutive year, totalling $425 million, compared to $355 million in 2004. (Net pension cash flow is equal to the contributions and benefit transfers flowing into the Plan less the benefit payments and transfers flowing out of the Plan.)

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

CONTRIBUTIONS vs. BENEFITS PAID
($ millions)



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Investment Management

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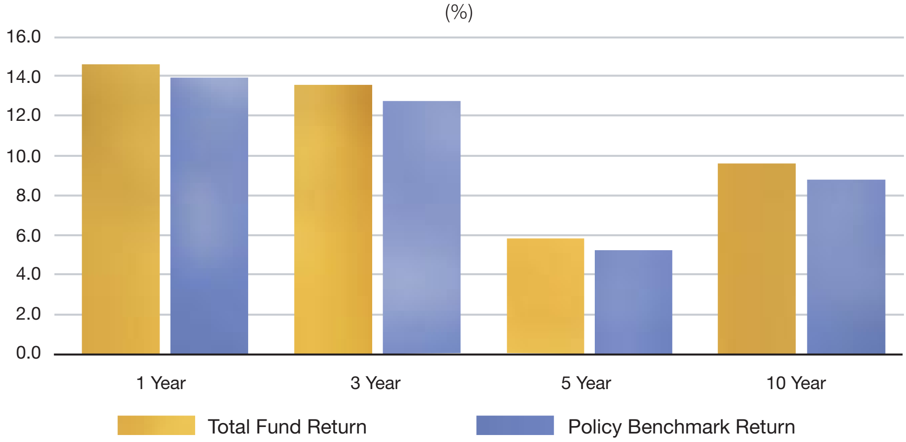
Introduction

2005 proved to be a strong year for investing in terms of both absolute and relative return, and with HOOPP exceeding its investment benchmarks for the eighth straight year. Overall, the total Fund provided a 14.66 per cent return, exceeding the policy benchmark by 69 basis points.

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.

TOTAL FUND vs. POLICY BENCHMARK RETURNS
(%)



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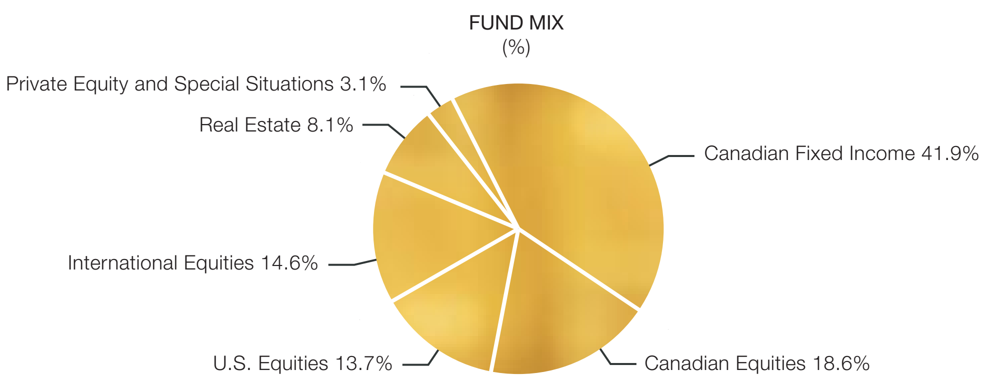
Asset Mix Strategy

Investment diversification among asset classes provides more stable returns 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. During 2005, the federal government removed a 30 per cent foreign content limit for Canadian pension plans. Removal of the limit eliminated a long-standing hurdle for investment diversification and prompted changes to HOOPP's investment policy. These changes now permit non-Canadian investments in the bond and real estate portfolios.

For most of 2005, HOOPP maintained an overweight position in equity markets and an underweight position in fixed income. The former enhanced Fund returns, while the latter detracted from performance.

The Fund ended the year with the portfolio mix very close to the 60/40 ratio, with a slight underweight position in equities, and a slight overweight position in money market securities.



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Derivatives

As part of its investment operations, HOOPP employs a number of derivative strategies designed to:

- manage foreign exchange exposures
- manage credit and market risk within other portfolios
- enhance investment returns
- implement asset mix and rebalancing decisions

Derivatives may have significantly lower transaction costs, as well as potentially greater liquidity, than the underlying securities. For example, by using derivatives, HOOPP can execute asset mix changes more efficiently and cost-effectively than if it were to buy or sell the underlying securities.

In anticipation of changing market conditions, HOOPP implemented various defensive strategies using derivatives in 2005, in addition to the defensive techniques used within the traditional portfolios. These strategies are expected to perform well under those economic conditions where traditional risk-assuming investments would not do as well.

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Currency Hedging

Currency hedging is used to offset a potential change in the value of a foreign investment due to currency fluctuations. At HOOPP, approximately 30 per cent of the total Fund is invested in foreign securities, creating foreign currency exposure. To reduce currency risk, 50 per cent of this exposure is hedged back into Canadian dollars through the use of currency derivatives.

In October 2005, HOOPP changed its investment policy, adding the ability to invest in foreign bonds and real estate, as well as foreign equities. HOOPP's currency policy was amended to reflect the broader mandate. Under the revised currency policy:

- 50 per cent of the Fund's foreign equity exposure, including foreign real estate, is hedged back into Canadian dollars
- 100 per cent of the Fund's foreign fixed income exposure is hedged back into Canadian dollars

The currency policy was also amended to allow for active currency management. Up to 25 per cent of the Fund's foreign currency exposure may now be actively managed – subject to specified risk parameters. HOOPP is currently formulating an active management strategy for implementation in 2006.

HOOPP's currency policy had a significant, positive impact on portfolio returns in 2005 as the currency of several countries, particularly the U.S., declined relative to the Canadian dollar.

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Real Estate | Private Equity and Special Situations | Fixed Income
Canadian Universe and Canadian Long Bonds | Real Return Bonds
Short-Term Money Market Securities and Cash

Canadian Equities

HOOPP's internal portfolio return was 27.37 per cent, exceeding the benchmark by 108 basis points. By contrast, the S&P/TSX60 Total Return Index finished the year up 26.29 per cent.

Despite early concerns that the North American economy might slow in 2005, Canadian markets roared ahead, driven by strong demand for energy and commodities. HOOPP's portfolio benefited from careful stock selection, particularly in the energy, commodities and financial sectors.

While the market moved higher during the fourth quarter of 2005, the portfolio assumed a slightly more defensive position in anticipation of lower stock valuations and a slower North American economy in 2006. That said, the Fund remains overweight in resource stocks – in particular oil, gas and gold – in anticipation of strong commodity demand from Asian economies.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Canadian equities – internal	27.37	26.29	S&P/TSX60 Total Return Index

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U.S. Equities

(all performance numbers are in Canadian dollars)

The Standard & Poor's 500 was up for a third consecutive year in 2005. At the same time, the S&P 500 returned a disappointing 4.91 per cent in U.S. dollar terms, with most of that coming in the fourth quarter. Once the weaker U.S. dollar was taken into account, this increase translated into a modest gain for Canadian investors of just 1.43 per cent.

For much of 2005, HOOPP's U.S. equities portfolio assumed a somewhat defensive posture in anticipation of lower markets and a stronger Canadian dollar. Nevertheless, HOOPP's internally managed portfolio (which represents 13.5 per cent of the total Fund) returned 5.85 per cent in U.S. dollars (2.36 per cent in Canadian dollar terms), outpacing the benchmark by 93 basis points. Value-added returns were achieved primarily through prudent stock selection, with the most significant gains coming from the energy, gold and commodity sectors.

