CPP INVESTMENT BOARD

ANNUAL REPORT

2004

BUILDING A STRONGER CPP

PROFILE

The CPP Investment Board is a Crown corporation created by an Act of Parliament in December 1997. Its long-term goal is to contribute to the financial strength of the Canada Pension Plan (CPP) by investing in the best interests of 16 million CPP contributors and beneficiaries and by maximizing returns without undue risk.

The CPP Investment Board invests in capital markets the funds not needed by the CPP to pay current pensions and is not expected to be required to contribute investment earnings to the CPP to help pay pensions until 2021. In order to build a diversified portfolio of CPP assets, the CPP Investment Board is currently investing cash flows in publicly traded stocks, private equities, real estate and infrastructure to balance the cash and bonds owned by the CPP.

Our disclosure policy states that: "Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf and how the investments are performing."

By increasing the long-term value of funds available to the CPP, the CPP Investment Board will help the plan to keep its pension promise to Canadians.

Based in Toronto, the CPP Investment Board is governed and managed independently of the CPP and at arm's length from governments, but is accountable to Parliament and Canadians.

For more information on the CPP Investment Board, visit our website at www.cppib.ca.

TABLE OF CONTENTS

WHAT'S AVAILABLE ON OUR WEBSITE: WWW.CPPIB.CA

- Meet Our Team
- Our Governance
- Our Policies
- Canada Pension Plan
- Our History
- Our Legislation
- Our Regulations
- Our Challenge
- Considerations
- Return Expectations
- Risk Management
- Public Market Investments
- Our Current Public Market Investments Strategy
- Private Market Investments
- Our Private Equity Partners
- Measuring Performance
- Social Investing
- Proxy Voting
- Partnering Opportunities
- Results
- Holdings
- News Releases
- Quarterly Reports
- FAQs
- Public Meetings
- Annual Reports

FINANCIAL HIGHLIGHTS

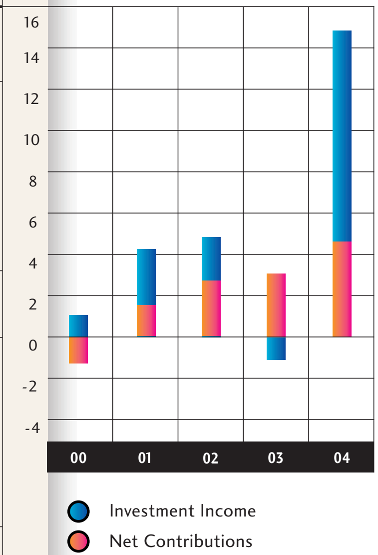
for the fiscal year ended March 31

FINANCIAL OVERVIEW *($ billions)*	**2004**	2003
Assets	**$ 70.5**	$ 55.6
Net Contributions	**4.6**	3.1
Investment Income	**10.3**	(1.1)

INVESTMENT PERFORMANCE *rate of return on investments (%)*	**2004**	2003
Annual	**17.6**	(1.5)
Long-term goal of 4% (plus inflation)	**4.7**	8.5

ASSETS	**2004**		2003	
	($ billions)	**(% of total)**	($ billions)	(% of total)
Bonds	**30.2**	**42.9%**	31.0	55.8%
Publicly traded stocks	**30.1**	**42.7%**	15.6	28.0%
Private equities	**1.8**	**2.5%**	1.5	2.7%
Real estate and infrastructure	**0.7**	**1.0%**	0.3	0.6%
Cash	**7.5**	**10.6%**	7.1	12.8%
Money market securities	**0.2**	**0.3%**	0.1	0.1%
	$ 70.5	**100.0%**	$ 55.6	100.0%

Net Contributions & Investment Income ($billions)
Fiscal year ending March 31



CHAIR'S REPORT:

Building on our Approach to Governance


Gail Cook-Bennett

Governance of public and private corporations continues to stir widespread debate. As a Crown corporation investing billions of dollars on behalf of Canadians, the CPP Investment Board must be bold in ensuring the organization's integrity and credibility in a world of challenging investment markets and evolving governance expectations.

The CPP Investment Board's success depends on the expertise, professionalism and focus of our management and employees operating within a culture of integrity and transparency. This annual report focuses on their accomplishments. The governance of the organization begins with the modern governance model defined in our act, which is then overlaid by policy and practices that permit directors to conduct their oversight of management.

The CPP Investment Board's governance model was designed by the federal and provincial governments to balance the responsibilities of operating at arm's length from governments (as an investment company competing in the private sector) with accountability to Parliament, the provinces and the public (as one would expect from a Crown corporation). Public opinion research confirms that Canadians understand the importance of pairing the arm's length relationship with considerable transparency.

The delicacy of balancing responsibilities and accountability is reflected throughout the CPP Investment Board. One example is that commercial and proprietary information belonging to third parties with whom we do business must be kept confidential. And yet, through a proactive disclosure policy, the organization shares a great deal of information on our policies, procedures, investment philosophy, strategies, performance, assets under management and many other details. We believe this level of disclosure is unmatched by any Crown corporation or pension fund in Canada.

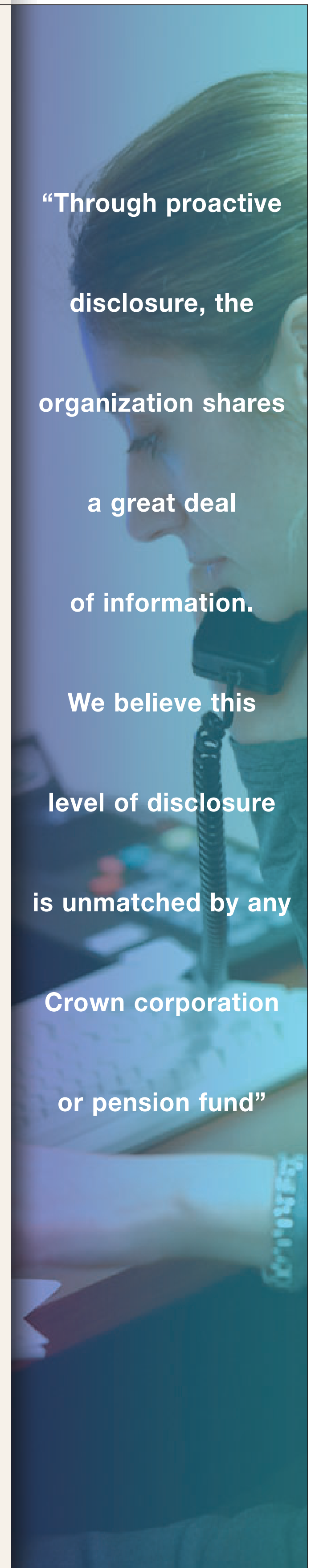
The decision to build a governance model that balances responsibilities and accountability was the outcome of consultation among the federal and provincial governments and the public in 1997. Since then, federal and provincial finance ministers have reviewed our governance on at least three occasions – in 1999 and 2002 as part of their triennial review of the CPP, and in 2003 when Parliament passed legislation with subsequent provincial approval to transfer all remaining CPP assets to the CPP Investment Board over the next few years.

At the board level, directors conduct their oversight by approving the boundaries within which management can operate and assessing regular reports on compliance. For example, capital put at risk is closely monitored by management and directors. Within defined risk limits the current strategy focuses on alternative ways of increasing the efficiency of the investment portfolio by such actions as increasing the number of asset classes, removing investment constraints, and striving for the excellent execution of the publicly traded stock portfolio and the private investment portfolio.

The boardroom culture within which directors oversee and contribute is always a challenge to describe. Clearly, our experienced directors, chosen for their expertise relevant to the organization's mandate, constructively challenge our professional and knowledgeable management team as we carry out our respective fiduciary duties.

As the CPP Investment Board enters an era of strong growth in which it must manage an enlarged sphere of complex relationships with external investment and business partners involving ever-growing sums of money, the focus is on anticipating possible events and adapting our approach to governance. An example is the evolution of the organization's handling of potential conflicts of interest.

In 1999, the directors developed and approved a conflict of interest policy and code of conduct. In 2002, we asked three outside specialists to review them. As part of the review, the board decided to create the role of a part-time external conduct review advisor with whom directors and employees could discuss ethical issues confidentially. On request,



the advisor's role is to help people make appropriate decisions in the face of complicated choices where there may be no clear or definitive answer. Importantly, the appointment, made in 2003, opens an outside avenue for whistleblowers.

John MacNaughton, the CPP Investment Board's first President and Chief Executive Officer, recently announced that he will retire during fiscal 2005, after five years in the position. John's extremely high standard of personal conduct, knowledge of capital markets and excellent ability to communicate combined to earn the CPP Investment Board credibility during its first phase of development and, in particular, the confidence of the sponsoring governments. Building a first-class team of professionals committed to management of the total investment portfolio, careful implementation of investment decisions and effective external interactions is his proud achievement. The Board of Directors salutes John for laying this solid foundation.

As Chairperson, it has been my privilege to work closely with John in a fascinating start-up situation that offered the opportunities to create cultures and practices designed to be robust and appropriate for the long term.

Looking forward, the directors are committed to identifying the very best leader to build on our strong foundation and guide the organization through the challenges of its next stage of development.

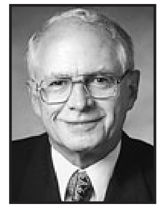
Gail Cook-Bennett

Gail Cook-Bennett,
chairperson

A BOARD WITH BROADLY BASED EXPERTISE

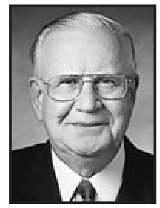
The process by which directors are appointed is a departure from the traditional practice for Crown corporations. An external nominating committee appointed by federal and provincial finance ministers, and chaired by an individual from the private sector, nominates candidates. The federal minister selects candidates from the committee's nominating list in consultation with provincial counterparts.

CHAIRPERSON
GAIL COOK-BENNETT
Economist.
Corporate director.
Former professor.



DALE G. PARKER
Corporate director.
Former financial executive.

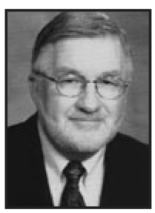
MARY C. ARNOLD
Chartered Accountant.
Management consultant.
Corporate director.



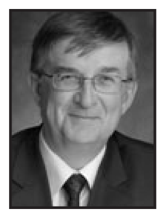
M. JOSEPH REGAN
Retired bank executive.

GERMAINE GIBARA
Chartered Financial Analyst. Management consultant.
Corporate director.

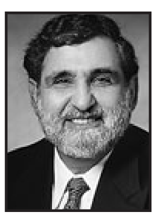
HELEN SINCLAIR
Financial executive.
Corporate director.



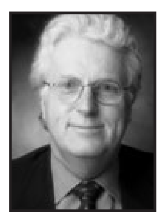
GILBERT GILL
Chartered Accountant.
Former provincial deputy finance minister.



RONALD SMITH
Chartered Accountant.
Chief financial officer.



JACOB LEVI
Actuary.



DAVID WALKER
Business consultant.

HELEN M. MEYER
Chartered Business Valuator.

For a fuller description of board and committee responsibilities and membership, see governance section on pages 46-48.

BUILDING OUR PORTFOLIO AND OUR ORGANIZATION

JOHN A. MACNAUGHTON

The Canada Pension Plan reserve fund performed well in fiscal 2004, earning a 17.6 per cent rate of return to produce $10.3 billion of investment income. Coupled with $4.6 billion of contributions from employers and workers not needed to pay current pension benefits, the reserve fund grew by $14.9 billion to $70.5 billion.

Stock Strategy Reaps Big Short-term Rewards A large part of the reversal in CPP's investment fortunes from the $1.1 billion loss (total CPP portfolio) in fiscal 2003 was the result of our decision to continue to build the equity portfolio throughout the market collapse that began in the fall of 2000 and continued to the spring of 2003, one of the worst declines in a century. Many Canadians were concerned that we might be on the wrong track and should invest in bonds, or hold cash and try to time the market bottom. Our decision to stay the course and buy shares in hundreds of quality Canadian and foreign companies resulted in equity gains of $7.2 billion, versus a $4.1 billion loss a year earlier. For us, the stock market collapse was a buying opportunity on a long investment journey.

Assessing Investment Performance The five years that the CPP Investment Board has been investing in equities to diversify the total CPP assets have included two outstanding years in equity markets (fiscal 2000 and 2004) and the negative period mentioned above. During the five years we have experienced returns on CPP Investment Board assets as high as plus 40.1 per cent in 2000 and as low as minus 21.2 per cent in 2003.

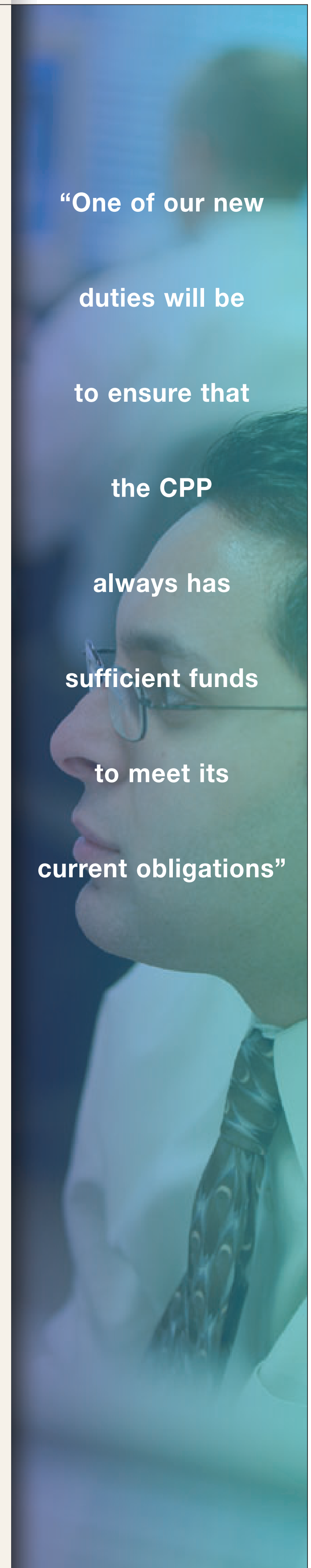
As one would expect, given that we have been building a private equity portfolio that has negative returns in early years and have been transitioning large amounts of cash into the market and experiencing the resultant "cash drag," we underperformed conventional benchmarks during years with rising markets, such as 2004, and typically outperformed them in declining years. We measure and compare our performance against benchmarks carefully, but do not regard benchmarks as primary metrics in determining how well we did. However, there are activities where benchmarks do have utility. An example is our active overlay program where they will be used to measure managers' skill in adding value.

