CPP INVESTMENT BOARD

2007 Annual Report | On Course

Corporate Profile

The Canada Pension Plan 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 and help sustain the pensions of 16 million CPP contributors and beneficiaries by investing the Canada Pension Plan fund and maximizing returns without undue risk of loss.

The CPP Investment Board invests the CPP Fund, the funds not needed by the Canada Pension Plan (CPP) to pay current benefits. Contributions are expected to exceed annual benefits paid until 2022, providing a 15-year period before a portion of the investment income is needed to help pay pensions. The Chief Actuary of Canada has projected that the CPP Fund will grow to approximately $250 billion by 2016 and that the CPP, as constituted, is sustainable for 75 years and beyond. 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.

Our disclosure policy states: "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."

In order to build a diversified portfolio of CPP assets the CPP Investment Board is currently investing cash flows in a diversified portfolio of public equity, private equity, inflation-sensitive assets (such as real estate and infrastructure) and fixed income. Approximately $64.6 billion dollars is invested in Canada through a broadly diversified portfolio, while the rest is invested globally so that income from foreign investments flows back to Canada to help pay future pensions.

With a mandate from the federal and provincial governments, the CPP Investment Board is accountable to Parliament and to the federal and provincial finance ministers who serve as the stewards of the CPP. Based in Toronto, the CPP Investment Board is governed and managed independently of the CPP and at arm's length from governments.

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

Financial Highlights

CPP FUND

FINANCIAL OVERVIEW

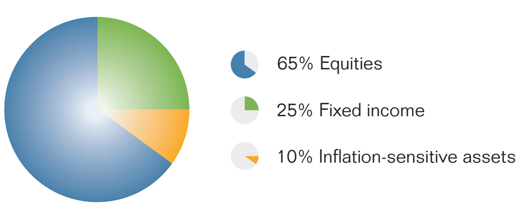
FOR THE YEAR ENDED MARCH 31 ($ billions)		2007		2006
Assets	$	116.6	$	98.0
Net contributions		5.5		3.6
Investment income		13.1		13.1

INVESTMENT PERFORMANCE (%)	2007	2006
Annual	12.9	15.5
Four-year annualized rate of return	13.6	9.8

ASSETS		($ billions)	(% of total)		($ billions)	(% of total)
Public equities	$	67.5	57.8%	$	57.3	58.5%
Private equities		8.1	7.0		4.4	4.5
Bonds		29.2	25.0		27.2	27.7
Real estate[1]		5.7	4.9		4.2	4.3
Inflation-linked bonds		3.8	3.3		4.0	4.0
Infrastructure		2.2	1.9		0.3	0.4
Money market securities		0.1	0.1		0.6	0.6
	$	116.6	100%	$	98.0	100%

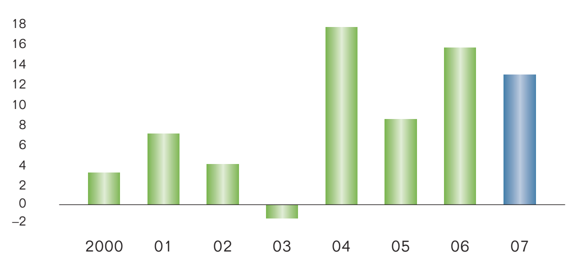
[1] Net of mortgage debt on real estate properties.

CPP FUND ASSET MIX
As at March 31, 2007



Fixed income assets include government bonds and money market securities. Equities include public equities (which are publicly-traded stocks) and private equities. Inflation-sensitive assets include real estate, inflation-linked bonds and infrastructure.

CPP FUND INVESTMENT RETURNS (%)
For the year ended March 31



FOUR-YEAR ANNUALIZED RETURN 13.6 PER CENT
Income earned on investments was 17.6 per cent in 2004, 8.5 per cent in 2005, 15.5 per cent in 2006 and 12.9 per cent in 2007, for an annualized return of 13.6 per cent over the past four years.

Chair's Report

This year the CPP Investment Board has delivered on its investment mandate by earning $13.1 billion in investment returns, reflecting a 12.9 per cent rate of return for the fiscal year ending March 31, 2007. The business plan for fiscal 2007, the first year of execution on a disciplined three- to five-year strategy, also advanced opportunities within clear risk tolerances that will provide a foundation for solid future growth.

As expected by management and the board of directors, implementing the strategy to grow the CPP Fund and diversify its assets required significant growth in the number of employees at the CPP Investment Board. Individuals with specialized expertise joined the organization to help manage the increasing size, complexity and sophistication of the investment program. Broad diversification in the private investments, real estate, infrastructure and public markets programs during the year was a strong indication that the CPP Investment Board's longer-term strategy is on course.