Underperformance by HOOPP's two external managers for U.S. mid-cap equities (which represent 1.5 per cent of the total Fund) is largely attributable to their underweight position in energy stocks. Stock selections in the pharmaceutical and automotive sectors were also a factor, although these negatives were offset somewhat by favourable selections in the consumer discretionary, financial and consumer durable sectors.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
U.S. equities – internal	2.36	1.43	S&P 500 Total Return Index
U.S. mid-cap equities – external	4.04	8.91	Russell Mid-Cap Total Return Index

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International Equities

(all performance numbers are in Canadian dollars)

Overall, global economic performance surpassed expectations. All major markets finished the year on a positive note, with emerging markets outpacing developed markets. Overcoming a lacklustre start to the year, Japan's markets finished the year on a high note in the wake of positive domestic news. Continental Europe also performed well, while the U.K. lagged.

Despite positive returns in local currency, overall gains were dampened by currency movements due to the relative strength of the Canadian dollar.

The six external managers responsible for managing international and global equities on behalf of HOOPP provided a total return of 11.64 per cent, beating the benchmark by 53 basis points. This outperformance was partly attributable to managers that had an overweight position in Japanese companies. Managers with a growth style outpaced managers with a value style.

Heading into 2006, global economic growth and corporate earnings are expected to moderate.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
International equities – external	11.64	11.11	Morgan Stanley Capital International All Country World Index Blend Total Return Index

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Real Estate

HOOPP's real estate portfolio had an outstanding year in 2005 – its best ever. With a total return of 28.77 per cent, the portfolio outperformed its benchmark by 10.52 per cent (or 1,052 basis points).

Portfolio returns were attributable to increased occupancy levels, higher tenant renewal rates, gains from the sale of assets and significant unrealized valuation gains on held properties. The portfolio also benefited from a modest overweight position in Western Canada where strong economic growth continued to propel real estate markets.

Strength in the market has made it increasingly difficult to acquire income-producing properties that meet HOOPP's disciplined risk-return standards. As a result, 2005 was a modest year for new acquisitions with purchases limited to five industrial buildings in Toronto, Ottawa and Montreal.

HOOPP has placed continued focus on a well-established and successful development program. During 2005, developmental progress was made with:

- industrial properties in Oakville, Calgary and Vancouver
- an office building in downtown Calgary (a joint-venture project scheduled for completion in March 2007)

First phase development of a large industrial site purchased in Milton is scheduled to start in 2006.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Real estate	28.77	18.25	Investment Property Databank (IPD)

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Private Equity and Special Situations

The private equity and special situations portfolio continues to generate exceptional, value-added results. The portfolio returned 18.15 per cent for the year, outperforming its benchmark by 1,065 basis points, or 10.65 per cent.

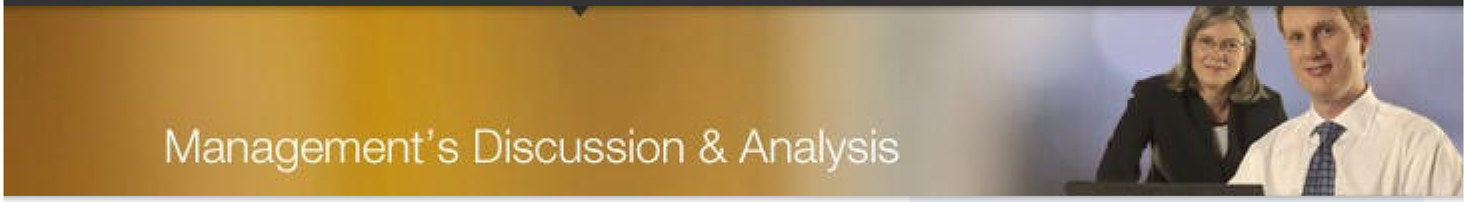
Returns before net foreign exchange impacts were approximately 25 per cent. Net foreign exchange impacts are hedged outside of this portfolio under HOOPP's currency hedging policy. The long-term returns for private equities and special situation investments continue to significantly exceed expectations.

At December 31, 2005, the fair value of the portfolio was $752 million, with additional unfunded commitments to various limited partnerships of $439 million. During the year, $160 million was generated through investment realizations, while cash drawdowns for new investments were $182 million.

The private equities and special situations portfolio has been growing steadily 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. HOOPP's direct investments have been important contributors to the overall success of this portfolio. 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	18.15	7.50	Total Plan Funding Target



Julie Cays, Vice-President, External Managers
Dan Lavallee, Portfolio Manager, North American Equities team

Major Portfolio Details

Canadian Equities | U.S. Equities | International Equities
Real Estate | Private Equity and Special Situations | Fixed Income
Canadian Universe and Canadian Long Bonds | Real Return Bonds
Short-Term Money Market Securities and Cash

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

Management's Discussion & Analysis

Julie Cays, Vice-President, External Managers
Dan Lavallee, Portfolio Manager,
North American Equities team

Major Portfolio Details

Canadian Equities | U.S. Equities | International Equities
Real Estate | Private Equity and Special Situations | Fixed Income
Canadian Universe and Canadian Long Bonds | Real Return Bonds
Short-Term Money Market Securities and Cash

Canadian Universe and Canadian Long Bonds

Due to a focus on capital preservation going into 2005, HOOPP maintained a defensive, underweight position in longer-term bonds.

As expected during 2005, labour markets remained strong, commodity and equity prices moved higher, inflationary pressures built and banks raised short-term lending rates. Despite these developments, Canadian long bond yields moved lower – confounding conventional wisdom.

Although HOOPP achieved reasonable returns in 2005, performance relative to the benchmarks suffered. The universe mandate provided a 5.66 per cent return for the year, underperforming the benchmark by 80 basis points. The long bond mandate provided a 12.84 per cent return, underperforming the benchmark by 100 basis points.

Heading into 2006, short-term capital market reaction to inflationary pressures must be contrasted with the consequences of an anticipated economic slowdown. Accordingly, HOOPP has shifted its portfolio to a longer duration stance, believing that a significant increase in interest rates is unlikely.

Asset Category	HOOPP Return (net of fees) %	Benchmark Return %	Benchmark
Canadian bonds	5.66	6.46	SCM Universe Bond Index
Long bonds	12.84	13.84	SCM Long Bond Index

Management's Discussion & Analysis

Julie Cays, Vice-President, External Managers
Dan Lavallee, Portfolio Manager,
North American Equities team

Major Portfolio Details

Canadian Equities | U.S. Equities | International Equities
Real Estate | Private Equity and Special Situations | Fixed Income
Canadian Universe and Canadian Long Bonds | Real Return Bonds
Short-Term Money Market Securities and Cash

Real Return Bonds

Real return bonds provided a 12.83 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	12.83	12.83	Equal to portfolio return

Management's Discussion & Analysis

Julie Cays, Vice-President, External Managers
Dan Lavallee, Portfolio Manager,
North American Equities team

Major Portfolio Details

Canadian Equities | U.S. Equities | International Equities
Real Estate | Private Equity and Special Situations | Fixed Income
Canadian Universe and Canadian Long Bonds | Real Return Bonds
Short-Term Money Market Securities and Cash

Short-Term Money Market Securities and Cash

HOOPP maintains a money market portfolio both in support of its liquidity needs and as an asset to back certain derivative strategies.