One of the most important metrics is our performance in comparison to the level of return required to help sustain the pension plan. The minimum investment target for the CPP is a four per cent real rate of return (above inflation). If we can match that mark over the long term, the CPP Investment Board will have delivered on its mandate to help preserve the CPP. In fiscal 2004, the return on CPP Investment Board managed assets was substantially more than the plan's sustainability requirement. Since the CPP Investment Board invested its first dollar in March 1999, the assets we managed have exceeded the sustainability requirement by 69 basis points (or 0.69 per cent) – seemingly a small excess but one that, if compounded over decades, can add considerable wealth to the reserve fund.

Investment Framework The principal business of the CPP Investment Board is to manage the assets of the CPP in the context of its liabilities.

Our portfolio design decisions are made within our Investment Framework, which includes our investment beliefs and concepts used to more precisely define risk-return trade-offs. It is the basis upon which our investment strategies, policies, guidelines and procedures are developed to help achieve our investment mission. Our Investment Framework integrates total fund risk and return, is dynamic, takes into account plan liabilities and funding, and is decision oriented. It includes such concepts as minimum risk portfolio, capital at risk and risk-adjusted net value added.

Portfolio Management For us, portfolio management means translating our Investment Framework into a portfolio with the maximum expected return for a given amount of risk in the context of prevailing constraints. This ongoing process involves the design and efficient implementation of the total portfolio of public and private investments.



Building Our Portfolio and Our Organization

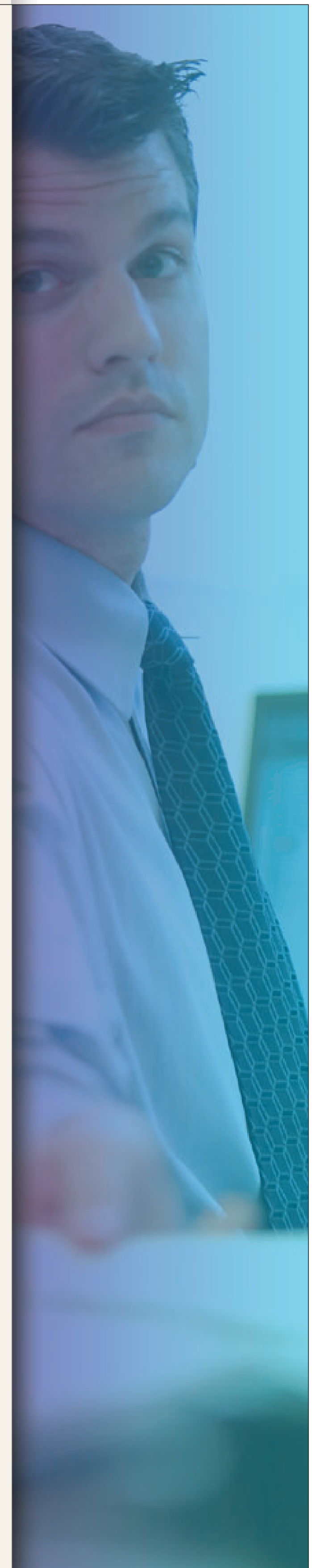
During fiscal 2004, we strengthened both our internal and external portfolio management capabilities.

Internally, we designed and began transitioning to a global equity sector portfolio whose performance, we believe, will be more closely correlated with our liabilities. We began integrating at the total portfolio level private and public equity sector exposures as well as risk. Our internal trading capabilities were expanded; our product capabilities in various derivatives, in cash and foreign exchange markets were strengthened. All passive portfolio management, both design and implementation, is now done internally.

We also expanded our external capabilities. After a comprehensive search for active managers, we appointed the first two managers of an innovative active overlay strategy. We expect to appoint additional managers for this strategy in the months ahead. In private markets, we added to our network of private equity general partners by making seven first-time commitments. We made our first infrastructure fund investment. We now have relationships with 36 general partners based in Canada, the United States and Europe.

Refining our Strategic Direction Fiscal 2004, our fifth full year, was an appropriate time to step back, review what we had accomplished and decide where to take the CPP Investment Board in the years ahead. We re-wrote our vision statement, re-crafted our mission statement and articulated the values we try to reflect. (See page 49)

We also identified and explored seven strategic differentiators where we thought we already had sustainable competitive advantages or believed we could develop them. Our Investment Framework and approach to Portfolio Management, summarized above, were two of the seven. The other five were Governance, Human Resources, Management Systems, Innovative Development and Reputation.



All are important, but none more so than Human Resources. Very simply, to achieve our mission, the CPP Investment Board needs to recruit, develop and retain top caliber employees, and create a work environment in which they can flourish.

We are proud of the outstanding team of professionals we have attracted. For them, we are dedicated to creating a culture that exemplifies ethical conduct and courtesy, aspires to excellence, encourages intellectual curiosity and seeks to optimize outcomes by balancing clear individual accountability and authority with a respect for teamwork – a culture where people value the important work that has been entrusted to them by millions of Canadians.

The CPP Investment Board is destined to become one of the largest pension fund managers in the world. By attracting and keeping superior employees, it has the potential to become one of the most sophisticated and respected as well.

We will be doubling the number of employees to almost 100 in fiscal 2005 as we broaden and deepen our management and professional capabilities.

One of the reasons for this expansion is the dramatic increase in assets the CPP Investment Board will be managing: They are projected to increase to more than $95 billion within three years and $190 billion within the decade.

Expanded Responsibilities Another reason for growing our workforce is that our responsibilities are being increased. Legislation amending the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* came into effect on April 1, 2004. As a result, CPP fixed income assets, both bonds and cash, are being transferred to our care. As well, the amended legislation has resulted in responsibility for providing cash management services for the CPP being transferred to the CPP

Investment Board. In future, contributions to the CPP will flow to the CPP Investment Board and benefits will be paid from cash provided by the CPP Investment Board.

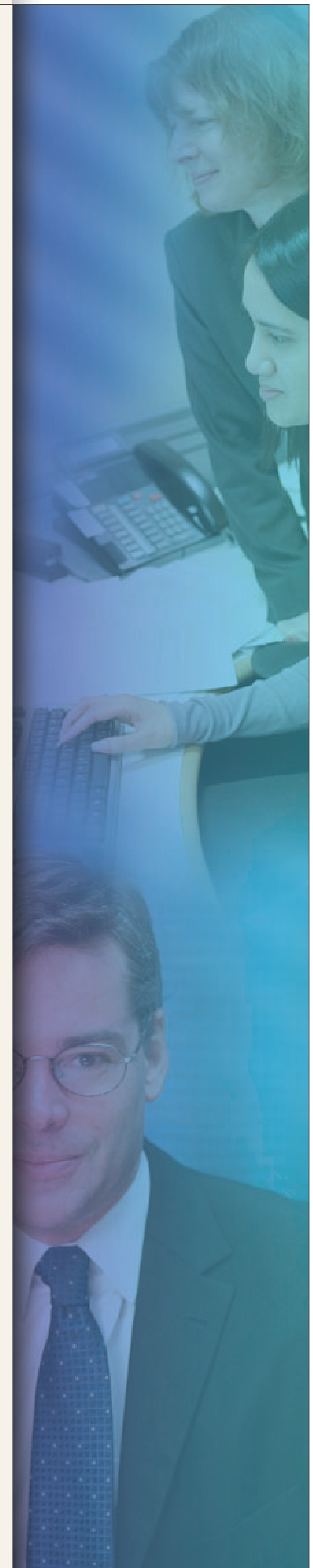
This transfer of assets and responsibilities is a signal event. It is another sign that Canada's federal and provincial finance ministers remain committed to their original vision of the CPP Investment Board as an organization that would professionally manage all of the assets of the CPP at arm's length from government.

It is also a vote of confidence, a gratifying endorsement of the strategies, organization, infrastructure and capabilities that have been put in place at the CPP Investment Board.

On to a New Era There is rarely a "right time" to step down from a leadership position, but for me fiscal 2005 will be as close to that magic moment as one can reasonably hope for.

We have just completed a fiscal year with excellent investment results. As discussed earlier in this report our Investment Framework is operative and informing all our investment decisions, our portfolio management capabilities, both internal and external, are growing and we have attracted a superlative management and professional team. Excellent management systems that can grow with our expansion have been established. The constructive culture we want to nurture has germinated. There is increasing and positive recognition of the CPP Investment Board. Canada's finance ministers have affirmed our organization by expanding our mandate. In short, the goals of our start-up phase have largely been accomplished.

We are presently in the final stages of transitioning from start-up to a period of long-term growth that will continue until approximately 2021. A logical part of this process is the identification of a new leader for the era that lies ahead.



The search for that individual will be conducted by our Board of Directors. I am committed to supporting the board and then facilitating the successful launch of the chosen individual. Until that occurs, I remain focused on building our organization, wisely investing the approximately $10 billion in net new cash we will receive over the coming months, and working to ensure the successful completion of both the first special examination of the CPP Investment Board's management systems and practices and also the upcoming triennial review of our legislation and regulations by Canada's finance ministers.

I cannot overstate how deeply I have appreciated the privilege of serving as founding president and chief executive officer of the CPP Investment Board. I thank our dedicated Board of Directors, first for the invitation to serve during our challenging early years and second for their support and wise counsel. I especially thank our capable and thoughtful Chairperson Gail Cook-Bennett. We have worked closely together with the shared goal of building an institution that Canadians can trust and be proud of for decades to come.

The accomplishments profiled in this annual report are the product of the abilities and efforts of many people. The CPP Investment Board has been blessed during its early days by its success in attracting exceptional officers and employees who were eager to be part of a Canadian innovation, professionals committed to applying their varied talents to the benefit of their fellow citizens.

A sincere thank you to all.

John A. MacNaughton,
President and Chief Executive Officer

The annual report contains forward-looking statements reflecting management's objectives, outlook and expectations as of the date of this report. These statements involve risks and uncertainties. Therefore our investment activities may vary from those outlined in these forward-looking statements.

Funding The contribution rate and benefits of the Canada Pension Plan are determined by the federal and provincial finance ministers, who meet every three years to review these and other aspects of the CPP. The funding of the CPP depends on contribution rates, the return on the portfolio and the CPP's obligations. In January 2003, the federal and provincial finance ministers confirmed that the CPP was sound and sustainable for the long term.

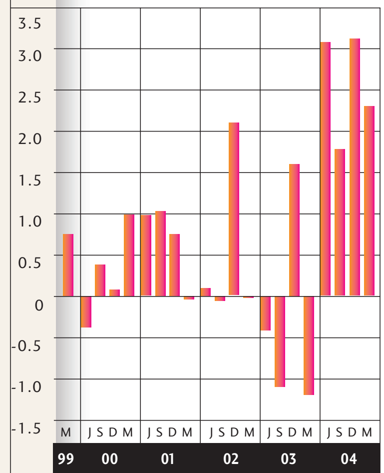
For the 2004 calendar year, the combined contribution rate of Canadian workers and their employers is 9.9 per cent (unchanged from 2003) on a maximum annual pensionable income of $40,500.

The Chief Actuary for the CPP believes that a four per cent return above inflation would be sufficient to sustain current plan benefits for at least the next 75 years, assuming his demographic, economic and other non-portfolio related assumptions hold true.

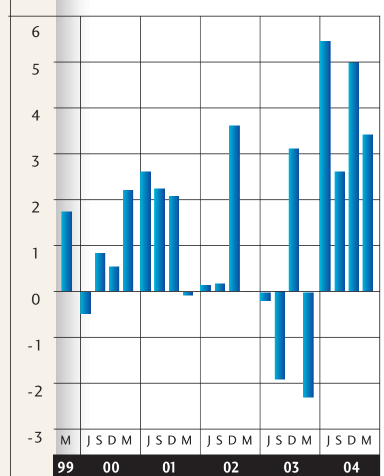
Mandate The CPP Investment Board invests assets not required by the CPP to pay current benefits. Our legislated mandate is to achieve a maximum rate of return without undue risk, having regard to the factors that may affect the funding of the CPP and its ability to meet its ongoing financial obligations.

During the past five years, the CPP Investment Board has been diversifying the CPP reserve fund away from its historical and exclusive reliance on government bonds (and a cash reserve to pay current pension benefits) to include publicly traded stocks, private equity, real estate and infrastructure assets. As a result of this diversification, the

CPP Reserve Fund Quarterly Dollar Returns ($billions)
Fiscal year ending March 31



CPP Reserve Fund Quarterly Percentage Returns (%)
Fiscal year ending March 31



CPP Investment Board expects to earn a 4.5 per cent real rate of return (that is, above inflation) over the long term, or 0.5 per cent more than the minimum required to sustain the CPP at the current CPP contribution rate.

Maximizing Returns The gradual diversification of CPP assets is consistent with our mandate to maximize returns and reflects the widely held belief that investing primarily in fixed income securities such as government bonds will not generate the four per cent real rate of return required to sustain the plan for the long term.