The organization's investment success would not be possible without its legislated independence, which allows the investment professionals to operate effectively in the competitive world of global financial markets. As mandated by the federal government and the participating provinces, whose finance ministers are the stewards of the CPP, management operates at arm's length from governments while being accountable to our independent board of qualified directors, who in turn are accountable to the stewards.

Refining Internal Accountability

Management's accountability to the board of directors is facilitated through various measures that are continuously being refined. The organization made advances on four fronts this year. We clarified how to measure the value that the organization adds, increased the alignment of compensation with performance, evolved new systems for overseeing risk, and further promoted the values and behaviours that reflect the organization's integrity-based culture.

ACCOUNTABILITY FRAMEWORK AND ADDED VALUE

A new accountability framework was implemented this year that enables the organization to measure easily and directly the value added to our total portfolio of assets above a passive benchmark. The benchmark is the CPP Reference Portfolio. The CPP Reference Portfolio is a simple model portfolio composed of four asset classes that, if invested, would have a reasonable likelihood over the long term of meeting the Chief Actuary's requirements for sustainability of the Canada Pension Plan. It would achieve that goal at a relatively low cost and with relatively low risk. As well, it was designed to take into account the long-term

"The organization's investment success would not be possible without its legislated independence, which allows the investment professionals to operate effectively in the competitive world of global financial markets."

pension liabilities of the Canada Pension Plan and to be consistent with the risk parameters and investment objectives outlined by the stewards. The CPP Reference Portfolio is a challenging benchmark against which management can be held accountable.

While employing it as a benchmark, the CPP Investment Board management team, supported by the board, has chosen to pursue a strategically different approach from the option of implementing the CPP Reference Portfolio, believing that it can outperform the passive model portfolio while operating within conservative risk tolerances. By adopting a broader set of investment strategies and entering a wider range of asset classes, its goal is to deliver added value beyond what the benchmark CPP Reference Portfolio would deliver. Although implementing this approach costs more, for each year in which the investment team succeeds in outperforming the CPP Reference Portfolio by one percentage point on assets of $116.6 billion – the size of the CPP Fund at year end – it would add $1.2 billion to the fund. A more complete description of the CPP Reference Portfolio can be found on page 15.

COMPENSATING MANAGEMENT FOR PERFORMANCE

Our board is committed to paying for the added value that the organization delivers. Tying compensation directly to value-added performance addresses not only our fiduciary duty to CPP participants but also management's goal to generate above-market returns. We seek to attract and retain high-calibre investment professionals with compensation that is market-competitive within Canadian financial services generally and within the investment management industry specifically. Doing so enables the organization to manage effectively the increasingly complex and globally-invested pool of capital in the CPP Fund.

With the CPP Reference Portfolio measurement system in place, the board's human resources and compensation committee, supported by a compensation consultant reporting directly to it, was able early in fiscal 2008 to approve key revisions to our compensation plans. These changes were designed to reflect our increasingly active investment management style and to recognize our increasing focus on global investments and the fiercely competitive market for proven talent with these skills. Both short- and long-term incentive opportunities have been increased for selected investment professionals, as has the sensitivity of awards to performance for all plan participants. In transitioning to this newly weighted compensation system, the board has retained a compensation design that allows it to calculate the upper limit of the compensation payout in any year. In addition, significant compensation adjustments were approved for a small number of our most senior and mission-critical investment executives. These payments were designed to transition senior investment professionals closer to market compensation levels (levels reflected in the 2008 compensation structure), and to recognize excellent investment results in 2007. In the interests of disclosing the details of this plan we have introduced for the first time in our annual report a detailed Compensation Discussion and Analysis on page 43 to augment our usual discussion on compensation in the Governance Practices of the Board of Directors section.

OVERSEEING RISK

Investment and enterprise risk management were key areas of board oversight again in fiscal 2007. On the investment side, the board established a risk limit within which management was granted discretion to undertake value-added investment strategies and enter new asset classes. In terms of enterprise risk, the organization began rethinking its Enterprise Risk Management framework with the goal of more effectively managing foreseeable risks ranging from strategic risk to reputational risk. When it is complete, this system will ensure that we continue to have the controls in place to manage evolving risks within acceptable levels of tolerance. Finally, as our fiscal year came to a close, the repeal of Section 14 of our regulations removed constraints on management's use of derivatives, establishing a level playing field between us and other Canadian pension funds.