Returns on money market assets that are used to support liquidity needs are benchmarked against the SCM 91-Day T-Bill Index. Returns on money market assets that are used to back derivatives are an integral part of the returns for that derivative strategy. The total returns for these strategies (derivative spread plus return of money market backing asset) are measured against the appropriate benchmark for the investment strategies being replicated.

Due to market forces, the Bank of Canada increased short-term interest rates in 2005. In anticipation of this development, HOOPP maintained a shorter-than-average term to maturity throughout the period.

Management's Discussion & Analysis

Julie Cays, Vice-President, External Managers
Dan Lavallee, Portfolio Manager, North American Equities team

Plan and Investment Expenses

Introduction | Cost per Member

Introduction

Total expenses were $85 million in 2005, compared to $70 million in 2004, representing an increase of 21 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 for 2005 were $42 million, up approximately $7 million, compared to 2004. The increase is attributable to three key factors:

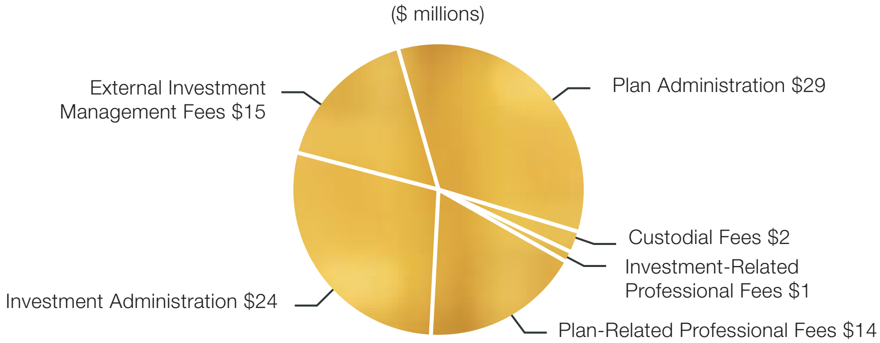
- higher external management fees, which are directly related to the higher market values on HOOPP's international investments
- an increase in incentive compensation paid for investment professionals, which is derived from the Fund's strong investment performance
- project spending on the development of investment-related management systems

On the Plan side of the business, HOOPP incurred expenses of $43 million, an increase of $8 million over 2004. This increase was due primarily to professional (mostly contract) fees related to a multi-year, client service delivery initiative. Over time, this initiative will:

- lead to improved service levels
- provide more web-based, self-service tools for members, pensioners and employers
- create cost-controlling efficiencies

The first major deliverable of this initiative – a new pension administration system – was implemented in 2005. Although transition to the new system is taking longer than anticipated, it will, in due course, provide a solid platform for future service improvements. In 2005, HOOPP spent approximately $15 million on this long-term initiative.

PLAN AND INVESTMENT EXPENSES
($ millions)



Management's Discussion & Analysis

Julie Cays, Vice-President, External Managers
Dan Lavallee, Portfolio Manager, North American Equities team

Plan and Investment Expenses

Introduction | Cost per Member

Cost per Member

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

Tracking and analyzing CPM allows HOOPP to continually evaluate its experience over time.

The chart below shows HOOPP's CPM since 2001:

Year	2001	2002	2003	2004	2005
CPM	$144	$140	$161	$171	$195

The increasing trend in cost is primarily the result of a significant investment in a multi-year client service delivery initiative, as well as inflationary increases.

Based on the experience of other large pension plans, HOOPP expects the CPM to stabilize and decline as the efficiencies of its client service delivery initiative are realized over the next few years.

Investment Operating Costs

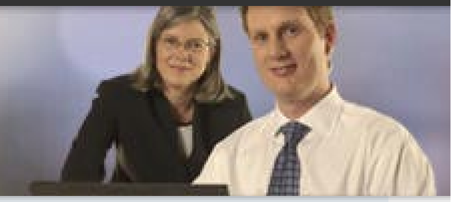
HOOPP uses investment operating costs (IOC) to measure the efficiency of its investment processes. It is a common measure in the investment industry.

The chart below shows HOOPP's IOC since 2001, measured in basis points (bps):

Year	2001	2002	2003	2004	2005
IOC	19.0 bps	20.7 bps	16.4 bps	16.6 bps	17.0 bps

The 2005 IOC increased slightly over the previous year. Even though 2005 investment expenses have increased by $7 million, the impact on IOC was minimized by the corresponding increase in the Fund value.

Management's Discussion & Analysis



Julie Cays, Vice-President, External Managers
Dan Lavallee, Portfolio Manager, North American Equities team

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 2005:

- A new funding policy was approved by the Board. This policy, which defines risk tolerance and objectives in terms of the Plan's funded status, sets "trigger points" for considering adjustments to contributions and/or benefits.

- Investment policies were updated to make more explicit the link between funding and investment management. Among other things, the updated policies broaden HOOPP's investment opportunities in fixed income assets, which historically were quite limited in scope, and the policies may increase flexibility in managing the Plan's risk relative to liabilities.

- HOOPP continued with the development and implementation of an investment data warehouse and performance measurement and attribution system. The new Eagle PACE system provides more timely and accurate reporting information to support investment decision-making.

Management's Discussion & Analysis

Julie Cays, Vice-President, External Managers
Dan Lavallee, Portfolio Manager,
North American Equities team

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 members, pensioners and other 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 2005, HOOPP continued to work with other large Ontario pension plans to advocate changes to Ontario's Pension Benefits Act and related regulations. In particular, the plans would like to see the rules under the Act relaxed to provide greater funding flexibility. Increased flexibility would give plans more leeway to manage price volatility while preserving benefit security.

HOOPP endorses recent Ontario government proposals to introduce special rules to aid in the practical operational aspects of jointly sponsored pension plans and will continue advocacy efforts in 2006.

HOOPP continues to be a member of the Canadian Coalition for Good Governance (CCGG), a group founded in 2002 by several of Canada's largest institutional investment managers and pension funds. The mission of the CCGG is to:

- represent Canadian institutional shareholders through the promotion of best practices in corporate governance
- align the interest of boards and management with those of the shareholder

During 2005, strong progress was made in encouraging Canadian corporations to improve their board structures – in terms of separating the Chair and CEO roles, and increasing the independence of directors.

Management's Discussion & Analysis

Julie Cays, Vice-President, External Managers
Dan Lavallee, Portfolio Manager,
North American Equities team

Outlook

On the investment front, HOOPP anticipates that the North American economy, particularly the U.S. economy, may enter a period of sub-par growth – or even recession – during 2006. Factors contributing to this deceleration would include higher interest rates, diminishing stimulus from earlier tax cuts, higher energy prices and a tapped-out consumer.

A combination of weak profit growth and high equity valuations suggest market weakness ahead. With the start of the current "bull" market pegged at October 2002, it seems probable that markets will peak in 2006 before sinking to a cyclical low. This low would represent the start of a new market cycle, presenting the potential for new investment opportunities.

Overall, HOOPP believes that Canada's commodity-based economy is better positioned to ride out a market downturn than the U.S. economy. However, the strong correlation between the two economies means that increased caution with respect to the Canadian market is also warranted.