In our opinion, publicly traded stocks should generate higher long-term returns than bonds, although short-term market volatility will cause large quarterly and yearly swings in results. Private equities should perform even better than publicly traded stocks, although they can take time to generate higher returns, while real estate and infrastructure assets should perform better than bonds and provide a hedge against the inflation exposure of CPP liabilities.

Our Distinct Advantage In addition to creating the CPP Investment Board, the reforms of 1997 began to transform the CPP from a pay-as-you-go plan to a partially funded plan. This was accomplished through incremental increases in the contribution rate to ensure that more money is collected in contributions than is needed to pay immediate benefits. Because contributions will exceed benefit payments until 2021, the CPP Investment Board is in the enviable position of being able to invest cash inflows for 17 years without using investment income to pay benefits. (Most pension funds, by contrast, require investment income to help pay current benefits.) As a result, the CPP Investment Board has the cash resources and time to make the longer-term investments in less liquid assets to earn higher returns than the CPP's bond portfolio.

Investment Risk Management Our mission is to manage the assets entrusted to us in the best interests of CPP contributors and beneficiaries. In adhering to prudent investment policies, standards and practices, we have developed an enterprise-wide risk management framework that identifies seven major risks: strategic, business environment, fiduciary, investment, legislative and regulatory, operational, and reputation. These risks, discussed under Enterprise-Wide Risk Management Framework on page 25, are continuously monitored, assessed and managed.

The investment risk is that the CPP reserve fund will not earn the minimum four per cent real return needed to sustain the CPP over the long term. As investment returns are only one of several factors that contribute to the CPP's sustainability, there is always a risk that the current CPP contribution rate and benefit levels will not be sustainable at some future date. We have developed a framework of investment beliefs, risk limits and long-term return expectations that considers the amount of investment risk we should take to support sustainability.

We continuously review our investment beliefs, portfolio risk management concepts and other practices to ensure that portfolio risks are identified and managed effectively. For example, the board limits the maximum amount of risk that management can assume relative to a minimum risk portfolio that acts as a proxy for CPP liabilities. The board also approves credit risk limits, while the president and CEO approves the amount of risk that can be taken relative to passive benchmarks (active risk). We also manage cash liquidity risk. The board receives a quarterly report on our compliance with all risk limits and the effectiveness of our risk management controls.

Assets As the accompanying chart shows, at the end of fiscal 2004, the CPP reserve fund consisted of 54 per cent fixed income securities,

"Our investment beliefs, risk limits and long-term return expectations are all focused on CPP sustainability"

VALTER VIOLA
VICE PRESIDENT - RESEARCH
AND RISK MANAGEMENT

43 per cent publicly traded equities and three per cent private equity, real estate and infrastructure. Depending on the rate at which we invest the portfolio into non-fixed income investments, we expect these proportions to reach 35 per cent, 58 per cent and seven per cent respectively sometime in fiscal 2006.

Fixed Income Securities At the March 31 year-end, cash and bonds totalled $37.7 billion, compared with $38.1 billion a year ago.

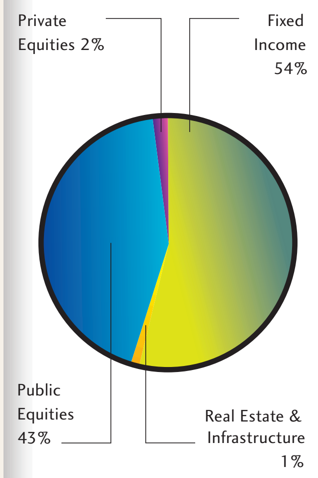
CPP bond and cash assets held by the federal Department of Finance will be gradually transferred to the CPP Investment Board beginning in fiscal 2005. The transfer of $30.2 billion in bonds began on May 1, 2004, and will take three years to complete. If provinces choose to roll over their bonds, the last of the bond portfolio will not mature until 2033. The transfer of cash will begin in September 2004, and take a year to complete.

Effective September 2004, the CPP Investment Board will also assume the primary responsibility, currently performed by the federal government, for ensuring that the CPP has sufficient funds to pay expenses and benefits.

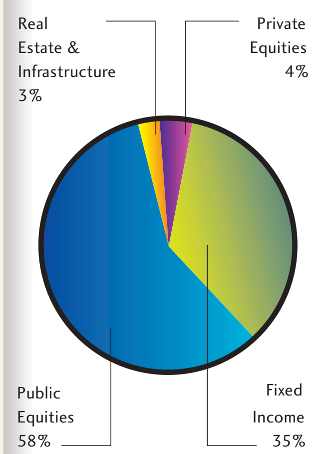
We have put staff and cash management systems in place in preparation for the transfer of these assets to the CPP Investment Board and new obligations. Funds required to pay current benefits will be invested in liquid short-term money market instruments, while the remaining funds will be invested in longer-term assets.

The transfer of the CPP bonds to the CPP Investment Board will increase the domestic content of our assets under the foreign property rule. This will make it possible to augment the international diversification of the overall portfolio.

CPP Reserve Fund Asset Mix
Fiscal year ending March 31, 2004



Expected Asset Mix in 2006



Public Markets Publicly traded stocks under CPP Investment Board management at March 31, 2004, were valued at $30.1 billion, or 43 per cent of the CPP reserve fund, up from $15.6 billion or 28 per cent the previous year.

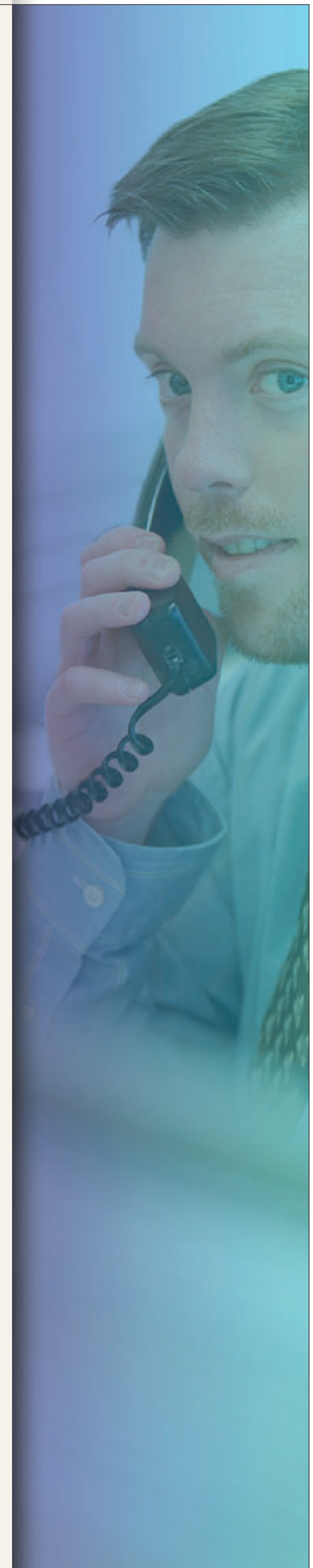
We invest excess CPP funds primarily in publicly traded companies to earn higher long-term expected returns than would be possible with fixed income holdings alone. Our approach is to build an efficient, diversified portfolio with broad exposure to business sectors in Canada and abroad.

We are currently shifting from traditional index fund investing, which can cause imprudent concentrations in individual stocks and sectors, to a strategy of investing on an economic sector basis. This takes into account global conditions, the nature of CPP liabilities and other constraints.

There are 12 key economic sectors internationally. The Canadian equity market is under-represented in sectors such as technology and pharmaceuticals and over-represented in such sectors as financial services and energy relative to the rest of the world. Our objective is to build a portfolio with a sector allocation that reflects global conditions.

Because of our need to invest larger amounts of cash, our customized approach means that our holdings in Canada will be primarily in larger public companies. However, we will continue to select Canadian companies with smaller capitalizations where we can improve the risk-return profile of the overall portfolio.

During fiscal 2004, we added internal trading staff and external transition managers who are responsible for investing funds in public markets with minimal impact on prices.



Active Management In March 2004, we took the first steps to implement an efficient active overlay program in publicly traded securities. We appointed two external managers, Connor, Clark & Lunn Investment Management Ltd. and UBS Global Asset Management, and gave each manager a mandate to add value by adjusting our passive equity portfolio on a short-term basis. These active managers combine research, portfolio management and risk management capabilities with a demonstrated ability to add value. Each will start with the equivalent of a funded $500 million allocation.

The active managers will sell what they view as overvalued holdings in the portfolio and invest the proceeds in undervalued securities. The fees they earn will be determined primarily by the performance of the securities they buy relative to the ones they sell. Our performance-based fee structure rewards these managers based on the skill they demonstrate in consistently adding value. We plan to retain additional active managers.

Proxy Voting The CPP Investment Board holds a significant number of shares in approximately 300 of Canada's largest public companies and 900 foreign companies. Given our holdings, we have important proxy voting responsibilities. In fiscal 2003, we announced proxy voting guidelines designed to encourage good corporate governance by indicating our views on issues that boards face in the normal course of business. The guidelines were updated in February 2004 to reflect recent regulatory decisions. Our guidelines and past votes are available on our website.

Private Markets In less than three years, we have established one of the largest private equity programs in Canada. Our partners are experienced and successful private equity investors in Canada, the United States and Western Europe. We will build on these relationships and seek new ones, while leveraging our internal capabilities.

"Expanding our trading capabilities is a natural evolution. It helps us manage the passive portfolio and provide cash management for the CPP"

DONALD M. RAYMOND
VICE PRESIDENT -
PUBLIC MARKET INVESTMENTS

Private equity fits well in a broadly diversified portfolio and is an attractive alternative to public equity with potentially greater returns. Our long-term target is to invest up to 10 per cent of total CPP assets in private equity.

During fiscal 2004, we expanded our portfolio with commitments to eight additional private equity funds. Private equity funds are typically structured as limited partnerships and managed by specialized general partners. We commit a fixed amount of capital to each fund and the general partner draws down our commitment as investments are made.

At year-end, our private equity commitments were approximately $6 billion, of which $2 billion had been invested. These commitments covered 42 limited partnerships managed by 36 general partners, representing investments in more than 2,500 underlying companies. Geographically, our overall commitment is approximately half to the United States, and one quarter each to Canada and Western Europe.

Most of our private equity commitments are to primary funds that make direct investments in businesses. However, we also commit to secondary funds and joint ventures that acquire partially funded interests in primary private equity funds from existing limited partners. Secondary funds usually comprise underlying funds that were begun at different times and have a variety of general partner sponsors. To date, we have committed $1 billion to secondary activities because they provide enhanced diversification and attractive returns. As an example, in February 2004 we committed US$120 million to a joint venture with Paul Capital Partners to acquire a diversified portfolio of private equity partnership interests, mainly in U.S. buyout funds.

We also committed to funds established for the CPP Investment Board as the sole investor. For example, in August 2003 we established a fund

"The reason we invest in private equities is simple. We expect them to outperform publicly traded equities"

THOMAS A. TUTSCH
INTERIM HEAD - PRIVATE MARKET INVESTMENTS

with Credit Suisse First Boston to invest in U.S. middle-market funds on our behalf and to make some direct investments alongside these funds. By leveraging the capabilities of Credit Suisse First Boston, we can make a relatively large number of smaller commitments without having to dedicate significant internal resources. As the sole investor, we structure and manage this relationship to suit our needs.

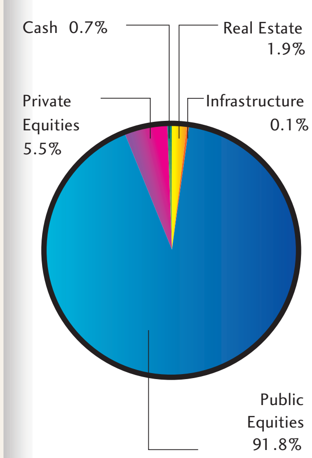
In October 2003, we made a $50 million commitment to Ventures West 8, a venture capital fund that will target early-stage companies across Canada in the information technology, biotechnology, communications and energy technology sectors. This investment brought our total venture capital commitment in Canada to more than $500 million. Ventures West 8 has invested in Canadian venture capital for more than 30 years and is one of the country's most established venture capital fund managers.

Real Estate and Infrastructure Assets Real estate and infrastructure are attractive asset classes because they diversify the CPP reserve fund and increase risk-adjusted expected returns over the long term. Real estate and infrastructure have higher expected returns than bonds and are a better hedge against the inflation risk in CPP liabilities.

Our long-term target allocation to real estate and infrastructure is up to 10 per cent of the CPP reserve fund in each asset class. Our approach has evolved from investments in publicly traded real estate companies to co-owning properties with experienced real estate managers. We will continue to seek strategic opportunities to grow the portfolio.

During fiscal 2004, we committed a further $100 million to real estate, bringing total commitments to $375 million. The latest commitment was to a 50-50 joint venture with Retirement Residences REIT. In

CPP Investment Board Portfolio
Fiscal year ending March 31, 2004



September 2003, the joint venture purchased a portfolio of 17 retirement homes located in British Columbia, Ontario and Manitoba, and is seeking further acquisitions.

After examining a number of infrastructure opportunities, we made our first commitment to Macquarie Essential Assets Partnership in December 2003. The Macquarie group is a global investment bank headquartered in Australia operating in 18 countries, with offices in Toronto and Vancouver. The fund will invest in North American infrastructure assets, primarily in Canada, including pipelines and electricity transmission and distribution networks.

Derivatives We use conventional derivatives, including equity index swaps and futures, to manage risk, enhance returns and provide liquidity. These financial contracts derive their value from underlying assets, interest rates or exchange rates. Our exposure to derivatives is limited by our credit policy. We adhere to strict controls to ensure that they are used only to gain market exposure by, for example, replicating direct investments in an equity index. Further information is available in our investment statement posted on our website.