REINFORCING A CULTURE OF INTEGRITY

Integrity is essential to fulfilling our investment mandate, safeguarding our reputation and ensuring our ability to conduct business effectively over the long term. We adhere to integrity requirements outlined in the *Canada Pension Plan Investment Board Act* but also respond to prescriptions that have emerged in public company securities protocols. Our board's ongoing emphasis is to strive for a values-driven environment that is more comprehensive than mere checklist compliance.

This year management articulated a written set of guiding principles that will help to instill our values further in daily business activities. The principles are hallmarks of how people at the CPP Investment Board have operated since its inception. Explicitly articulating them ensures that they are applied openly and consistently in daily decisions and behaviours.

To reinforce the expectations in our rapidly growing organization, senior management placed a high priority on code of conduct orientation sessions. Given that 107 new employees joined the organization this year, President and Chief Executive Officer David Denison made it his mission to inculcate a culture of integrity and reputation throughout the team by bringing to life the internal financial controls, conduct codes and compliance measures. He attended and spoke at every code of conduct orientation session for new employees to emphasize how ethics and corporate compliance are vital to him. As well, together we hosted special sessions for new employees introducing them to our external Conduct Review Advisor, the Honourable Frank Iacobucci, a former justice of the Supreme Court of Canada. Employees, directors and suppliers are able to speak confidentially to Mr. Iacobucci on questions relating to conduct or conflicts of interest.

Maintaining External Accountability

In fiscal 2007, the CPP Investment Board participated in an important form of accountability: biennial public meetings held across Canada. David Denison and I met with Canadians at public meetings in Halifax, Fredericton, Charlottetown, St. John's, Victoria, Calgary, Regina, Winnipeg and London to present information about how our professionals invest the CPP Fund, how it is sustainable for the long term and to respond to their questions. These meetings afforded opportunities for some of the participants in the Canada Pension Plan as well as members of interest groups who closely follow the scope of our investment portfolio to interact with us.

Also this year, the stewards released the results of their triennial review of the Canada Pension Plan. The findings, published last June, concluded that the CPP was on a sound financial footing. The ministers reviewed the accountability and governance framework of the CPP Investment Board, including its code of conduct and its conflict of interest and disclosure policies and practices, and concluded that they meet or exceed practices of public and private sector pension funds. Those practices are detailed on page 78 of this annual report. Further, they reaffirmed our investment mandate and commended the CPP Investment Board for signing the United Nations' *Principles for Responsible Investment*, which provides a best-practice framework to help integrate consideration of environmental, social and governance factors into investor decision making.

Managing Board Evolution

Four original directors of the CPP Investment Board reached their term limits this past fiscal year. These individuals shared the challenges and rewards of laying the foundation for the organization beginning in 1997. Jack Levi, Helen Meyer, Joseph Regan, former chair of the human resources and compensation committee, and Mary Ritchie, former chair of the audit committee, shared a sensitivity to and appreciation of the importance and complexity of the board's task. Their judgment, along with that of their colleagues on the first board, was critical to the successful launch of the organization.

With the required turnover of half of the directors this past fiscal year and next, the board's focus has been on identifying new board members to continue providing effective oversight. The process involved a fundamental assessment of the board's requirements, clear definition of the necessary expertise and experience that new directors should possess, formal searches by two executive search firms, recommendations by an external nominating committee to the federal finance minister and decisions by the federal finance minister after consulting with his provincial counterparts. As a result of this rigorous process we are delighted to welcome Bob Astley, Ian Bourne, Geraldine Sinclair and Murray Wallace. More detailed disclosure on directors' backgrounds appears on page 73.

At a time of rapid director turnover, our goal is to integrate new directors quickly into the work of the board. We are managing that integration by providing a comprehensive board orientation program and separate committee orientations. We are also focusing our continuing education program for the near term on internal management presentations rather than external speakers.

The board of directors has the privilege of working with an excellent senior management team committed to adding value to the portfolio and doing so within a strong values-based culture. We recognize senior management and their staff for an excellent year. Under the outstanding leadership of David Denison, the organization has delivered approximately $2.4 billion in investment returns over and above our demanding benchmark. Our new accountability framework contributes significantly to the board's fiduciary oversight capability.

As Chair, I have the additional privilege of working with a dedicated group of directors with deep commitment to internal and external accountability.