HOOPP's fixed income portfolios have taken a cautious stance with regard to credit exposures and have implemented hedging strategies on HOOPP's equity portfolios to protect the Fund against a market downturn.

Resource stocks are expected to continue to benefit from strong international demand for commodities, particularly from China. Further weakness in the U.S. dollar should also benefit gold stocks, while rising interest rates would hurt interest-sensitive sectors, including utilities and consumer discretionary sectors. HOOPP's North American equity portfolios are modestly overweight in gold, energy and consumer staples heading into 2006.

On the funding side, HOOPP's Board of Trustees will continue to monitor and manage the Plan's funding status, through the framework established by the new funding policy. The Board will continue to make informed, forward-thinking decisions which integrate investment policy with funding objectives.

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 & Analysis

Julie Cays, Vice-President, External Managers
Dan Lavallee, Portfolio Manager,
North American Equities team

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.

Hedging
This is the temporary purchase or sale of a contract calling for the future delivery of a specific security (such as commodities, bonds or equities) at an agreed -upon price. Hedging is used to offset a potential change in the value of the underlying security.

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.$1 billion to U.S.$18 billion. The average market capitalization is approximately U.S.$7.5 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.

SCM Universe Bond Index
This index is designed to measure the total return of the Canadian bond market. It includes approximately 750 bonds that are representative of the Canadian market based on issuer, quality and term. The bonds included in the index range in term from one to 30 years.

SCM Long Bond Index
This index is designed to measure total return for the Canadian long-term bond market, covering approximately 250 bonds with a maturity greater than 10 years.

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 benefits.

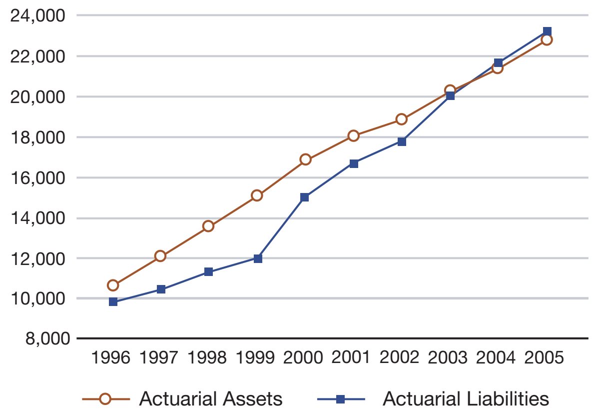
Financials

Highlights

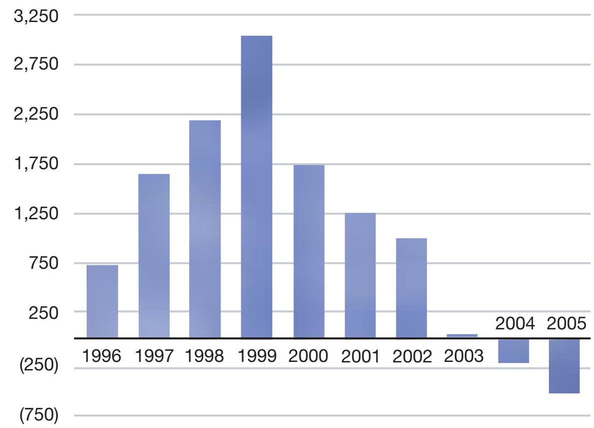
HOOPP's 2002 actuarial projections revealed that an unfunded liability would emerge within a few years. In anticipation of this, HOOPP's Board moved quickly. It ended contribution rate subsidies earlier than expected. It also conducted an extensive review of the Plan's long-term funding risks and subsequently announced a number of Plan changes that took effect in 2006.

Read more about Funding Risk Management...

ACTUARIAL ASSETS AND LIABILITIES
($ millions)



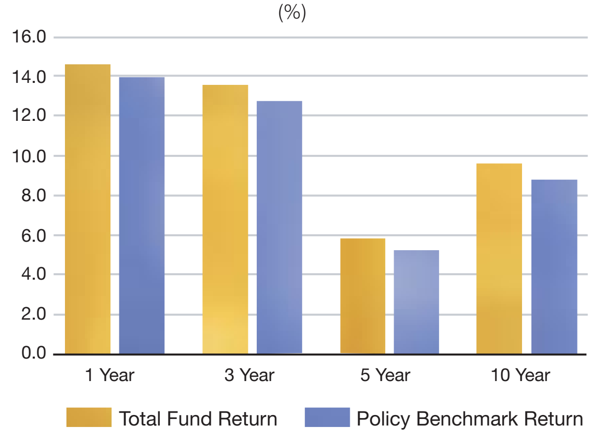
FINANCIAL STATEMENT SURPLUS / (DEFICIT)
($ millions)



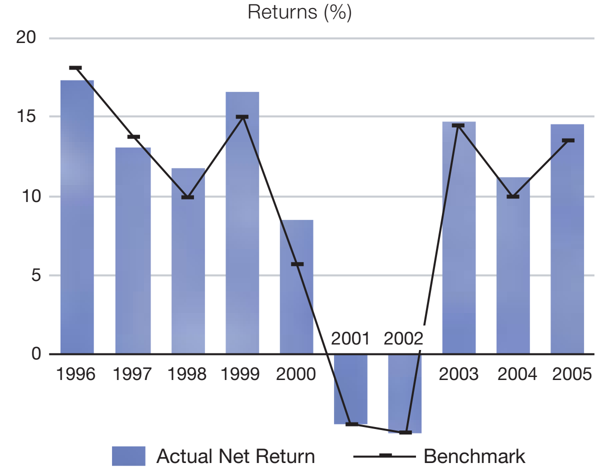
2005 proved to be a strong year for investing in terms of both absolute and relative return, and with HOOPP exceeding its investment benchmarks for the eighth straight year. Overall, the total Fund provided a 14.66 per cent return, exceeding the policy benchmark by 69 basis points.

Read more about Major Portfolio Details...

TOTAL FUND vs. POLICY BENCHMARK RETURNS
(%)



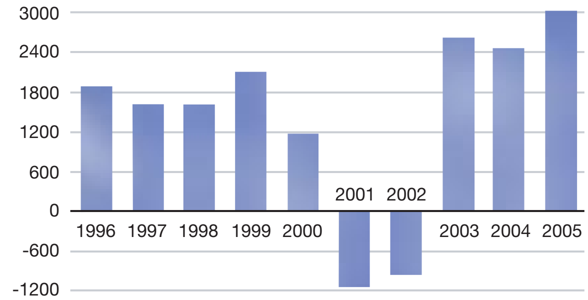
ACTUAL NET RETURN vs. BENCHMARK
Returns (%)



As a result of the Board's quick action, HOOPP has been able to curb growth of the unfunded liability. In fact, the unfunded liability should begin to decrease over the next few years – provided economic and demographic experience remains stable and investment returns stay on track.
Read more about Funding Risk Management...