While the CPP Investment Board must take all the assets and liabilities of the CPP into consideration in making investment decisions, only the assets owned by the CPP Investment Board are included in our financial statements. The market value and rates of return for CPP bond and cash assets are estimates by the CPP Investment Board.

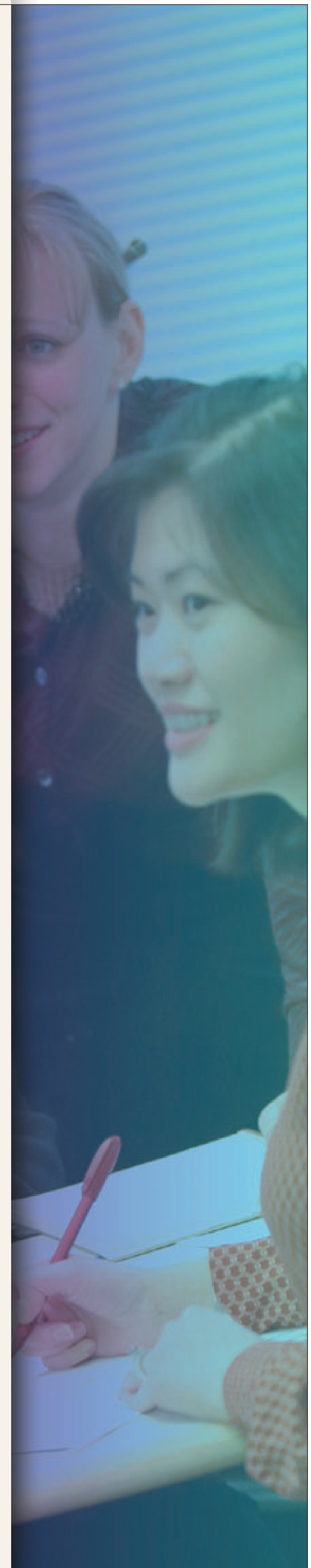
Asset Growth In fiscal 2004, total assets available to the CPP, or the CPP reserve fund, grew by $14.9 billion to $70.5 billion. The CPP Investment Board received $8.1 billion in cash flows from the CPP, compared with $7.3 billion in fiscal 2003. These cash flows from excess CPP contributions, bond interest and the proceeds from matured bonds were invested in publicly traded stocks, private equities, real estate and infrastructure assets and money market securities to back equity derivatives exposure.

Since 1999, the CPP reserve fund has grown by $26.3 billion, of which approximately 38 per cent was from excess contributions and the remainder from investment income on the total fund.

Overall Performance The CPP reserve fund showed a $10.3 billion investment gain in fiscal 2004 compared with a $1.1 billion loss in 2003. The rate of return was 17.6 per cent versus a negative 1.5 per cent the previous year.

The fixed income portfolio again generated positive returns as interest rates continued to decline. Combined with the CPP cash deposits, which earn interest similar to short-term government securities, fixed income assets generated income of $3.1 billion compared with $3.0 billion the year before. The rate of return on fixed income assets was 8.7 per cent, compared with 8.4 per cent in fiscal 2003.

After $2\frac{1}{2}$ years of decline, global equity markets rebounded strongly in fiscal 2004. As a result, returns from equities far surpassed those of



fixed income. Equities and real estate produced income of $7.2 billion for a 31.7 per cent rate of return compared with a loss of $4.1 billion, or a negative 21.1 per cent rate of return, in 2003.

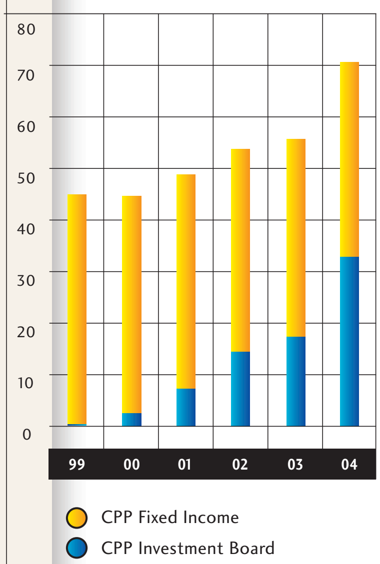
Relative Performance We compare the performance of the CPP reserve fund with the four per cent real return needed to sustain the CPP over the long term. For CPP contributors and beneficiaries, CPP sustainability is the most relevant measure of performance. In fiscal 2004, the CPP reserve fund performed exceptionally well, earning a real return of 16.8 per cent (17.6 per cent nominal), compared with the four per cent (4.7 per cent nominal) long-term return needed for CPP sustainability.

Since March 1999, the return on the CPP reserve fund has underperformed the CPP sustainability return by 0.4 per cent due to the large cash and bond holdings relative to equities in the early years when bonds performed poorly. However, the assets managed by the CPP Investment Board exceeded the sustainability return by 0.69 per cent since we invested our first dollar in March 1999.

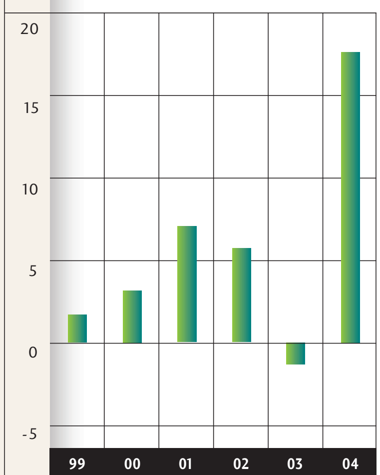
Prior to July 2003, we compared the performance of asset classes managed by the CPP Investment Board with conventional benchmarks such as the S&P/TSX Composite Index for Canadian stocks, the S&P 500 Index for U.S. stocks and the MSCI EAFE Index for non-North American stocks. In July 2003, we began to shift our passive portfolio from replicating well-known indexes to structuring it on an economic sector basis from the global perspective. The customized benchmark we are currently using to measure performance is described in the financial statements.

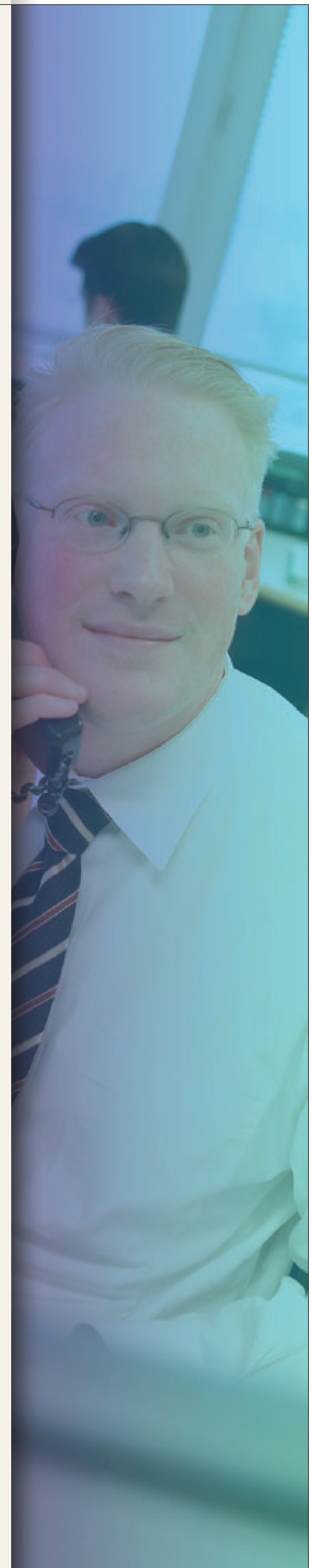
In fiscal 2004, our portfolio return of 31.7 per cent was 2.7 per cent lower than the customized benchmark return. This outcome was expected and was primarily the natural consequence of investing large sums of cash in a rising market as well as building a private equity portfolio that is valued conservatively in the initial years.

CPP Reserve Fund
($billions)
Fiscal year ending March 31



CPP Reserve Fund
Investment Returns (percentage)
Fiscal year ending March 31





The major reason why the return for assets managed by the CPP Investment Board fell short of the benchmark return is related to the private equity portfolio. Private equity assets are carried on our balance sheet at very conservative values and, as expected, will take a few years to generate the positive cash flows required to determine reliable market valuations.

We also face the challenge of investing large sums of cash flow without disrupting the Canadian market. For example, in one day we received $1.7 billion in cash inflow that took one month to invest. The transition of cash into stocks creates a "cash drag" on our returns in a rising market while funds are not fully invested.

Since inception, the portfolio managed by the CPP Investment Board has exceeded the Composite benchmark return by 1.8 per cent, largely because we reduced our exposure to one Canadian technology stock (Nortel Networks) that in 1999 and 2000 dominated the Canadian market and subsequently lost substantial value. Our decision resulted in lower portfolio losses during that period than would have otherwise occurred.

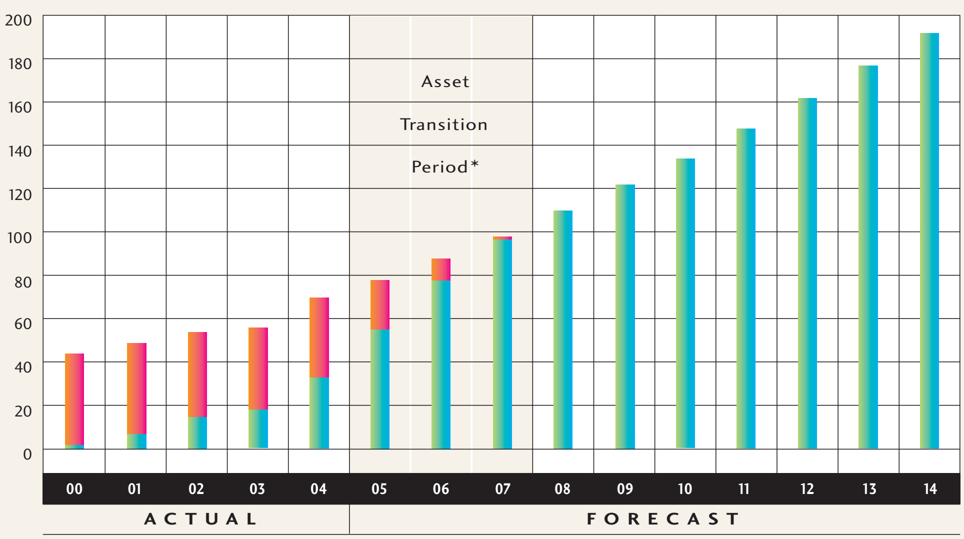
The CPP Investment Board also evaluates returns and risks relative to a minimum risk portfolio that mirrors the growth of CPP liabilities. The proxy for the minimum risk portfolio is currently the Scotia Capital Real Return Bond Index. It is a useful starting point in enabling us to track the value added to the CPP reserve fund as we seek full compensation for all risks assumed and investment costs incurred. This performance measurement is reviewed by management with the Board of Directors on a regular basis.

Liquidity and Capital Resources CPP contributions exceeded the amount required to pay benefits in fiscal 2004 by approximately $4.6 billion compared with $3.1 billion in fiscal 2003. As we assume our new role as provider of cash management services to the CPP starting September 2004, we expect average monthly short-term cash inflows of approximately $3 billion. A portion of these funds will be invested in highly liquid short-term investments and then returned each month to the CPP in order to pay benefits.

As a Canadian pension fund we face certain investment limitations and restrictions. Funds slated for publicly traded equities must be invested carefully to avoid pushing up share prices. Our investment flexibility under the foreign property rule is further limited by the fact that private equity investments held through limited partnerships are generally considered foreign content under the *Income Tax Act*. Currently the bulk of our private equity holdings are limited partnerships. The transfer of the remaining cash and bond assets of the CPP to our management will effectively boost the overall Canadian content of our portfolio, providing additional room for global asset purchases.

Looking Ahead Despite the strong performance of equity markets this past fiscal year, the challenging investment outlook we outlined in

Projected Assets ($billions)
Fiscal year ending March 31



CPP Bonds and Cash in Ottawa
CPP Investment Board Assets

* CPP bonds and cash currently administered by the federal government will be transferred to the CPP Investment Board during this period.

last year's annual report continues to apply. Interest rates remain at historic lows, limiting prospective returns on fixed income assets, and equities have started the year with higher prices than a year ago. We believe it is prudent to assume that equity returns will be modest over the next decade.

However, we also believe that publicly traded equities will outperform fixed income investments over the long term. Consequently, we will continue to invest in public equities using our global sector approach so that CPP reserve fund assets are allocated in a way that reflects the long-term funding requirements of the CPP.

Like other major pension funds, we are looking for opportunities to increase the size of our investments in real return assets, in part because their value over time will likely track and surpass the general rate of inflation. Clearly, our goal of achieving our target of a 4.5 per cent long-term real rate of return for the CPP will require diligence.

Enterprise-Wide Risk Management Framework The enterprise-wide risk management framework is designed to communicate, monitor and report on the risks that may affect the achievement of our business objectives and strategies. Within the enterprise-wide risk management framework we have identified seven categories of risks. In addition to investment risk, which is discussed on page 14 of this report, the major categories of risk are as follows:

- *Strategic Risk* – If business strategies are not developed, executed or monitored effectively, we may not be able to achieve our mission. To manage this risk, we ensure that we have effective governance, organizational structure and leadership, and effective strategic and business planning processes.

- *Fiduciary Risk* – Any organization must consider the possibility that fiduciary responsibilities may not be respected or appropriately

"Our enterprise-wide framework is forward-looking; it allows us to identify the key risks we're likely to face and then deal with them"

JANE NYMAN
VICE PRESIDENT - FINANCE AND OPERATIONS

executed. To manage this risk effectively, we have a clear understanding of roles, responsibilities and authorities at each level of the organization. In addition, through our code of conduct and conflict of interest policies for directors and employees, we ensure that values and behavioural expectations are well understood and integrated throughout the organization.