Gail Cook-Bennett

GAIL COOK-BENNETT
Chair

Key Corporate Objectives for Fiscal 2007

OBJECTIVES	
CPP FUND DIVERSIFICATION	Continue to diversify the portfolio by asset class, risk/return characteristics and geography with a particular focus on increasing international investments
MEASUREMENT OF RISK AND VALUE-ADDED PERFORMANCE	Fully operationalize the total portfolio approach and create value-added returns above the CPP Reference Portfolio benchmark
ACTIVE INVESTMENT MANAGEMENT	Begin our internal active management program for public equities and expand our principal investing activities in private equities, infrastructure and real estate
TECHNOLOGY AND BUSINESS PROCESSES	Extend the implementation of the technology and business process architecture that was defined in fiscal 2006

We publish a statement in the annual report of our objectives for the past year and the extent to which they have been met. We also publish our objectives for the coming year and the foreseeable future. You will find the corporate objectives for fiscal 2008 on page 36.

HIGHLIGHTS

- Increased inflation-sensitive assets from 8.7 per cent of the portfolio to 10.1 per cent
- Added $1.5 billion in real estate assets, mainly in Continental Europe, the United Kingdom and the United States
- Completed two large infrastructure investments by acquiring interests in AWG Plc, parent of a U.K.-based water utility, and HQI Transelec Chile S.A., Chile's largest electricity transmission company
- Implemented a nominal bond management program
- Increased the proportion of international investments within the CPP Fund from 36.0 per cent to 44.6 per cent

- Established the CPP Reference Portfolio as a low-cost, low-complexity strategic alternative against which to measure value-added returns
- Measured value-added returns above the CPP Reference Portfolio benchmark
- Changed compensation weighting to more heavily reflect success or failure in delivering value-added performance
- Hired six new vice-presidents and nine new internal directors with specialized skills and management expertise to help fully implement the total portfolio approach
- Began to implement an investment risk budgeting framework as part of the total portfolio approach

- Initiated a Canadian active overlay stock selection program
- Enhanced the U.S. active overlay stock selection program with in-house fundamental research
- Invested in a pooled fund managed by Bridgewater Associates
- Launched Relationship Investments group to proactively engage with companies
- Co-sponsored principal investments including $228 million in Freescale Semiconductor, Inc., and a $330 million commitment to a joint venture in U.S. office properties
- Added 43 new investment professionals including five vice-presidents in key leadership roles in our investment teams

- Created a clear target state technology architecture
- Created an information systems strategy that we began to implement in a multi-staged program
- Appointed a vice-president in charge of Information Services

President's Message

While fiscal 2006 was a year of redefining our strategy at the CPP Investment Board, fiscal 2007 has been a year of solid implementation that has resulted in strong investment performance and an organization with new sources of expertise to manage the increasing complexity of the CPP Fund.

At the end of last year, we established four key objectives for fiscal 2007:

- Continue to diversify the portfolio by asset class, risk/return characteristics and geography;
- Fully operationalize the total portfolio approach and create value-added returns above the CPP Reference Portfolio benchmark;
- Begin our internal active management program for public equities and expand our principal investing activities in private equities, infrastructure and real estate; and
- Extend the implementation of the technology and business process architecture that was defined in fiscal 2006.

Looking back over this past year, I am pleased to report that we made significant progress in meeting each of these objectives, and in many cases achieved more than anticipated relative to the milestones identified in our strategy work.

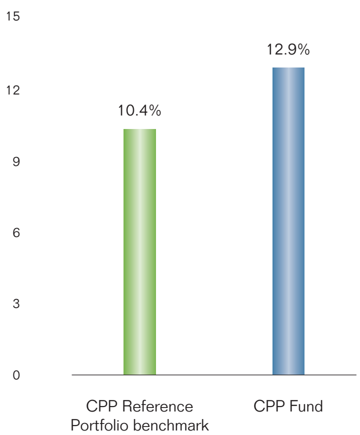
Measuring Value-Added Results

A key part of the accountability framework that we implemented in fiscal 2007 was the creation of the CPP Reference Portfolio as a low-cost, low-complexity strategic alternative against which to measure our value-added returns. As our Chair, Gail Cook-Bennett, explains in her report, this is not a policy portfolio, but rather a passive asset management alternative that would be expected to meet the 4.2 per cent real return assumption used by the Chief Actuary of Canada in his report on the Canada Pension Plan under reasonable capital markets performance expectations. As such, it also represents a relevant benchmark for the performance of the CPP Fund.

In measuring our results, the CPP Investment Board will focus on longer-term performance because our mandate is to help pay CPP pensions well into the future. We do not believe that performance over any one-year period is a primary indicator of success, but will instead emphasize four-year cumulative results. However, given that fiscal 2007 was the initial implementation year for the CPP Reference Portfolio, we will focus on one-year results this year and report on longer-term performance as we accumulate results over the next few years.