($ Millions)	**As at Dec. 31, 2005**	**As at Dec. 31, 2004**	**$ Change**
Net assets	**$ 24,512**	$ 21,077	$ 3,435
Actuarial asset value adjustment [note 1(e)]	**(1,659)**	231	(1,890)
Actuarial value of net assets	**22,853**	21,308	1,545
Accrued pension benefits	**23,419**	21,535	1,884
Surplus/(Unfunded liability) [note 9(a)]	**(566)**	(227)	(339)

CHANGE IN NET ASSETS
($ millions)



Consolidated Financial Statements

As at December 31, 2005

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Net Assets and Accrued Benefits and Deficit/Surplus | Changes in Net Assets
Changes in Accrued Benefits | Changes in Deficit/Surplus | Notes

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 3, 2006

Consolidated Financial Statements

As at December 31, 2005

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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, 2005, 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, 2005 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 3, 2006

Consolidated Financial Statements

As at December 31, 2005

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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, 2005. 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, 2004 with projection based on emerging 2005 experience through to December 31, 2005
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements
- 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 actuarial assumptions since the previous valuation for the purpose of the Plan's consolidated financial statements at December 31, 2004 as described in the notes to the consolidated financial statements. The Plan provisions are unchanged from those reflected in the previous valuation. 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, 2005 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 3, 2006

Consolidated Financial Statements

As at December 31, 2005

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

As at December 31

($ Millions)	**2005**	**2004**
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments [note 2]	**$ 35,977**	$ 26,203
Amounts receivable [note 4]	**191**	153
Total assets	**36,168**	26,356
Liabilities		
Investment-related liabilities [note 2]	**11,632**	5,262
Other liabilities	**24**	17
Total liabilities	**11,656**	5,279
Net assets available for benefits	**24,512**	21,077
Actuarial asset value adjustment [note 1(e)]	**(1,659)**	231
Actuarial value of net assets available for benefits	**$ 22,853**	$ 21,308
ACCRUED PENSION BENEFITS AND DEFICIT/SURPLUS		
Accrued pension benefits [note 9(a)]	**$ 23,419**	$ 21,535
(Deficit)/surplus	**(566)**	(227)
Accrued pension benefits and deficit/surplus	**$ 22,853**	$ 21,308

See Description of Plan and accompanying notes to financial statements

On Behalf of the Board of Trustees

Dan Anderson
Chair of the Board

Kelly Butt
Vice-Chair of the Board

David Alexander
Chair, Audit & Finance Committee

Consolidated Financial Statements

As at December 31, 2005

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Consolidated Statement of Changes in Net Assets Available for Benefits

Year ended December 31

($ Millions)	**2005**	**2004**
CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS		
Increase in net assets		
Net investment income [note 5]	**$ 3,095**	$ 2,135
Contributions [note 6]	**1,281**	1,162
Total increase	**4,376**	3,297
Decrease in net assets		
Benefits [note 7]	**856**	807
Investment and Plan administration expenses [note 8]	**85**	70
Total decrease	**941**	877
Net increase in net assets available for benefits	**3,435**	2,420
Net assets available for benefits, beginning of year	**21,077**	18,657
Net assets available for benefits, end of year	**$ 24,512**	**$** 21,077

See Description of Plan and accompanying notes to financial statements

Consolidated Financial Statements

As at December 31, 2005

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Changes in Accrued Benefits | Changes in Deficit/Surplus | Notes

Consolidated Statement of Changes in Accrued Pension Benefits

Year ended December 31

($ Millions)	2005	2004
CHANGES IN ACCRUED PENSION BENEFITS		
Accrued pension benefits, beginning of year	$ 21,535	$ 20,113
Increase in accrued pension benefits		
Interest on accrued benefits	1,491	1,354
Benefits accrued	1,213	1,126
Estimated experience loss/(gain) [note 9(e)]	200	(35)
Total increase	2,904	2,445
Decrease in accrued pension benefits		
Benefits paid [note 7]	856	807
Changes in actuarial assumptions [note 9(c)]	70	–
Changes in Plan provisions	–	128
Data adjustment experience gain [note 9(d)]	94	88
Total decrease	1,020	1,023
Net increase in accrued pension benefits	1,884	1,422
Accrued pension benefits, end of year	$ 23,419	$ 21,535

See Description of Plan and accompanying notes to financial statements

Consolidated Financial Statements

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Consolidated Statement of Changes in Deficit/Surplus

Year ended December 31

($ Millions)	**2005**	**2004**
CHANGES IN DEFICIT/SURPLUS		
(Deficit)/surplus, beginning of year	**$ (227)**	$ 15
Increase in net assets available for benefits	**3,435**	2,420
Decrease in actuarial asset value adjustment	**(1,890)**	(1,240)
Increase in actuarial value of net assets available for benefits	**1,545**	1,180
Net increase in accrued pension benefits	**(1,884)**	(1,422)
Deficit, end of year	**$ (566)**	$ (227)

See Description of Plan and accompanying notes to financial statements

Consolidated Financial Statements

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Notes to Consolidated Financial Statements

for the year ended December 31, 2005

Choose a note

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 2005, members contributed 6.9 per cent of their annualized earnings up to the 2005 year's maximum pensionable earnings (YMPE), and 9.2 per cent of their annualized earnings above the 2005 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 126.0 per cent of member contributions during the period. Contribution rates will remain unchanged for 2006.

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. Regardless of whether disability occurs before 2006 or after 2005, disabled members who elect against receiving a disability pension are entitled to continued accrual of benefits under the Plan.

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.

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 for all service earned, up to 100 per cent of the previous year's increase in CPI, depending on the Plan's financial status as well as other factors.

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.

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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 investment 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, interest rate swaps, equity and bond option contracts, and credit default swaps are recorded at fair value using year-end market prices. 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. 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.

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, 2005. The valuation uses the projected accrued benefit actuarial cost method prorated 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 of net assets 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 decrease the net assets available for benefits by $1,659 million [2004: increase $231 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.

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.

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, accrued pension benefits and related disclosures. Actual results could differ from those estimates.

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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. The nominal long-term return target of the Plan during the year 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)	2005		2004	
	Fair Value	Cost	Fair Value	Cost
Fixed income				
Cash and short-term money market securities	$ 1,299	$ 1,299	$ 1,824	$ 1,824
Lending collateral investments	424	424	1,468	1,468
Bonds				
Canadian	21,269	20,530	13,299	12,636
Other global	1,686	1,819	389	434
	24,678	24,072	16,980	16,362
Equities and equity type				
Canadian	901	813	657	555
United States	2,822	2,824	2,591	2,615
Other global	2,289	2,024	2,173	2,014
Real estate	2,595	2,170	2,231	2,071
Private equity and special situations	755	770	622	674
	9,362	8,601	8,274	7,929
Investment-related receivables				
Receivables from derivative financial instruments	1,295	–	639	–
Pending trades	366	366	124	124
Accrued investment income	276	276	186	186
	1,937	642	949	310
TOTAL INVESTMENTS	$ 35,977	$ 33,315	$ 26,203	$ 24,601
Investment-related liabilities				
Obligations related to securities sold short	(9,288)	(8,026)	(2,316)	(2,160)
Accrued liabilities for derivative financial instruments	(826)	–	(625)	(28)
Real estate mortgages	(634)	(631)	(649)	(649)
Obligations related to securities lending	(424)	(424)	(1,468)	(1,468)
Pending trades	(422)	(422)	(190)	(190)
Accrued liabilities	(38)	(38)	(14)	(14)
	(11,632)	(9,541)	(5,262)	(4,509)
NET INVESTMENTS	$ 24,345	$ 23,774	$ 20,941	$ 20,092

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. As permitted, the Plan uses derivative instruments to efficiently manage its market and credit exposures, and engages in transactions to enhance returns without the use of leverage.

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.