- *Business Environment Risk* – This is the risk of not continuously anticipating, monitoring, understanding and responding to changes in the business environment. We keep abreast of social, cultural, economic and political changes that can affect our ability to achieve our mission.

- *Legislative and Regulatory Risk* – This is the risk of actual or proposed changes to legislation. It also includes the risk of non-compliance with laws, rules, regulations, prescribed practices or ethical standards. A compliance management system that tracks our legislative and regulatory obligations requires each department to acknowledge compliance with various requirements. The system is administered by our Law Department. Quarterly reporting is provided to the Audit Committee.

- *Operational Risk* – This is the risk to the organization of direct or indirect loss resulting from inadequate or failed internal processes, technology or human performance. To manage this risk we establish appropriate controls around information processing, sufficient and appropriate reporting and safeguarding of assets, management of information technology and appropriate human resources systems and practices.

- *Reputation Risk* – Internal or external factors could damage the organization's reputation, image or credibility. For example, reputation can be damaged by not appropriately managing the various risks described above. Our Communications and Stakeholder Relations Department

"We take our code of conduct and conflict of interest provisions very seriously because they are fundamental to our ability to maintain public trust and confidence"

JOHN BUTLER
VICE PRESIDENT - GENERAL COUNSEL AND CORPORATE SECRETARY

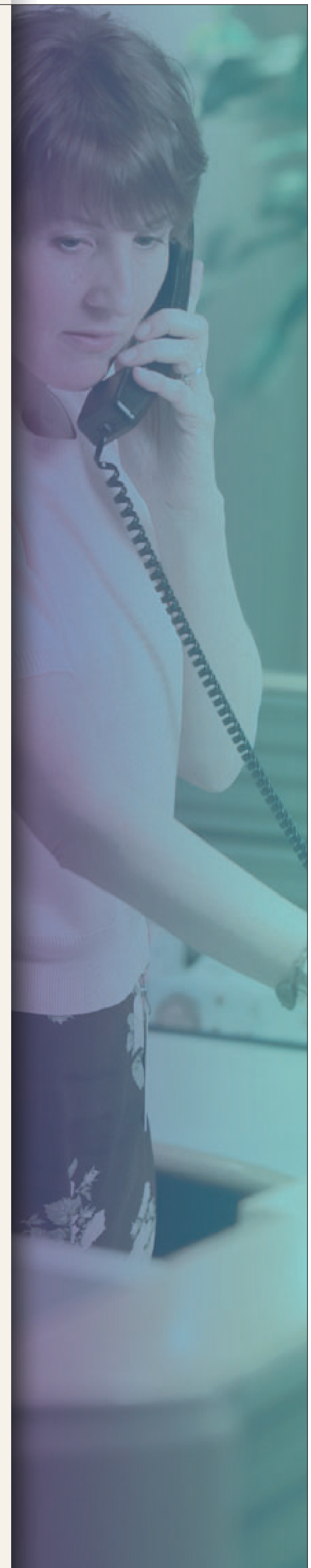
also ensures that clear and clearly understood communications are provided to stakeholders and the general public.

The board is responsible for ensuring that management has identified the principal risks of the business and has established appropriate policies and internal controls. It is management's responsibility to recommend such policies to the board for its consideration and approval, establish internal controls and procedures to effectively manage the risks of the organization, and provide reports to the board and its committees. Internal and external auditors, in the course of executing their audit plans, also provide input to management and the board on the effectiveness of the organization's risk management practices.

Accounting Policies All our investments are stated at fair value. Quoted market prices are used for publicly traded stocks, which are priced daily by the market. However, valuations for our private market investments are generally not publicly available. As a result, valuations for these investments are based on estimates and are inherently uncertain. These values are determined by external managers using accepted industry valuation methods and are typically based on conservative valuation policies.

Our significant accounting policies are described in Note 1 to the financial statements.

CPP Investment Board Operations At year-end, the employees of the CPP Investment Board totalled 51 professionals and support staff compared with 35 the year before. The cost of running the organization in fiscal 2004 totalled $19.7 million compared with $12.9 million the previous year. Expenses for fiscal 2004 were seven basis points, or seven cents per $100 of invested assets, which is unchanged from the year before. Details of these expenses can be found in the financial statements on pages 31-45.



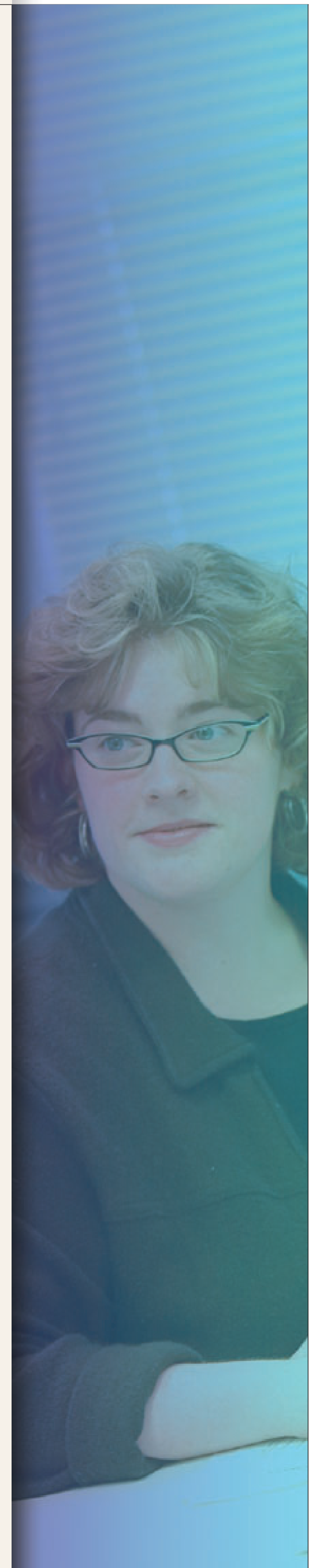
This growth is necessary to build institutional strength. We will expand staff again in fiscal 2005, raising our total to approximately 100 people.

Through the year, we did extensive organizational design work to prepare for the anticipated increase in assets that will come under our management. The work also prepared us for the growth required to monitor working relationships with the 50 firms that implement segments of our investment and operating strategies. A key component of our enterprise-wide approach to managing risk is the ongoing monitoring of our external partners. Similarly, additional resources are required because of the more active role we are taking in managing CPP funds as well as the additional responsibilities we will face with the transfer of the remaining CPP cash and bond assets.

Operating costs are expected to almost double in fiscal 2005 but remain constant as measured in basis points on assets under management. The primary driver of our increased costs is compensation and benefits related to the doubling of our number of employees. Although expenses are rising, we have effective cost management systems and practices in place to ensure the CPP Investment Board continues to provide value for money. Going forward, external investment management expenses for public market investments are largely performance-based so increases in this regard will reflect positive results from our active overlay program.

In fiscal 2004, our first special examination authorized by the federal Minister of Finance was begun. This audit is required once every six years under our governing legislation.

Corporate Objectives Our investment focus is long-term, but we set annual investment and operating objectives. We are required by the regulations attached to our legislation to publish a statement in the annual report of our objectives for the past year and the extent to



which they have been met. We are similarly required to publish our objectives for the next year and the foreseeable future.

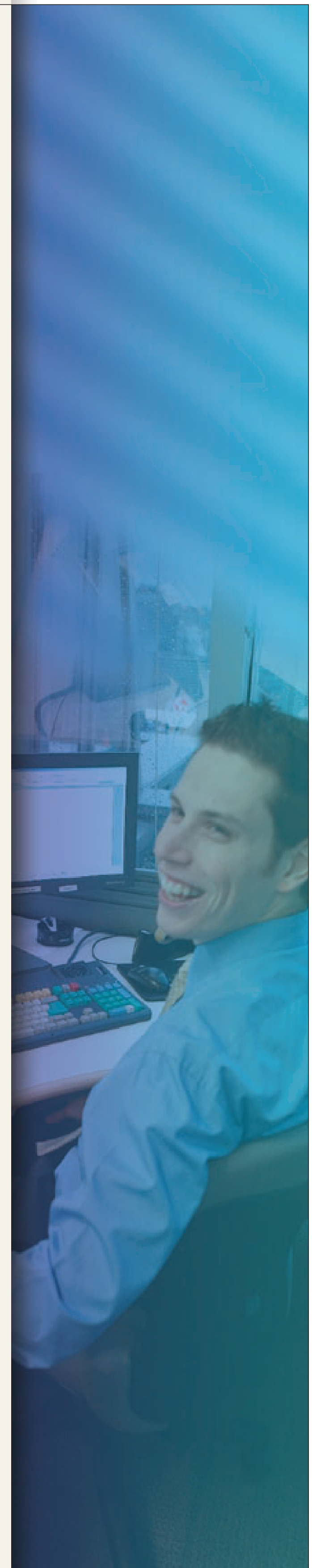
For fiscal 2004, we set out six corporate objectives. One was a full review of our strategic direction by management and the Board of Directors. At year-end, the fundamental architecture of our new strategy had been approved by the board and is in the process of being implemented.

Another objective was to provide cash liquidity to the CPP so that it can meet its payment obligations. We have put staff and cash management systems in place in preparation for the cash transfer that will begin in September 2004.

Two additional objectives were related to our public equity investing. In July 2003, we moved from a strategy of traditional passive index investing on a regional basis to one based primarily on 12 key economic sectors globally. Our objective is to build a passive portfolio with a sector allocation that reflects global conditions. We also expanded the active management of public equities through an active overlay program. We retained two active managers, each managing the equivalent of $500 million. These managers combine research, portfolio management and risk management capabilities with demonstrated ability to add value.

The fifth objective was to search for attractive real return assets, such as real estate, infrastructure assets and real return bonds. During fiscal 2004 we committed $100 million to real estate assets, and made our first foray into an infrastructure fund with a commitment of $100 million.

The final objective was to strengthen our enterprise-wide risk management system by expanding our control and monitoring of external service providers, which we have done by establishing and implementing monitoring guidelines and procedures based on regulatory best practices.



Performance Review

For fiscal 2005, we have identified five corporate objectives. First, we will strengthen our human resources systems and practices and complete the next phase of our recruitment program. Second, we will present three to five year departmental strategies to the Board of Directors.

Third, we will evolve our information technology infrastructure to support research, trading and information and document management.

Fourth, we will expand our suite of performance metrics to assess our success in meeting the objectives of the operational plan.

Finally, we will ensure that the CPP has sufficient funds to pay benefits and its ongoing expenses.

Investment Partners

REAL ESTATE

LASALLE INVESTMENT MANAGEMENT
OSMINGTON
RETIREMENT RESIDENCES REAL ESTATE INVESTMENT TRUST

INFRASTRUCTURE

MACQUARIE BANK LIMITED

GENERAL PARTNERS

ADVENT INTERNATIONAL
ALPINVEST PARTNERS
APOLLO MANAGEMENT, LP
ARES MANAGEMENT LLC
THE BLACKSTONE GROUP
BOREALIS CAPITAL CORPORATION
BRASCAN ASSET MANAGEMENT
BRIDGEPOINT CAPITAL LIMITED
CAI CAPITAL MANAGEMENT CO.
CANDOVER
THE CARLYLE GROUP
CELTIC HOUSE VENTURE PARTNERS
CLAIRVEST GROUP INC.
COLLER CAPITAL
CSFB PRIVATE EQUITY
EDGESTONE CAPITAL PARTNERS
GM ASSET MANAGEMENT
GOLDBERG LINDSEY & CO. LLC
HEARTLAND INDUSTRIAL PARTNERS
JP MORGAN PARTNERS
KENSINGTON CAPITAL PARTNERS LIMITED
LEHMAN BROTHERS PRIVATE EQUITY
LEXINGTON PARTNERS
MATLIN PATTERSON GLOBAL ADVISORS, LLC
MDS CAPITAL CORP.
MIDOCEAN PARTNERS
MPM CAPITAL
ONEX CORPORATION
PAI PARTNERS
PAUL CAPITAL PARTNERS
SCHRODER VENTURES LIFE SCIENCES
SKYPOINT CAPITAL CORPORATION
TERRA FIRMA CAPITAL PARTNERS
TEXAS PACIFIC GROUP
THOMAS WEISEL PARTNERS LLC
VENTURES WEST MANAGEMENT INC.

TRANSITION MANAGEMENT PARTNERS

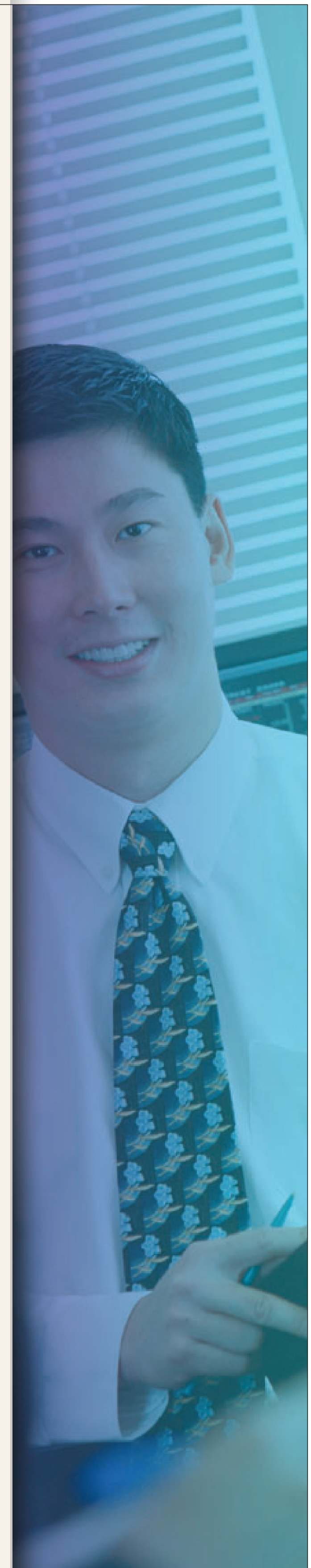
BARCLAYS GLOBAL INVESTORS CANADA LIMITED
FRANK RUSSELL CANADA LIMITED
STATE STREET GLOBAL MARKETS CANADA INC.