During the 12 months ended March 31, 2007, the CPP Fund grew by $18.6 billion to end the year at $116.6 billion. Within that growth, investment earnings were $13.1 billion, representing a 12.9 per cent rate of return.

2007 CPP FUND INVESTMENT PERFORMANCE



Our value-added target in 2007 was 35 basis points above the CPP Reference Portfolio, a target that reflected the current stage of evolution of our investment programs. We are pleased that we succeeded in delivering much more than that target: 245 basis points, or approximately $2.4 billion in additional returns compared to the CPP Reference Portfolio.

With the repeal of Section 14 of our regulations under the *Canada Pension Plan Investment Board Act* toward the end of fiscal 2007, all significant provisions that previously constrained the investment scope of the CPP Fund have now been removed. Section 14 was a start-up provision designed to limit our ability to use derivatives until such time as the organization built comprehensive risk management frameworks of the type that are now in place. The removal of this restriction enables us to manage the portfolio more cost efficiently and operate more effectively in our investment programs. The repeal also demonstrated both the rigour and effectiveness of our governance model, as all 10 stewards of the CPP – the federal finance minister and his provincial counterparts – agreed unanimously to our recommendation to repeal the provision.

Accountability: Performance against Objectives

Turning to our performance against objectives, during the course of this past year we have made a number of investments aligned with our first objective of greater diversification for the CPP Fund. As we noted in last year's report, as the CPP Fund grows in size, so does our need to pursue investment opportunities in all asset classes and markets around the world.

With respect to public and private equities, we increased their aggregate weighting in the CPP Fund from 63 per cent to 64.8 per cent during the year with most of this increase coming from global markets. We also added $1.5 billion in real estate assets, with the bulk of this growth coming from investments in Continental Europe and the United Kingdom. Of particular note was our $627 million acquisition of an 80 per cent interest in two City of London office buildings. In our growing infrastructure program, we invested $1.1 billion to acquire an interest in AWG Plc, a U.K.-based water and sewage company, as well as $364 million in HQI Transelec Chile S.A., the largest electricity transmission company in Chile.

We also laid solid foundations this past year with respect to our second objective of operationalizing our total portfolio approach. We continue to believe that this approach, which is described in greater detail later in this annual report, represents the most effective way for us to construct our portfolio, manage risk and return, and make investment decisions. We have now implemented a methodology to measure, monitor and manage investment risk while operating within a board-approved active risk limit relative to the CPP Reference Portfolio. We have also begun to implement an investment risk budgeting framework and will refine this over the course of fiscal 2008.

Our third objective was to expand the internal active management capabilities in each of our investment departments. During the course of the year, we added 43 investment professionals to our complement including five vice-presidents in key leadership roles within our investment teams. In our Public Market Investments department, we initiated three new investment programs – equity active overlay, global tactical asset allocation and relationship investments – all of which are described in the Management's Discussion and Analysis (MD&A) section of this report. In Private Investments and Real Estate Investments, we greatly expanded our principal transactions resources and completed a number of joint-venture, co-investment and co-sponsored transactions as a result.

While we will continue to add to our internal investment capabilities going forward, we also will expand and deepen our relationships with external partners. During fiscal 2007, we increased the number of our external relationships to 76; we provide a full listing of these relationships on page 53 and on our website. Fostering partnerships with leading investment management organizations around the world is a key part of our strategy, as it allows us to access the proven investment expertise and local market presence of those entities.

Our final objective was to expand the technology and business process architecture that we commenced in fiscal 2006. We have made progress in many areas as we transition from an almost fully outsourced environment to one where we control internally those technology and operational elements that are critical to the execution of our investment and risk management programs. We have now created a clear target state technology architecture along with an information systems strategy that we are implementing in a multi-staged program. While we made significant progress in this regard during fiscal 2007, this truly is a multi-year undertaking for us and so will continue to be a focus during fiscal 2008 and beyond.

Capability

In order to help manage the increasing complexity of the CPP Fund and to meet our objectives in 2007, we added 107 people across all parts of the organization during the year. These individuals were necessary to staff our increasingly broad investment programs, oversee rapidly evolving risk management systems along with their attendant technology requirements, handle our operational and reporting needs, and enhance our managerial depth as we lay the groundwork for an organization that can handle the multi-generational timeframe of our mandate.