The remaining terms to contractual maturity or repricing dates, whichever dates are earlier, of interest-bearing investments (including those which back derivative instruments) as at December 31 are as follows:

($ Millions, except %)	2005					2004	
Interest-bearing Instruments	Within 1 Year	1 to 5 Years	Over 5 Years	Total	Effective Yield	Total	Effective Yield
Short-term securities	$ 1,578	$ –	$ –	$ 1,578	3.27%	$ 2,044	2.52%
Government of Canada bonds	516	1,728	2,333	4,577	3.97%	3,804	3.67%
Provincial and municipal bonds	1,303	5,094	2,407	8,804	3.71%	5,847	3.68%
Real return bonds	–	–	1,193	1,193	1.12%	1,019	1.53%
Corporate bonds	2,952	2,661	1,082	6,695	5.20%	3,787	3.42%
Other global bonds	545	1,034	107	1,686	6.55%	389	3.01%
	$ 6,894	$ 10,517	$ 7,122	$ 24,533	4.21%	$ 16,890	3.33%

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 that the Plan's foreign content on equity investments will be approximately 50 per cent hedged, fixed income investments will be 100 per cent hedged and the Plan is also required to establish essential currency exposures on derivative overlay positions, which are accomplished 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)	2005			2004
Currency	Currency Exposure	Net Foreign Currency Hedge	Net Currency Exposure	Net Currency Exposure
Canadian dollar	$ 17,007	$ 3,475	$ 20,552	$ 17,475
United States dollar	3,708	(1,717)	1,991	1,862
Euro	1,722	(1,160)	562	502
Other European currencies	783	(268)	515	477
Japanese yen	606	(301)	305	273
Other Pacific currencies	166	(28)	138	127
Emerging market currencies	283	(1)	282	225
	$ 24,345	$ –	$ 24,345	$ 20,941

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 credit ratings and 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 $1,689 million [2004: $1,975 million]. Collateral received associated with securities lending totalled $1,828 million [2004: $2,032 million] comprised of securities worth $1,404 million and cash of $424 million.

vi. Securities Borrowing

The Plan borrows securities from financial institutions for securities that have been sold short for yield enhancement strategies. Such sales reduce the Plan's effective exposure to issuers and are within the Plan's policy to not result in an overall net short position with any issuer. Fixed income securities deposited or pledged with various financial institutions as collateral or margin totalled $9,817 million [2004: $2,484 million] for securities borrowing, $247 million [2004: $131 million] for futures and $282 million [2004: $169 million] for other derivative obligations.

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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.

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 for yield enhancement purposes and also to adjust exposures to particular indices without directly purchasing or selling the securities which comprise the index.

iv. Interest Rate Swaps

An interest rate swap (including cross currency swap) is a contractual agreement between two parties to exchange a series of fixed or floating cash flows in the same currency or differenct currencies based on the notional amount. Interest rate swaps are used to manage interest rate exposures and cross currency swaps are used to manage both interest rate and currency exposures.

v. Credit Default Swaps

A credit default swap is a contractual agreement between two parties where the buyer of the protection pays a premium to the seller in exchange for payment of the notional amount from the seller against delivery of the deliverable debt securities if a credit event such as a default occurs. Instead of physical settlement, credit default swaps can also be cash settled. Credit default swaps are used to promote credit diversification and for risk mitigation.

vi. 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.

vii. Variance Swaps

A variance swap is a contractual agreement between two parties to exchange cash flows based on the variance of a specified underlying asset during a certain time period.

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 to enhance equity and fixed income portfolio returns, and to manage foreign content exposures. As a risk management tool, derivatives are used to manage the credit and 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 within specified concentration limits.

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 negligible, 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)	2005					2004				
Derivative Financial Instruments	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 exchange forward contracts	$ 2,805	$ 2,805	$ 35.6	$ (10.8)	$ 35.6	$ 1,989	$ 1,989	$ 35.2	$ (23.1)	$ 35.2
Equity options	33	33	3.1	(9.2)	3.1	144	29	1.3	(29.4)	1.3
Bond options	–	22	–	(2.7)	–	–	22	–	(2.1)	–
Equity swaps	12,655	1,350	661.8	(118.6)	661.8	8,954	2,771	335.2	(129.3)	335.2
Interest rate swaps [1]	8,008	519	153.9	(257.5)	153.9	5,212	216	77.1	(247.8)	77.1
Credit default swaps	3,507	2,314	438.4	(406.5)	438.4	743	1,072	189.5	(191.3)	189.5
Variance swaps	8	7	1.8	(1.9)	1.8	–	–	–	–	–
Futures	5,602	331	–	(19.1)	–	1,420	638	0.8	(2.3)	–
TOTAL			$ 1,294.6	$ (826.3)	$ 1,294.6			$ 639.1	$ (625.3)	$ 638.3

[1] *Includes cross currency swaps with notional value of $926 million [2004: $105 million]*

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

($ Millions)	2005						2004					
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 exchange forward contracts	$ 2,751	$ 2,751	$ 54	$ 54	$ –	$ –	$ 1,989	$ 1,989	$ –	$ –	$ –	$ –
Equity options	–	–	33	33	–	–	–	29	144	–	–	–
Bond options	–	22	–	–	–	–	–	–	–	22	–	–
Equity swaps	12,655	1,350	–	–	–	–	8,954	2,771	–	–	–	–
Interest rate swaps	2,952	382	5,056	137	–	–	1,418	30	3,709	132	85	54
Credit default swaps	662	353	2,698	1,937	147	24	180	403	380	615	183	54
Variance swaps	–	–	8	7	–	–	–	–	–	–	–	–
Futures	5,602	331	–	–	–	–	1,420	638	–	–	–	–

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 %)	2005			2004		
	Fair Value	Effective Exposure	Effective Asset Mix	Fair Value	Effective Exposure	Effective Asset Mix
Fixed income						
Cash and short-term money market securities	$ 1,299	$ 1,021	4.2%	$ 1,824	$ 1,513	7.2%
Lending collateral investments	424	–	–	1,468	–	–
Bonds						
Canadian	21,269	9,180	37.7%	13,299	6,860	32.8%
Other global	1,686	–	–	389	–	–
	24,678	10,201	41.9%	16,980	8,373	40.0%
Equities and equity type						
Canadian	901	4,535	18.6%	657	4,188	20.0%
United States	2,822	3,347	13.7%	2,591	3,064	14.6%
Other global	2,289	3,546	14.6%	2,173	3,112	14.9%
Real estate	2,595	1,961	8.1%	2,231	1,582	7.5%
Private equity and special situations	755	755	3.1%	622	622	3.0%
	9,362	14,144	58.1%	8,274	12,568	60.0%
Investment-related receivables						
Receivables from derivative financial instruments	1,295	–	–	639	–	–
Pending trades	366	–	–	124	–	–
Accrued investment income	276	–	–	186	–	–
	1,937	–	–	949	–	–
TOTAL INVESTMENTS	$ 35,977	$ 24,345	–	$ 26,203	$ 20,941	–

Investment-related payables						
Obligations related to securities sold short	(9,288)	–	–	(2,316)	–	–
Accrued liabilities for derivative financial instruments	(826)	–	–	(625)	–	–
Real estate mortgages	(634)	–	–	(649)	–	–
Obligations related to securities lending	(424)	–	–	(1,468)	–	–
Pending trades	(422)	–	–	(190)	–	–
Accrued liabilities	(38)	–	–	(14)	–	–
	(11,632)	–	–	(5,262)	–	–
NET INVESTMENTS	$ 24,345	$ 24,345	100.0%	$ 20,941	$ 20,941	100.0%

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.