ACTIVE OVERLAY MANAGERS

CONNOR, CLARK & LUNN INVESTMENT MANAGEMENT LTD.
UBS GLOBAL ASSET MANAGEMENT (CANADA) CO.

OTHER PARTNERS

ENTERPRISE CAPITAL



Management's Responsibility for Financial Reporting

The consolidated financial statements of the Canada Pension Plan Investment Board (the "CPP Investment Board") have been prepared by management and approved by the Board of Directors. Management is responsible for the integrity and reliability of the consolidated financial statements and the financial information contained within the annual report.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include certain amounts based on management's judgments and best estimates where deemed appropriate. The significant accounting policies used are disclosed in Note 1 to the consolidated financial statements. The financial information presented throughout the annual report is consistent with the consolidated financial statements.

The CPP Investment Board develops and maintains systems of internal control and supporting procedures. They are designed to provide reasonable assurance that assets are safeguarded, records are properly maintained and transactions are properly authorized and are in accordance with the *Canada Pension Plan Investment Board Act* and the accompanying regulations and the by-laws and investment policies of the CPP Investment Board. These controls include the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability, the selection and training of qualified staff, and the communication of policies and guidelines throughout the organization. Internal controls are reviewed and evaluated by both internal and external auditors in accordance with their respective annual audit plans approved by the Audit Committee.

The Audit Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Audit Committee, consisting of five independent directors, meets regularly with both management and the internal and external auditors to discuss the scope and findings of audits and other work they may be requested to perform from time to time, to review financial information and to discuss the adequacy of internal controls. The Audit Committee reviews and approves the annual financial statements and recommends them to the Board of Directors for approval.

The CPP Investment Board's external auditors, Deloitte & Touche LLP, 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 Committee to discuss any findings related to the integrity and reliability of the CPP Investment Board's financial reporting and the adequacy of internal control systems.

JOHN A. MACNAUGHTON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

JANE NYMAN
VICE PRESIDENT — FINANCE AND OPERATIONS

Investment Certificate

The *Canada Pension Plan Investment Board Act* (the “Act”) requires that a certificate be signed by a director on behalf of the Board of Directors, stating that the investments of the CPP Investment Board held during the year were in accordance with the Act and the CPP Investment Board’s investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of the CPP Investment Board, held during the year ended March 31, 2004, were in accordance with the *Canada Pension Plan Investment Board Act* and the CPP Investment Board’s Investment Statement and Investment Policies.

Mary C. Arnold

MARY C. ARNOLD, FCA

CHAIR OF THE AUDIT COMMITTEE ON BEHALF OF THE BOARD OF DIRECTORS, MAY 6, 2004

Auditors’ Report

To the Board of Directors
Canada Pension Plan Investment Board

We have audited the consolidated balance sheet and the consolidated statement of investment portfolio of the Canada Pension Plan Investment Board (the “CPP Investment Board”) as at March 31, 2004 and the consolidated statements of income/(loss) and accumulated net income/(loss) from operations and of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of the CPP Investment Board’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial position of the CPP Investment Board and the investments held as at March 31, 2004 and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles, which were applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the CPP Investment Board that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the “Act”) and the by-laws.

Further, in our opinion, the record of investments kept by the CPP Investment Board’s management pursuant to paragraph 39(1)(c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS

TORONTO, ONTARIO APRIL 30, 2004

Consolidated Balance Sheet

As at March 31, 2004 ($000's)	**2004**	2003
ASSETS		
Investments (Note 2)	**$ 32,991,204**	$ 17,861,767
Investment receivables (Note 2)	**102,363**	40,624
Due from brokers	**13,917**	35,005
Premises and equipment	**974**	1,112
Other assets	**1,828**	980
TOTAL ASSETS	**33,110,286**	17,939,488
LIABILITIES		
Investment liabilities (Note 2)	**199,358**	449,757
Due to brokers	**108,722**	34,497
Accounts payable and accrued liabilities	**6,860**	4,490
TOTAL LIABILITIES	**314,940**	488,744
NET ASSETS	**$ 32,795,346**	$ 17,450,744
NET ASSETS, REPRESENTED BY		
Share capital (Note 4)	**$ —**	$ —
Accumulated net income/(loss) from operations	**2,970,791**	(4,238,916)
Accumulated Canada Pension Plan transfers	**29,824,555**	21,689,660
NET ASSETS	**$ 32,795,346**	$ 17,450,744

On behalf of the Board of Directors

Gail Cook-Bennett   Mary C. Arnold

GAIL COOK-BENNETT
CHAIRPERSON

MARY C. ARNOLD, FCA
CHAIR OF THE AUDIT COMMITTEE

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Income/(Loss) and Accumulated Net Income/(Loss) from Operations

Year ended March 31, 2004 ($000's)	**2004**	2003
INVESTMENT INCOME/(LOSS), NET OF EXTERNAL INVESTMENT MANAGEMENT FEES (Note 6)	**$ 7,228,609**	$ (4,141,233)
OPERATING EXPENSES		
General operating expenses (Note 7a)	**7,746**	4,835
Salaries and benefits (Note 7b)	**7,287**	4,796
Professional and consulting fees (Note 7c)	**3,869**	1,426
	18,902	11,057
NET INCOME/(LOSS) FROM OPERATIONS	**7,209,707**	(4,152,290)
ACCUMULATED NET LOSS FROM OPERATIONS, BEGINNING OF YEAR	**(4,238,916)**	(86,626)
ACCUMULATED NET INCOME/(LOSS) FROM OPERATIONS, END OF YEAR	**$ 2,970,791**	$ (4,238,916)

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2004 ($000's)	**2004**	2003
NET ASSETS, BEGINNING OF YEAR	**$ 17,450,744**	$ 14,284,966
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 5)	**8,134,895**	7,318,068
Net income/(loss) from operations	**7,209,707**	(4,152,290)
INCREASE IN NET ASSETS FOR THE YEAR	**15,344,602**	3,165,778
NET ASSETS, END OF YEAR	**$ 32,795,346**	$ 17,450,744

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Investment Portfolio

The CPP Investment Board's investments, before allocating derivative contracts and associated money market securities and other investment liabilities and receivables to the asset classes to which they relate, are as follows:

	Fair Value	
As at March 31, 2004 ($000's)	**2004**	2003
EQUITIES (Note 2)		
Canada		
Public markets	**$ 18,045,921**	$ 11,050,810
Private markets	**281,602**	260,609
	18,327,523	11,311,419
Non-Canada		
Public markets	**7,552,200**	4,245,184
Private markets	**1,529,698**	1,264,851
	9,081,898	5,510,035
TOTAL EQUITIES		
(Cost: 2004 – $25,034,281; 2003 – $20,335,762)	**27,409,421**	16,821,454
REAL RETURN ASSETS (Note 2b)		
Public markets real estate	**350,480**	218,488
Private markets real estate	**431,848**	246,484
Private markets infrastructure	**22,013**	—
TOTAL REAL RETURN ASSETS		
(Cost: 2004 – $829,325; 2003 – $644,914)	**804,341**	464,972
NOMINAL FIXED INCOME		
Money market securities		
(Cost: 2004 – $4,783,899; 2003 – $575,377)	**4,777,442**	575,341
TOTAL INVESTMENTS	**32,991,204**	17,861,767
INVESTMENT RECEIVABLES		
Derivative receivables (Note 2a)	**34,394**	—
Dividends receivable	**65,289**	40,272
Accrued interest	**2,680**	352
TOTAL INVESTMENT RECEIVABLES		
(Cost: 2004 – $68,142; 2003 – $40,716)	**102,363**	40,624
INVESTMENT LIABILITIES		
Debt on real estate properties (Note 2b)	**(170,797)**	(152,000)
Derivative liabilities (Note 2a)	**(28,561)**	(785)
Due to private equity partnerships (Note 2d)	—	(171,972)
Credit facility (Note 3)	—	(125,000)
TOTAL INVESTMENT LIABILITIES		
(Cost: 2004 – $169,619; 2003 – $452,067)	**(199,358)**	(449,757)
NET INVESTMENTS	**$ 32,894,209**	$ 17,452,634

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INVESTMENT PORTFOLIO

The CPP Investment Board's investments, after allocating derivative contracts and associated money market securities and other investment liabilities and receivables to the asset classes to which they relate, are as follows:

As at March 31, 2004 ($000's)	**2004**		2003	
	Fair Value	**(%)**	Fair Value	(%)
EQUITIES[1]				
Canada	**$ 22,571,543**	**68.6%**	$ 11,560,652	66.2%
Non-Canada[2]	**9,326,240**	**28.4%**	5,510,035	31.6%
REAL RETURN ASSETS				
Real estate[3]	**611,531**	**1.9%**	312,972	1.8%
Infrastructure	**22,013**	**0.1%**	—	—
NOMINAL FIXED INCOME				
Money market securities[4]	**362,882**	**1.0%**	68,975	0.4%
	$ 32,894,209	**100.0%**	$ 17,452,634	100.0%

[1] Includes derivative contracts and associated money market securities as described more fully in Note 2a.
[2] Includes private equity liabilities offset by money market securities held to discharge those liabilities, as described more fully in Note 2d.
[3] Net of mortgage debt on real estate properties as described more fully in Note 2b.
[4] Includes credit facility liability, accrued interest and dividends receivable.

See accompanying Notes to the Consolidated Financial Statements

ORGANIZATION

The Canada Pension Plan Investment Board (the "CPP Investment Board") was formed pursuant to the *Canada Pension Plan Investment Board Act* (the "Act"). The CPP Investment Board is responsible for managing amounts that are transferred to it under Section 111 of the *Canada Pension Plan* in the best interests of the beneficiaries and contributors under that Act. The amounts are to be invested with a view to achieving a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan (the "CPP") and the ability of the CPP to meet its financial obligations.

The CPP Investment Board has a fiscal year end of March 31.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

These financial statements present the consolidated financial position and operations of the CPP Investment Board and its wholly-owned subsidiaries. The financial statements include only a portion of the assets (as described in Note 2) and none of the pension liabilities of the CPP. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act and the accompanying regulations.

Certain comparative figures have been reclassified to conform with the current year presentation.

(b) VALUATION OF INVESTMENTS, INVESTMENT RECEIVABLES, AND INVESTMENT LIABILITIES

Investments, investment receivables and investment liabilities are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value is determined as follows:

(i) Quoted market prices for publicly traded equities and unit values for public equity funds are used to represent fair value for these investments. Unit values reflect the quoted market prices of the underlying securities.

(ii) In the case of private equity investments and infrastructure funds, where quoted market prices are not available, fair value is determined annually, commencing after the first year of ownership, based on carrying values and other relevant information reported by external managers of the limited partnerships or funds in which the investments are made. These carrying values are determined by the external managers using accepted industry valuation methods. These methodologies include considerations such as earnings multiples of comparable publicly traded companies, discounted cash flows and third party transactions, or other events which suggest material impairment or improvement in the fair value of the investment. On a quarterly basis, when there is evidence of a significant change in fair value, the valuation is adjusted, as appropriate. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for private equity investments and infrastructure funds, unless there is an indication of permanent impairment of value.

(iii) The fair value of private market investments in real estate properties is determined annually, commencing after the first year of ownership, using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for real estate. Debt on real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics.

(iv) Fair value for over-the-counter derivatives such as swaps is determined based on the market prices for underlying assets with similar characteristics. Fair value for exchange-traded futures is based on quoted market prices.

(v) Money market securities are recorded at cost which, together with accrued interest income, approximates fair value.

(c) INVESTMENT INCOME RECOGNITION

Investment income is recorded on the accrual basis and includes realized gains and losses on disposal of investments, unrealized gains and losses on investments held at the end of the year, dividend income (recognized on ex-dividend date), interest income, distributions from partnerships and trusts, and net operating income from private market real estate investments.

Realized gains and losses on investments sold during the year represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the difference between the fair value and cost of the investments. The current year unrealized gains and losses represent the year-over-year change in this difference.

(d) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Investments denominated in foreign currencies and held at the year end are translated at exchange rates in effect at the year end date. The resulting realized and unrealized gains and losses are included in investment income.

(e) CANADA PENSION PLAN TRANSFERS

Amounts received from the CPP are recorded on a cash basis.

(f) INCOME TAXES

The CPP Investment Board is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board are owned by Her Majesty in right of Canada. The CPP Investment Board's subsidiaries are exempt from Part I tax under paragraph 149(1)(d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the subsidiaries are owned by a corporation whose shares are owned by Her Majesty in right of Canada.

(g) USE OF ESTIMATES

In preparing these financial statements, management makes certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures. Actual results could differ from these estimates.

2. INVESTMENTS, INVESTMENT RECEIVABLES AND INVESTMENT LIABILITIES

The CPP Investment Board has established investment policies which set out the manner in which assets shall be invested. In determining the asset mix, the CPP Investment Board takes into consideration certain assets of the CPP which are held outside of the CPP Investment Board. As at March 31, 2004, these assets total approximately $33.0 billion at cost (2003 – $33.7 billion) and consist primarily of provincial debt obligations.

The Consolidated Statement of Investment Portfolio provides information on the investments and related receivables and liabilities held as at March 31, 2004.

(a) DERIVATIVE CONTRACTS

A derivative is a financial contract, the value of which is derived from the value of underlying assets, indexes, interest rates or currency exchange rates.