Despite the steep trajectory of our internal growth, we are on track to assimilate the new members of our team and to anchor them in our organizational culture. We characterize that culture as one of high integrity that reflects the fiduciary responsibility we owe to the 16 million Canadians who participate in the CPP, as having an internal and external partnership orientation that promotes trust and confidence in our business dealings, and as exhibiting a commitment to high performance in all dimensions of our organization.

Looking Ahead to 2008

Our over-arching goal as an organization is to generate value-added performance for the CPP Fund relative to the CPP Reference Portfolio. In that respect, we have established a value-added performance target of 50 basis points for fiscal 2008. In addition to this performance goal, we have three other key objectives for the CPP Investment Board organization next year.

One of those objectives is to continue to broaden the diversification of the investment portfolio both by risk/return characteristics and by geography. As an example, in fiscal 2008 we will significantly expand our emerging markets investment activities in each of the public, private and real estate markets.

"This transparency of disclosure, our high-performance focus, and our accountability practices are all centred on our primary mission: to contribute to the long-term sustainability of the Canada Pension Plan."

Our second goal is to deepen our internal investment and support capabilities and processes. In this regard, we will add an additional 100 people to the organization. We will also open offices in London and Hong Kong within the next 12 to 15 months with people drawn from our existing teams in Canada and others hired from those local markets.

Our third objective is to continue to execute our multi-year plan to establish the management, technology and operational capabilities that will allow us to meet our long-term investment mandate.

As I look back on this past fiscal year, I would like to thank all of my colleagues within the CPP Investment Board, our board of directors and our strategic partners for their contributions to our success during fiscal 2007. While we have much to do in fiscal 2008 and beyond, we move forward confident that we have within the CPP Investment Board the talent and commitment essential for success.

One of the things we are most proud of at the CPP Investment Board is our level of disclosure, both here in this annual report and on our website. This year we are enhancing the ease of access to the annual report by including an interactive version on our website as well as a summary annual report for those seeking condensed reporting.

This transparency of disclosure, our high-performance focus and our accountability practices are all centred on our primary mission: to contribute to the long-term sustainability of the Canada Pension Plan. We look forward to reporting on our progress in the years to come.

DAVID F. DENISON
President and Chief Executive Officer

Senior Management Team

LEFT TO RIGHT

JOHN H. ILKIW, Senior Vice-President, Portfolio Design and Risk Management; **JOHN H. BUTLER**, Senior Vice-President, General Counsel and Corporate Secretary; **DAVID WEXLER**, Senior Vice-President, Human Resources; **DONALD M. RAYMOND**, Senior Vice-President, Public Market Investments; **DAVID F. DENISON**, President and Chief Executive Officer; **MYRA LIBENSON**, Chief Operations Officer; **GRAEME M. EADIE**, Senior Vice-President, Real Estate Investments; **IAN M.C. DALE**, Senior Vice-President, Communications and Stakeholder Relations; **MARK D. WISEMAN**, Senior Vice-President, Private Investments

Financial Review

This annual report contains forward-looking statements reflecting management's objectives, outlook and expectations as at May 10, 2007. These statements involve risks and uncertainties. Therefore, our investment activities may vary from those outlined in these forward-looking statements.

The following information provides analysis of the operations and financial position of the Canada Pension Plan Investment Board and should be read in conjunction with the Consolidated Financial Statements and accompanying notes for the year ending March 31, 2007. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Management's Discussion and Analysis

The first three sections of Management's Discussion and Analysis (MD&A) set out the connection between our legislated mandate to help sustain the future CPP benefits of generations of Canadians, the development and implementation of a relevant benchmark derived from the policy intent of the CPP reforms in 1997 and the mission of the CPP Investment Board to generate investment returns above this benchmark to help improve the long-term sustainability of the CPP.