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Note 4: Amounts Receivable

($ Millions)	**2005**	**2004**
Contributions receivable		
Employers	**$ 58**	$ 50
Members	**46**	40
Recoverable refundable withholding tax on contributions	**75**	55
Other assets	**12**	8
	$ 191	$ 153

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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.

($ Millions)	**2005**	**2004**
Fixed income		
Cash and short-term securities	**$ 36**	$ 28
Bonds		
Canadian	**794**	586
Other global	**52**	10
	882	624
Equities and equity type		
Canadian	**18**	26
United States	**79**	144
Other global	**121**	297
Net real estate operating income (1)	**118**	114
Private equity and special situations	**12**	21
	348	602
	1,230	1,226
Net realized gains on investments (2)	**2,143**	921
Net change in unrealized gains/(losses) on investments (3)	**(278)**	(12)
TOTAL	**$ 3,095**	$ 2,135

(1) *Net of interest expense of $38 million [2004: $39 million]*
(2) *Includes realized gains on derivatives of $1,942 million [2004: $453 million]*
(3) *Includes net change in unrealized gains on derivatives of $444 million [2004: $80 million]*

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Note 6: Contributions

($ Millions)	**2005**	**2004**
Employers	**$ 685**	$ 633
Members		
Regular	**544**	502
Others	**10**	12
Transfers from other plans	**42**	15
	$ 1,281	$ 1,162

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Note 7: Benefits

($ Millions)	**2005**	**2004**
Retirement pensions and bridge benefits	**$ 745**	$ 679
Commuted value transfers and death benefits	**58**	73
Refunds	**41**	37
Transfers to other plans	**12**	18
	$ 856	$ 807

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Note 8: Investment and Plan Administration Expenses

($ Millions)	**2005**	2004
Operating expenses		
Investment:		
Administration	**$ 24**	$ 18
External investment fees	**15**	13
Legal, actuarial and other professional fees [1]	**1**	2
Custodial fees	**2**	2
Total	**42**	35
Plan:		
Administration	**29**	26
Legal, actuarial and other professional fees [1]	**14**	9
Total	**43**	35
	$ 85	$ 70

[1] *Includes fees paid or due to the auditors of the Plan pertaining to statutory audit fees of $295,000, audit-related fees of $155,000 and non-audit-related fees of $139,000*

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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 include an implicit provision for expenses. The Plan provisions considered in the valuations were those in effect at the valuation dates.

b. Actuarial Methodology for Financial Reporting

For the determination of the actuarial present value of accrued pension benefits as at December 31, 2005, an actuarial valuation was conducted by Towers Perrin Inc. The valuation uses the projected accrued benefit method (prorated on service) with respect to all benefits and assumes that the Plan will continue on a going-concern basis. The data used in the valuation was based on actual membership data as at December 31, 2004 projected forward to the valuation date using management's estimates of events during 2005. The earnings estimates were determined based on 2004 experience and estimate assumptions.

Using this method and data, the accrued pension benefits at December 31, 2005 were $23,419 million [2004: $21,535 million].

c. Actuarial Assumptions

Estimates used for financial reporting purposes reflect management's expectations of long-term economic and demographic conditions. To determine the accrued pension benefits as at December 31, 2005 and December 31, 2004, the following economic assumptions were approved by the Board and analyzed and reviewed by management and the Plan's actuarial advisors for reasonability and were determined to be appropriate for financial reporting purposes:

December 31	2005	2004
Rate of return	**6.50%**	6.75%
Rate of price inflation	**2.25%** (1)	2.50%
Real interest rate (2)	**4.25%**	4.25%
Salary escalation rate	**4.75%**	5.00%

(1) *2.50 per cent for 2006, 2.25 per cent thereafter [2004: 2.50 per cent for all years]*

(2) *Net of allowance for expenses of 0.40 per cent [2004: 0.25 per cent]*

Due to the change in the disability provision, a change in the assumption of member behaviour relating to this benefit was also made. Changes from actuarial assumptions used in the previous year resulted in an actuarial gain of $70 million.

d. 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 2005 data adjustment resulted in an experience gain of $94 million [2004: experience gain of $88 million].

e. 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 2005, there was an estimated experience loss of $200 million [2004: gain of $35 million].

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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 refundable tax is paid to CRA at a rate of 50 per cent in respect of contributions and investment earnings. However, the tax is refunded at the end of each taxation year in the amount of 50 per cent of benefits during the 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 and to remit contributions that exceed those amounts permitted under the Income Tax Act (Canada) for an RPP.

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.

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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 the 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 (prorated 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 prorated 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%
Rate of price inflation	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. This funding valuation also confirmed that the Plan is fully funded on a solvency basis.

Late in 2005, legislation was enacted by the Province of Ontario that would permit the government to implement modified pension funding rules for jointly sponsored pension plans. HOOPP is such a pension plan, and it is possible that under modified funding rules, the Board could choose to file an actuarial funding valuation that is more current than December 31, 2003. At the time of preparing this annual report, no such modifications of the pension funding rules had been issued or adopted by the government.

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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, 2005, these commitments totalled $439 million and $202 million respectively [2004: $394 million and $37 million respectively]. The Plan has also committed to purchasing services relating to the pension administration system extending to the year 2023 totalling approximately $65 million.

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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.

Choose a note

Significant Investments

Investments with market value exceeding $25 million as at December 31, 2005 (excluding derivative exposures):

($ Millions)	Maturity Date	Coupon Rate %	Fair Value
Fixed Income			
Bonds			
Government of Canada and guaranteed	2006–2037	1.9–12.75	$ 4,511
Real return	2026–2036	3–4.5 plus CPI (1)	1,158
Corporate	2006–2032	3.12–8.15	6,115
Provincial and municipal	2006–2036	0–11.0	8,407
Short-Term Securities	2006	0.69	1,234

(1) *CPI – Consumer Price Index*

($ Millions)	No. of Shares (in millions)	Fair Value
Equities		
Canadian Equities		
Alcan Inc.	1.7	$ 83.2
BCE Inc.	4.0	112.8
Bank of Montreal	1.0	64.4
The Bank of Nova Scotia	1.3	62.1
Barrick Gold Corporation	2.2	70.6
Brookfield Asset Management	0.7	40.2
Cameco Corporation	0.6	44.2
Canadian Imperial Bank of Commerce	0.4	32.0
Canadian National Railway Company	1.2	107.2
Canadian Natural Resources Limited	2.4	136.6
Canadian Tire Corporation – Class A	0.5	33.3
Canadian Pacific Railway Limited	0.8	37.9
EnCana Corporation	3.7	193.5
Enbridge Inc.	1.0	38.0
Falconbridge Limited	1.8	61.1
GoldCorp Incorporated	1.6	42.0
Husky Energy Inc.	0.6	35.0
Imperial Oil Limited	0.3	39.5
Inco Limited	0.7	37.8
Loblaw Companies Limited	0.5	27.6
Magna International Inc.	0.4	29.7
Manulife Financial Corporation	2.1	143.9
Nexen Incorporated	1.2	65.2
Nortel Networks Corporation	17.7	62.9
Petro-Canada	2.3	105.2
Placer Dome Inc.	2.1	54.6
Potash Corporation of Saskatchewan Inc.	0.5	42.8
Research in Motion Limited	0.8	60.0
Rogers Communications Inc. – Class B	1.0	48.1
Royal Bank of Canada	0.9	85.6
Shoppers Drug Mart Inc.	0.9	38.5
Sun Life Financial Inc.	1.5	70.2
Suncor Energy Inc.	2.0	149.9