The CPP Investment Board uses derivatives primarily to replicate the return of Canadian and Non-Canadian equity indexes. As at March 31, 2004, the CPP Investment Board has equity swaps outstanding to exchange money market interest for equity returns. The CPP Investment Board also uses exchange-traded futures contracts to achieve the desired broad market exposure to the equity markets while cash is being held to fund investment activities.

All derivative contracts have a term to maturity of one year or less. Notional amounts of derivative contracts are used to compute the cash flows and for determining the fair value of the contracts. Notional amounts are not recorded as assets or liabilities on the balance sheet. The notional amounts and fair value of derivative contracts held as at March 31 are as follows:

($000's)	**2004**		2003	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Equity swaps	**$ 4,034,278**	**$ 9,288**	$ 250,000	$(785)
Equity futures	**448,249**	**(3,455)**	—	—
Total	**$ 4,482,527**	**$ 5,833**	$ 250,000	$(785)

Consistent with the investment policies, derivative contracts are fully covered by money market securities. The economic impact on the total asset mix is to increase Canada and Non-Canada equities exposure by 12.9% (2003 – 1.4%) and 0.8% (2003 – Nil%), respectively, with a corresponding decrease in money market securities exposure.

(b) REAL RETURN ASSETS

During the current year, the CPP Investment Board made its first investment in a private market infrastructure fund. As at March 31, 2004, the CPP Investment Board has advanced $22,013,000.

The CPP Investment Board obtains exposure to real estate through investments in publicly traded securities and privately held real estate. Private real estate investments are held by a subsidiary and are managed on behalf of the CPP Investment Board by external advisors and managers through co-ownership arrangements. As at March 31, 2004, the subsidiary's share of these investments includes assets of $431,848,000 (March 31, 2003 – $246,484,000) and

$170,797,000 of liabilities related to mortgage debt (March 31, 2003 – $152,000,000), with a weighted average fixed interest rate of 6.86% and terms to maturity of three to seven years.

(c) INVESTMENT RECEIVABLES
Investment receivables include dividends receivable of $65,289,000 (2003 – $40,272,000) on public market equities and accrued interest of $2,680,000 (2003 – $352,000) on money market securities.

(d) DUE TO PRIVATE EQUITY PARTNERSHIPS
Amounts due to partnerships at March 31, 2003 represented the second installment owing to a limited partnership relating to the purchase by the partnership during that year of a portfolio of private equity investments. The amount was paid in September 2003.

(e) PRIVATE EQUITY AND INFRASTRUCTURE MANAGEMENT FEES
Private equity and infrastructure investments are generally made by buying interests in limited partnerships with a typical term of 10 years. The private equity limited partnerships' underlying investments represent equity ownerships or investments with the risk and return characteristics of equity.

The CPP Investment Board advances capital to the limited partnerships, a portion of which, commonly referred to as management fees, is used by the general partners to select and provide ongoing management support to the underlying companies. Management fees generally vary between 1% and 2% of the total amount committed to the limited partnerships, and are included as part of the CPP Investment Board's cost of the investments. During the year ended March 31, 2004, management fees totalling $64 million (2003 – $47 million) were included in the capital advanced to the limited partnerships. As discussed more fully in Note 1b, the carrying values of these investments, which include these management fees, are reviewed at least annually and any resulting adjustments are reflected as gains or losses in net unrealized investment income/(loss) (see Note 6a).

(f) COMMISSIONS
Commissions are paid to brokers on purchases and sales of publicly traded equities. Commissions on purchases are included as part of the cost of publicly traded equities. Commissions on sales are deducted from realized gains and losses as a cost of disposition. During the year ended March 31, 2004, the CPP Investment Board paid total brokerage commissions of $14 million (2003 – $6 million).

(g) FOREIGN CURRENCY RISK
The CPP Investment Board is exposed to currency risk through holdings of Non-Canadian investments, investment receivables and investment liabilities. Investments are not hedged against changes in foreign exchange rates. The underlying currency exposures as at March 31, 2004 are as follows:

($000's)	2004		2003	
Currency	**Exposure**	**% of Total**	Exposure	% of Total
United States Dollar	**$ 5,602,374**	**58%**	$ 3,091,739	56%
Euro	**1,557,313**	**16%**	1,020,149	19%
British Pound Sterling	**932,450**	**10%**	577,369	10%
Japanese Yen	**697,546**	**7%**	448,268	8%
Swiss Franc	**349,330**	**4%**	166,886	3%
Australian Dollar	**136,968**	**1%**	111,940	2%
Other	**342,416**	**4%**	125,325	2%
	$ 9,618,397	**100%**	$ 5,541,676	100%

(h) CREDIT RISK

The CPP Investment Board limits credit risk by dealing with counterparties that have a minimum credit rating of A or R-1 (short-term) as determined by a recognized credit rating agency, where available, or as determined through an internal credit rating process. Credit exposure is limited to maximum amounts approved by the Board of Directors.

(i) SECURITIES LENDING

The CPP Investment Board participates in a securities lending program to enhance portfolio returns. Credit risk associated with the securities lending program is mitigated by requiring the borrower to provide daily collateral in the form of readily marketable investments of greater market value than the securities loaned. As at March 31, 2004, the CPP Investment Board's investments include loaned securities with an estimated fair value of $721 million (2003 – $Nil). The fair value of collateral received in respect of these loans is $758 million (2003 – $Nil).

3. CREDIT FACILITY

The CPP Investment Board maintains a $300,000,000 unsecured credit facility to meet potential liquidity requirements relating to investment activities. As at March 31, 2004, the total amount drawn on the credit facility is $Nil (2003 – $125,000,000). Consistent with the investment policies, the credit facility is repaid within 45 days of draw date.

4. SHARE CAPITAL

The issued and authorized share capital of the CPP Investment Board is $100 divided into 10 shares having a par value of $10 each. The shares are owned by Her Majesty in right of Canada.

5. CANADA PENSION PLAN TRANSFERS

Section 111 of the *Canada Pension Plan* provides for the transfer to the CPP Investment Board of amounts that exceed the immediate obligations of the CPP. The funds come from both employer and employee contributions to the CPP, proceeds of maturing and redeemed government bonds held in a portfolio administered by the federal government, and interest income generated from this portfolio. During the year, a total of $8,134,895,000 (2003 – $7,318,068,000) was transferred to the CPP Investment Board.

6. INVESTMENT INCOME/(LOSS), NET OF EXTERNAL INVESTMENT MANAGEMENT FEES

(a) INVESTMENT INCOME/(LOSS), NET OF EXTERNAL INVESTMENT MANAGEMENT FEES

Investment income/(loss) is reported net of external investment management fees. Investment management fees in respect of public markets investments are expensed as incurred. Investment management fees for private markets real estate investments are deducted by the asset manager before the CPP Investment Board receives its share of net operating income from the properties. For a discussion of private equity and infrastructure management fees, see Note 2e. Investment income/(loss) by asset class, net of external investment management fees and after giving effect to derivative contracts and investment receivables and liabilities, is as follows:

($000's)	**2004**	2003
EQUITIES[1]		
Canada		
Public markets	**$ 5,376,659**	$(2,288,626)
Private markets[2]	**(13,595)**	(3,505)
	5,363,064	(2,292,131)
Non-Canada		
Public markets	**1,546,533**	(1,578,225)
Private markets[2]	**174,302**	(98,291)
	1,720,835	(1,676,516)
Less: Public markets external investment management fees	**(753)**	(1,809)
	7,083,146	(3,970,456)
REAL RETURN ASSETS		
Public markets real estate[3]	**151,961**	(172,576)
Private markets real estate[4]	**30,693**	921
Less: External investment management fees	**(4,385)**	(285)
	26,308	636
	178,269	(171,940)
NOMINAL FIXED INCOME		
Money market securities[5]	**(32,806)**	1,163
INVESTMENT INCOME/(LOSS), NET OF EXTERNAL INVESTMENT MANAGEMENT FEES[6]	**$ 7,228,609**	$ (4,141,233)

[1] Includes unrealized gains of $5,908,112,000 (2003 – unrealized losses of $3,084,016,000), realized gains of $690,622,000 (2003 – realized losses of $1,528,765,000), dividends of $484,412,000 (2003 – $281,533,000) and distributions of capital gains and dividends from public equity pooled and mutual funds of $Nil (2003 – $360,792,000).

[2] As described more fully in Note 2e, the carrying values of private equity investments, including management fees, are reviewed at least annually and any resulting adjustments are reflected as gains or losses in net unrealized investment income/(loss).

[3] Includes unrealized gains of $131,995,000 (2003 – unrealized losses of $180,826,000), realized losses of $4,000 (2003 – realized gains of $2,233,000) and dividends of 19,970,000 (2003 – $6,017,000).

[4] Includes private market real estate operating income of $20,795,000 (2003 – $921,000), which is net of debt interest of $17,260,000 (2003 – $3,014,000), and unrealized gains of $9,898,000 (2003 – $Nil). Realized gains were $Nil (2003 – $Nil).

[5] Includes realized losses of $32,955,000 (2003 – realized gains of $1,149,000) and unrealized gains of $149,000 (2003 – unrealized gains of $14,000).

[6] Includes foreign exchange losses of $392,607,000 (2003 – foreign exchange losses of $244,697,000).

(b) INVESTMENT PERFORMANCE

Portfolio returns and benchmark returns are as follows:

	2004		2003	
	Portfolio Returns	**Benchmark Returns**	Portfolio Returns	Benchmark Returns
Canadian equity investments	**34.3%**	**37.0%**	(17.3)%	(17.5)%
Non-Canadian equity investments	**24.5%**	**29.5%**	(27.6)%	(28.0)%
Real return assets	**50.5%**	**15.3%**	(50.7)%	9.2%
Total	**31.7%**	**34.4%**	(21.1)%	(20.3)%

Commencing July 1, 2003, the benchmark returns for both public and private equities were based on relevant S&P/Citigroup benchmark returns and aggregated according to the benchmark weights specified in the investment policies. The benchmark for real estate and infrastructure is the Scotia Capital Real Return Bond Index. Prior to July 1, 2003, the benchmarks were based on the S&P/TSX Composite for Canadian public and private equity investments, a combination of the S&P 500 and the MSCI EAFE for Non-Canadian public and private equity investments, and CPI + 4.5% for real return assets.

The total portfolio benchmark return aggregates the asset class benchmark returns according to the weights specified in the investment policies. Returns have been calculated in accordance with the methods set forth by the Association for Investment Management and Research.

7. OPERATING EXPENSES

(a) GENERAL OPERATING EXPENSES

General operating expenses consist of the following:

($000's)	**2004**	2003
Office rent, supplies and equipment	**$ 2,158**	$ 1,537
Custodial fees	**1,973**	876
Technology, data and analytical services	**1,210**	674
Communication expenses	**813**	673
Travel and accommodation	**477**	421
Directors' remuneration	**426**	373
Internal audit	**292**	104
Other operating expenses	**397**	177
	$ 7,746	$ 4,835

Directors' remuneration includes an annual retainer for each director of $14,000 (2003 – $14,000), board and committee meeting fees of $1,000 per meeting (2003 – $1,000), plus an additional annual retainer of $3,250 for each committee chair (2003 – $3,250). Separate fees are not paid for investment committee meetings when they are held on the same day as board meetings, which is the usual custom. The Chair of the Board of Directors receives $85,000 in annual compensation but is not eligible to receive annual or committee chair retainers or meeting fees unless the fees relate to public meetings. In fiscal 2004, the Chair received a total of $85,000 (2003 – $96,000).

In fiscal 2004, the Board of Directors held 9 board and investment committee meetings (2003 – 8) and 22 other committee meetings (2003 – 15).

(b) EXECUTIVE COMPENSATION

The CPP Investment Board determines executive compensation based on compensation principles approved by the Board of Directors.

Compensation earned by the five most highly compensated executive officers of the CPP Investment Board during fiscal 2004 amounted to $2,391,044 (2003–$1,684,254) and consisted of the following:

Name	Year	Salary	Annual[1] Bonus	Long-Term[1] Bonus	Benefits[2]	Other Compensation
John A. MacNaughton *President and Chief Executive Officer*	**2004** 2003	**$ 415,000** $ 400,000	**$ 250,000** $ 90,000	**$ 188,027** $ 24,875	**$ 71,288** $ 55,944	
Valter Viola *Vice President – Research and Risk Management*	**2004** 2003	**$ 195,000** $ 180,600	**$ 113,880** $ 69,500	**$ 100,320** $ —	**$ 27,236** $ 21,266	
Mark Weisdorf[3] *Vice President – Private Market Investments*	**2004** 2003	**$ 159,664** $ 215,000	**$ —** $ 80,500	**$ —** $ —	**$ 11,893** $ 30,452	**$ 211,849**
Donald Raymond *Vice President – Public Market Investments*	**2004** 2003	**$ 205,000** $ 185,000	**$ 131,200** $ 74,000	**$ —** $ —	**$ 25,843** $ 24,278	
Jane Nyman *Vice President – Finance and Operations*	**2004** 2003	**$ 185,000** $ 170,000	**$ 60,125** $ 41,000	**$ 22,842** $ 4,039	**$ 16,877** $ 17,800	

[1] Bonus awards include an annual and a long-term component and are based on the achievement of agreed objectives. The long-term bonus reflects amounts payable for the current year. Additionally, long-term bonuses awarded but not yet paid include approximately $518,487 for payment in 2005, $488,608 for payment in 2006, and $602,600 for payment in 2007. These amounts are adjusted annually by the total portfolio return. The payment of the long-term bonus is subject to executive officers meeting certain conditions of employment. Total long-term bonuses awarded but not yet paid, by officer, are as follows:

John A. MacNaughton	$583,807
Valter Viola	$459,983
Donald Raymond	$418,587
Jane Nyman	$147,318

[2] Benefits include pension contributions in connection with a defined contribution registered pension plan and a defined contribution supplementary pension plan, life insurance, club dues, and other miscellaneous non-cash remuneration. Under the defined contribution registered pension plan, executive officers contribute 3% of annual eligible earnings and the CPP Investment Board contributes 6% to the maximum allowed under the *Income Tax Act (Canada)*. Eligible earnings include salary and taxable benefits plus annual bonus to a maximum of 50% of total salary and taxable benefits. The CPP Investment Board's contributions vest with the employee after two years of continuous service. Under the defined contribution supplementary pension plan, which is unfunded, executive officers earn contribution credits equal to 9% of their eligible earnings in excess of the maximum eligible earnings under the registered pension plan. Contributions vest with the employee after five years of continuous service. The total unfunded liability as at March 31, 2004 is $250,604 (2003 – $171,707)

[3] Mr. Weisdorf ceased employment with the CPP Investment Board effective December 5, 2003. The amount reported under Other Compensation reflects a lump-sum payment payable on May 30, 2004, together with interest thereon at prime calculated from December 5, 2003, pursuant to a separation agreement entered into with Mr. Weisdorf on November 28, 2003 in connection with his cessation of employment.