Mandate

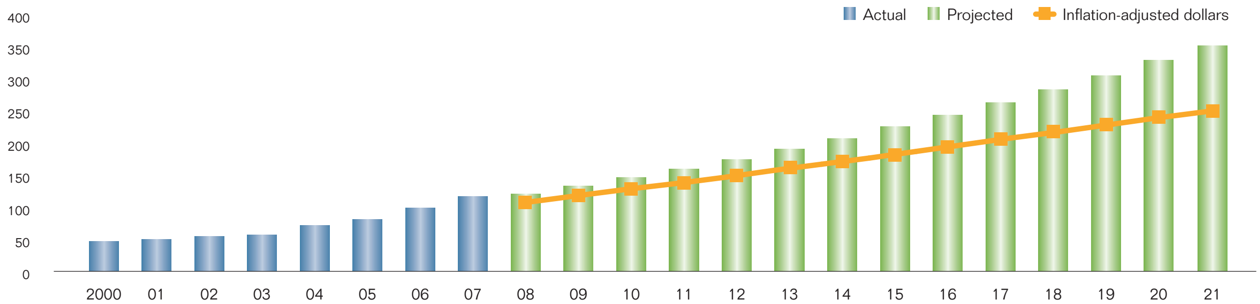
The Canada Pension Plan Investment Board is an investment management organization that was created in 1997 to invest the assets of the CPP that are not required to pay current benefits. The CPP Fund is now the largest single-purpose pool of capital in Canada and one of the largest and fastest-growing such pools in the world. In 2004, the CPP Investment Board also assumed responsibility for investing the short-term assets held to pay current CPP benefits (the Cash for Benefits portfolio) and, as such, became the liquidity provider of the CPP.

The CPP Investment Board operates independently of the Canada Pension Plan and at arm's length from governments. The governance system created under our legislated mandate was carefully designed so that the CPP Investment Board, established as a federal Crown corporation, can function as a professional investment manager in the private sector with strong public sector accountability.

The legislated mandate directs us to achieve "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 and the ability of the Canada Pension Plan to meet its financial obligations on any business day." We have interpreted this to mean that our mission is to generate the returns required to help keep the Canada Pension Plan sustainable over the long term.

In defining sustainability, the federal and provincial finance ministers who serve as the CPP stewards expressed a desire that the CPP be able to pay benefits at current levels, adjusted for inflation, with an employer-employee contribution rate of no more than 9.9 per cent. A 9.9 per cent contribution rate requires at least an annualized real return of 4.2 per cent over the 75-year projection period used in the *21st Actuarial Report on the Canada Pension Plan* that was prepared by the Chief Actuary of Canada.

PROJECTED ASSETS OF THE CPP FUND ($ billions)



The Chief Actuary of Canada has projected that CPP contributions will exceed annual benefits paid through 2021 providing 15 more years in which excess CPP contributions will be available for investment. At that point, assuming the Chief Actuary's projected investment returns are achieved, the CPP Fund – now $116.6 billion – is projected to be valued at $356 billion or $254 billion in inflation-adjusted dollars. Starting in 2022, the CPP is expected to begin using a portion of its investment earnings to supplement the contributions that provide the primary means of funding benefits. The Chief Actuary's projection suggests this draw will rise gradually to 2050, when it is expected to stabilize at approximately 30 per cent of annual investment income.

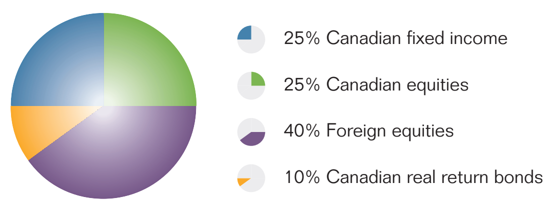
CPP Reference Portfolio

Within those broad parameters of sustainability, the mission of the CPP Investment Board is to earn value-added returns over the long term to help secure the future CPP benefits of generations of Canadians. To measure our investment management performance in relation to the long-term 4.2 per cent annual real return assumption, we developed the CPP Reference Portfolio in fiscal 2006 and implemented it in fiscal 2007.

The CPP Reference Portfolio is a potential strategic alternative for the CPP Investment Board. It acts as a low-cost, low-complexity model portfolio that embodies the investment objectives and implied level of risk envisioned by the CPP stewards during the CPP reforms in 1997. The objective in creating this hypothetical portfolio was to create a diversified, investable benchmark that is easily understood and reasonably expected to generate the long-term returns assumed in the Chief Actuary's 75-year CPP projection. Since it is an investable portfolio, the CPP Reference Portfolio represents a valid strategic option for the CPP Investment Board to fulfill its mandate. As such, it acts as a relevant benchmark by which to judge the performance of the CPP Fund as managed by the investment professionals of the CPP Investment Board.

The CPP Reference Portfolio is detailed in the chart below. The CPP Reference Portfolio was created for accountability and measurement purposes only; it is not a target portfolio for the actual CPP Fund.

CPP REFERENCE PORTFOLIO



The composition of the CPP Reference Portfolio recognizes the investment constraint imposed by the fund's legacy portfolio of non-marketable federal and provincial bonds, and the liquidity of the fund's exposure to Canadian equities which was maintained in part to comply with the foreign property rule. The foreign property rule was removed for all Canadian pension funds in June 2005.