Suncor Energy Inc.	2.0	149.9
Talisman Energy Inc.	1.6	98.2
Teck Cominco Limited	0.7	42.5
TELUS Corporation – Non-voting	1.2	55.7
The Thomson Corporation	0.8	30.0
The Toronto-Dominion Bank	1.7	105.9
TransCanada Corporation	2.1	75.7

($ Millions)	**No. of Shares** (in millions)	**Fair Value**
Equities		
U.S. Equities		
Altria Group Inc.	0.3	$ 25.4
American International Group Inc.	0.4	29.9
Bank of America Corporation	0.6	30.3
Chevron Corporation	0.3	28.6
Cisco Systems Inc.	1.0	25.1
Citigroup Inc.	0.8	44.5
Exxon Mobil Corporation	0.9	57.1
General Electric Company	1.6	63.8
Intel Corporation	0.8	28.8
International Business Machines Corporation	0.2	27.6
JP Morgan Chase & Co.	0.5	29.9
Johnson & Johnson	0.4	30.0
Microsoft Corporation	1.4	41.3
Pfizer Inc.	1.1	28.9
Proctor & Gamble Company	0.5	31.7
Wal-Mart Stores Inc.	0.4	28.0
Wells Fargo & Company	0.3	27.4

($ Millions)	**No. of Shares** (in millions)	**Fair Value**
Equities		
International Equities		
Mitsubishi Tokyo Financial Group Inc.	0.0	31.5
Nestle SA	0.1	39.2
Sanofi-Aventis	0.3	29.8
TOTAL SA	0.1	41.1
UBS AG	0.3	35.0

Equities

Private Equities

- BC European Capital VII – 1
- Tricor Pacific Capital Partners (Fund III) Limited
- Teramira Holdings Inc.
- TD Capital Private Equity Partners (QLP)
- Novadaq Technologies Inc.
- Clairvest Equity Partners LP

	Ownership
Real Estate Properties	
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%
Fifth and Fifth	50.0%
Other Properties	

Financials

Ten-Year Review

For the year ended December 31

($ Millions)	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
CHANGE IN NET ASSETS										
Increase in net assets										
Net investment income/(loss)	**$ 3,095**	$ 2,135	$ 2,393	$ (845)	$ (799)	$ 1,471	$ 2,463	$ 1,586	$ 1,520	$ 1,695
Contributions										
Employers	**685**	633	532	297	172	158	138	316	313	314
Members	**554**	514	435	244	137	130	109	227	224	226
Transfers	**42**	15	15	11	10	6	7	5	5	5
Total increase/(decrease)	**4,376**	3,297	3,375	(293)	(480)	1,765	2,717	2,134	2,062	2,240
Decrease in net assets										
Benefits	**856**	807	712	634	586	561	561	445	432	371
Investment and Plan administration expenses	**85**	70	64	57	54	52	46	33	23	22
Total decrease	**941**	877	776	691	640	613	607	478	455	393
NET INCREASE/(DECREASE) IN NET ASSETS	**$ 3,435**	$ 2,420	$ 2,599	$ (984)	$ (1,120)	$ 1,152	$ 2,110	$ 1,656	$ 1,607	$ 1,847
NET ASSETS										
Investments										
Fixed income										
– Canadian	**$ 22,992**	$ 16,591	$ 10,507	$ 8,154	$ 9,490	$ 8,301	$ 5,739	$ 5,753	$ 5,669	$ 4,879
– Other global	**1,686**	389	324	254	318	141	160	130	107	82
Equities										
– Canadian	**901**	657	1,874	2,117	2,739	4,324	6,180	4,823	4,304	3,929
– Other global	**5,111**	4,764	3,674	3,401	2,587	3,372	3,478	2,840	1,987	1,657
Real estate properties, private equity & resource properties	**3,350**	2,853	2,608	2,406	2,265	2,033	1,542	1,287	1,018	965
Investment-related receivables	**1,937**	949	770	504	353	293	3	–	–	–
	35,977	26,203	19,757	16,836	17,752	18,464	17,102	14,833	13,085	11,512
Other assets	**191**	153	124	76	51	39	126	209	167	132
Total assets	**36,168**	26,356	19,881	16,912	17,803	18,503	17,228	15,042	13,252	11,644
Liabilities										
Investment-related liabilities	**(11,632)**	(5,262)	(1,210)	(839)	(747)	(330)	(207)	(137)	–	–
Other liabilities	**(24)**	(17)	(14)	(15)	(14)	(11)	(11)	(5)	(8)	(7)
Total Liabilities	**(11,656)**	(5,279)	(1,224)	(854)	(761)	(341)	(218)	(142)	(8)	(7)
NET ASSETS	**24,512**	21,077	18,657	16,058	17,042	18,162	17,010	14,900	13,244	11,637
Actuarial asset value adjustment	**(1,659)**	231	1,471	2,766	946	(1,322)	(2,033)	(1,378)	(1,193)	(1,016)
Actuarial value of net assets	**22,853**	21,308	20,128	18,824	17,988	16,840	14,977	13,522	12,051	10,621
Accrued pension benefits	**23,419**	21,535	20,113	17,814	16,756	15,102	11,946	11,333	10,405	9,882
(DEFICIT)/SURPLUS	**$ (566)**	$ (227)	$ 15	$ 1,010	$ 1,232	$ 1,738	$ 3,031	$ 2,189	$ 1,646	$ 739
INVESTMENT PERFORMANCE										
Investment rate of return – net	**14.66%**	11.35%	14.86%	(5.02)%	(4.41)%	8.50%	16.61%	11.77%	13.18%	17.34%
Benchmark return	**13.97%**	10.45%	14.38%	(5.33)%	(4.51)%	5.41%	14.87%	9.75%	13.84%	17.74%
Long-term return target	**7.50%**	7.50%	7.75%	7.75%	7.75%	7.25%	7.25%	7.25%	8.00%	8.00%

Investment vs. Benchmark Returns

(Unaudited)

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

Year ended December 31

	2005		2004	
Rate of return (net of fees)	**Investment Returns %**	**Benchmark Returns %**	**Investment Returns %**	**Benchmark Returns %**
Fixed Income				
Short-term money market securities	**2.90**	**2.58**	2.44	2.30
Bonds				
Canadian	**5.66**	**6.46**	7.00	7.15
Long bonds	**12.84**	**13.84**	10.01	10.26
Real return	**12.83**	**12.83**	15.46	15.46
Equities				
Canadian	**27.37**	**26.29**	14.97	13.84
United States	**2.53**	**2.18**	2.78	3.73
Other global	**11.64**	**11.11**	9.37	10.05
Real estate	**28.77**	**18.25**	15.84	12.65
Private equity & special situations	**18.15**	**7.50**	21.17	7.50
NET INVESTMENTS(1)	**14.66**	**13.97**	11.35	10.45

(1) *Includes derivative-related return enhancement strategies*

The Plan identifies 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