(c) PROFESSIONAL AND CONSULTING FEES

Professional and consulting fees consist of the following:

($000's)	**2004**	2003
Consulting[1]	**$ 1,759**	$ 409
Professional accounting and external audit[2]	**1,146**	550
Legal	**964**	467
	$3,869	$ 1,426

1 Includes non-audit-related fees of $27,000 (2003 – $Nil) that were paid to the external auditors of the CPP Investment Board.
2 Includes audit fees of $557,000 (2003 – $370,000), other audit-related fees of $101,000 (2003 – $180,000) and fees to date of $488,000 (2003 – $Nil) for the special examination carried out by the external auditors pursuant to the Act.

8. COMMITMENTS

The CPP Investment Board has committed to enter into investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at March 31, 2004, these outstanding commitments total $3.9 billion (2003 – $3.9 billion).

The organization has made lease commitments of $21.0 million over the next 10 years.

9. GUARANTEES AND INDEMNIFICATIONS

Effective fiscal 2004, the CPP Investment Board adopted a new accounting guideline on the disclosure of guarantees. The CPP Investment Board provides guarantees to its officers, directors and various counterparties as part of its standard indemnification agreements. Under these agreements, the CPP Investment Board may be required to compensate these parties for costs incurred as a result of various contingencies such as changes in laws and regulations and litigation claims. The contingent nature of the indemnification agreements prevents the CPP Investment Board from making a reasonable estimate of the maximum potential payments the CPP Investment Board could be required to make. To date, the CPP Investment Board has not received any claims nor made any payments for such indemnifications.

10. LEGISLATIVE AMENDMENT

Legislation to amend the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* came into force on April 1, 2004. The amended legislation and a related administrative agreement provide for the transfer of CPP assets currently administered by the federal government to the CPP Investment Board beginning in fiscal 2005. These assets include a bond portfolio with a cost of $25.5 billion as at March 31, 2004, which will be transferred to the CPP Investment Board over a three-year period beginning May 1, 2004. The assets also include a cash operating reserve which will be transferred over a 12-month period beginning in September 2004. At March 31, 2004, the cash operating reserve is $7.5 billion.

Canada Pension Plan Investment Board Regulations require disclosure in the annual report of the governance practices of the Board of Directors. More extensive governance information is posted at www.cppib.ca.

DUTIES, OBJECTIVE AND MANDATE OF THE BOARD OF DIRECTORS

The board is responsible for the stewardship of the CPP Investment Board, including oversight of management.

As fiduciaries, directors are required to act honestly and in good faith in the best interests of CPP contributors and beneficiaries. They must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Directors must use their specialist knowledge in carrying out their duties and are subject to higher standards of care in areas that relate to their expertise.

Among other duties, the directors review and approve investment policies, standards and procedures; appoint the Chief Executive Officer and annually review his performance; determine with management the organization's strategic direction; review and approve the annual business plan and budget; appoint independent internal and external auditors; establish procedures to identify and resolve conflicts of interest; establish codes of conduct for directors and employees; assess the performance of the board itself; and review and approve the stakeholder communications strategy including material disclosure such as quarterly and annual financial statements and the annual report.

COMPOSITION, MANDATES AND ACTIVITIES OF BOARD COMMITTEES

The board has four committees. The Investment Committee consists of the full board. The membership of other committees is shown on the inside back cover.

The Investment Committee reviews and recommends our Investment Statement to the board for approval, and reviews, approves and monitors the CPP Investment Board's investment program. It also reviews portfolio risk tolerance and approves the engagement of external investment managers and new or large mandates and custodians.

The Audit Committee oversees financial reporting, the external and internal audit, information systems and internal control policies and practices. It also oversees aspects of the employee pension plans and advises the board in connection with any statutorily mandated special examinations. Responsibility for enterprise-wide risk management is shared with the board and other committees. It regularly meets with both external and internal auditors without management present.

The Human Resources and Compensation Committee administers a performance evaluation process for the Chief Executive Officer, reviews and recommends the compensation philosophy, reviews organizational structure and ensures succession planning. It also oversees employee benefits and human resource policies, aspects of the employee pension plans and directors' compensation.

The Governance Committee monitors application of the code of conduct and conflict of interest guidelines; recommends governance initiatives; makes recommendations to the board to improve the board's effectiveness; reviews criteria for new directors; establishes and recommends a performance evaluation process for the Chief Executive Officer; and assumes other duties at the board's request.

DECISIONS REQUIRING PRIOR BOARD APPROVAL

Management's discretion in making operational and investment decisions is established in board-approved policies. The board is required to consider and approve the majority of the recommendations made by management to board committees. In particular, board approval is required for the strategic direction for the organization, and the annual business plan and budget. Annual and incentive-based compensation, as well as officer appointments, require board approval.

PROCEDURES FOR THE ASSESSMENT OF BOARD PERFORMANCE

Soon after its inception in October 1998, the board established an annual process for evaluating its own performance and that of its committees. The assessments are conducted through confidential questionnaires that are summarized by an independent consultant. The summaries are reviewed by the full board and help to focus the directors on their fiduciary duties in representing the best interests of CPP contributors and beneficiaries. The board also conducts a confidential annual peer review to assist each director in identifying self-development initiatives and to provide the external nominating committee with guidance when it considers individual re-appointments.

BOARD EXPECTATIONS OF MANAGEMENT

Management is expected to comply with the *Canada Pension Plan Investment Board Act* and the *Canada Pension Plan Investment Board Regulations* as well as all policies approved by the board. Management develops, with involvement from the board, the strategic direction of the organization in response to its growing asset management responsibilities and the changing dynamics and expectations of capital markets. The strategic response incorporates risk management policies and controls as well as monitoring and reporting mechanisms.

Management is charged with developing benchmarks that objectively measure the performance of markets and asset classes in which CPP assets are invested. Benchmarks assist the board in evaluating management's investment performance and structuring performance-based compensation incentives.

Management is expected to make full and timely disclosure to the board and the public of all material activities, including new investments, the retention of operational and investment partners, quarterly and annual financial results, and developments that may affect the CPP Investment Board's reputation.

TOTAL COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The total compensation of directors is summarized in Note 7(a) to the financial statements. Board compensation is based on the 1999 median compensation for directors of the 300 companies that formed the previous TSE 300 Composite Index on the Toronto Stock Exchange.

The total compensation of the five mostly highly paid officers of the corporation is detailed in Note 7(b) to the financial statements. Officer compensation is partially incentive-based and is reviewed annually by the board.

RESULTS OF SPECIAL AUDIT OR SPECIAL EXAMINATION

Under the *Canada Pension Plan Investment Board Act*, the Minister of Finance can order a special audit at any time, and must initiate a special examination of the CPP Investment Board's systems and practices at least once every six years. The first special examination began in February 2004 and the results will be presented in next year's annual report.

CONFLICT OF INTEREST PROCEDURES

Conflicts of interest were anticipated in the CPP Investment Board's legislation as a result of the federal and provincial governments' desire to recruit directors with financial and investment expertise and to engage employees with financial expertise. Codes of conduct have been established to manage and where possible eliminate such conflicts. The procedures under the legislation and these codes of conduct are designed to ensure that directors and employees do not profit or otherwise benefit from a transaction by or with the CPP Investment Board. Stringent disclosure of any personal or business interest that might lead to a real, potential or perceived conflict is required. The process for identifying, reporting and discussing such conflicts culminates with the board's Governance Committee recommending a resolution to the full board.

CODES OF CONDUCT

Codes of conduct for directors and employees are designed to create a corporate culture of trust, honesty and integrity. Conflict of interest procedures deal with such matters as relations with suppliers, personal investments, and confidentiality of proprietary information. For example, the codes establish strict pre-clearance procedures for personal trading in securities issued by companies. They also deal with the acceptance by directors and employees of entertainment, gifts or favours that could create or appear to create a favoured position for contractors or suppliers.

BOARD ATTENDANCE: FISCAL 2004

The board held nine meetings in fiscal 2004. The Investment Committee is a committee of the full board. The table below reflects the number of meetings attended by each director relative to the total meetings that director could have attended.

	Board & Investment Committee	Audit Committee	Governance Committee	HR & Compensation Committee
Mary Arnold	8/9	6/6		
Gail Cook-Bennett*	9/9	6/6	7/7	5/5
Germaine Gibara	8/9		7/7	
Gilbert Gill	9/9	6/6		
Jacob Levi	9/9	6/6		5/5
Helen Meyer	9/9	6/6		5/5
Dale Parker	9/9		7/7	
Joe Regan	9/9			5/5
Helen Sinclair	9/9		7/7	5/5
Ronald Smith	8/9	5/6		
David Walker	9/9		6/7	5/5

* The Chair is not a member of the Audit Committee or HR & Compensation Committee, but attends their meetings.

VISION

To be respected by Canadians for delivering superior investment performance and effective stakeholder communications through an organization built on shared values, sound governance and management excellence.

MISSION

To manage the assets entrusted to the CPP Investment Board in the best interests of Canada Pension Plan contributors and beneficiaries.

To invest in ways that over the long term will maximize returns without undue risk while having regard to factors that may affect the Canada Pension Plan's funding and its ability to meet its obligations.

To help Canadians understand what we are doing with their money through communications and stakeholder relations that exceed statutory reporting obligations.

VALUES

Ethical Conduct We will exemplify the highest standards of ethical conduct in all that we do. We will comply with all applicable laws and the CPP Investment Board's policies, guidelines and procedures. We will behave in accordance with the codes of conduct and standards of our professions and industry associations.

Excellence We will strive for excellence in all of our endeavours. This will include both our performance outcomes and the processes that we use to achieve them.

Accountability Accountability is critical to achieving our mission. We will delegate clear and appropriate accountability and authority to individuals throughout the organization and ensure that it is coupled with commensurate authority. We will provide the appropriate resources and ensure the necessary support, feedback and reward in support of that delegation.

Teamwork Within the context of clear individual accountability and authority, we value effective teamwork. Optimal solutions to complex issues often require the blending of individuals and groups with different skills and capabilities who can work effectively across the organization as well as within their area of accountability and authority. We are focused on optimization of the whole as well as its constituent parts.

Alignment of Interests We believe that optimal outcomes are achieved when interests are aligned. Specifically, interests are aligned when there is agreement on values, objectives, performance measurements and the basis of sharing risks and rewards. The result of alignment is that checks and balances are strengthened and the prospect of synergy and win-win outcomes are increased.

Innovation We will not be satisfied with the status quo or even current "best" practices, but will continually seek to find new and innovative ways to strengthen our competitive position and improve our performance. While we will not seek innovation for its own sake, we do expect to be on the leading edge of developing and introducing new ways of adapting to an ever-changing environment.

Respect We will treat people inside and outside our organization with the consideration and courtesy that we would expect to receive. This includes providing accurate, timely and comprehensible information to our stakeholders so that they can know what we are doing.

Chair, Board of Directors

Gail Cook-Bennett

Board of Directors and Investment Committee

Gail Cook-Bennett *(Chair)*

Mary C. Arnold

Germaine Gibara

Gilbert Gill

Jacob Levi

Helen M. Meyer

Dale G. Parker

M. Joseph Regan

Helen Sinclair

Ronald Smith

David Walker

Audit Committee

Mary C. Arnold *(Chair)*

Gilbert Gill

Jacob Levi

Helen M. Meyer

Ronald Smith

Human Resources and Compensation Committee

M. Joseph Regan *(Chair)*

Jacob Levi

Helen M. Meyer

Helen Sinclair

David Walker

Governance Committee

Dale G. Parker *(Chair)*

Gail Cook-Bennett

Germaine Gibara

Helen Sinclair

David Walker

Officers

John A. MacNaughton
President and
Chief Executive Officer

John Butler
Vice President -
General Counsel and
Corporate Secretary

Ian M.C. Dale
Vice President -
Communications
and Stakeholder Relations

Jane Nyman
Vice President -
Finance and Operations

Donald M. Raymond
Vice President -
Public Market Investments

Valter Viola
Vice President - Research
and Risk Management

Thomas A. Tutsch
Interim Head -
Private Market Investments

OUR ADDRESS

One Queen Street East

Suite 2700,

P.O. Box 101

Toronto, Ontario,

M5C 2W5

Tel: 416-868-4075

Fax: 416-868-4083

Toll Free: 1-866-557-9510

WEBSITE: WWW.CPPIB.CA

Ce rapport annuel est aussi disponible en français

DESIGN: LINE OF SIGHT DESIGN ASSOCIATES INC.