"Our Risk/Return Accountability Framework is anchored in the belief that it is the risk/return characteristics of the total investment portfolio that contribute to the sustainability of the fund, and not the performance of any single asset class."

The 25 per cent Canadian equity allocation provides a relatively high expected real return and partially mitigates the risk of decreases in Canadian interest rates. Canadian equities have higher inverse correlation with Canadian interest rates than foreign equities. The measurement benchmark for this allocation is the S&P/Citigroup Broad Market Index Canada.

The 40 per cent foreign equity allocation provides for diversification outside the Canadian economy given that Canada's equity markets represent approximately 3 per cent of the world's stock market capitalization and are heavily concentrated in natural resources and financial services. The foreign equity allocation also provides a relatively high expected real return and partially mitigates the risk of lower-than-expected wage growth in Canada that would be mirrored in lower Canadian equity returns. When wage growth slows, so does growth in the contributions that primarily fund CPP benefits – placing more reliance on CPP investments to help fund payments to beneficiaries. As well, when foreign economies perform better than Canada, their better performing equity markets can be used to help pay CPP benefits. The measurement benchmark used for this allocation is the S&P/Citigroup Primary Market Index World excluding Canada.

The 25 per cent allocation to Canadian fixed income recognizes the inclusion in the CPP Fund of a portfolio of non-marketable federal, provincial and territorial bonds that was established before the creation of the CPP Investment Board. This allocation also mitigates deflation risk. Nominal bonds are expected to earn marginally higher returns than real return bonds because nominal bond returns include an inflation risk premium. We use the weighted average of the actual CPP bond return and the Scotia Capital All Government Bond Index as the measurement benchmark for this allocation.

The 10 per cent allocation to Canadian real return bonds mitigates the risks of unexpected inflation and decreases in real interest rates. It is measured through the use of the Barclays Capital Canada ILB Index. Some have asked why we did not construct a reference portfolio comprised entirely of real return bonds matched against the CPP's inflation-indexed liabilities. The answer is simply that real return bonds are unlikely to deliver a high enough return to meet the CPP Fund's long-term return assumption, nor do they protect against risks such as unanticipated demographic changes, lower wage growth and deflation.

The CPP Reference Portfolio is expected to remain unchanged until the end of fiscal 2008, when it will be reviewed in detail and possibly amended given additional insights into the linkages between capital market behaviour and the factors that affect CPP liabilities.

Investment Strategy

The aforementioned CPP Reference Portfolio is the cornerstone of the Risk/Return Accountability Framework that supports our investment strategy and provides a clear method to measure our success. While the CPP Reference Portfolio could meet the long-term funding needs of the CPP based on the reasonable capital market returns assumed in its design, the CPP Investment Board has made a strategic choice to strive to generate additional returns above those inherent in the CPP Reference Portfolio. Our investment strategy, therefore, is to add value above and beyond this strategic benchmark. Enhanced long-term returns improve the financial performance of the overall plan and thus contribute to the long-term sustainability of the CPP.

Our Risk/Return Accountability Framework is anchored in the belief that it is the risk/return characteristics of the total investment portfolio that contribute to the sustainability of the CPP Fund, and not the performance of any single asset class. This is discussed in more detail below.

Our investment strategy is grounded in two principal comparative advantages: investment horizon and size. We are patient long-term investors able to invest in illiquid assets and to capitalize on longer-term pricing anomalies. Our strategic planning outlook is longer than the industry norm, extending five to six years, with performance accountability based on rolling four-year averages.

The size of our portfolio enables us to create economies of scale that facilitate the low-cost, efficient harvesting of market returns ("beta") and the development of opportunities to capture above-market returns ("alpha"). Portfolio size and an unwavering commitment to fair dealing also make us an attractive strategic partner for top-tier investment managers, investment dealers and investee companies around the world. However, the portfolio's size also creates constraints. It can be impractical to pursue some investment opportunities that might be attractive but lack sufficient scale to make an appreciable contribution to our overall returns. As well, the Fund's significant investments in public equities can potentially affect markets through our trading activity. And, while sizeable monthly inflows from CPP contributions provide new money for investment, they also entail deployment costs.

ACCOUNTABILITY FRAMEWORK

The Risk/Return Accountability Framework includes the CPP Reference Portfolio, against which the board of directors sets risk parameters. The framework operates in two ways. First, it provides management with flexibility, within the defined parameters, to pursue value-added investment strategies. Secondly, it provides the board of directors with a precise tool to measure management's performance in generating value-added returns. The framework is detailed in the *Statement of Investment Objectives, Policies, Return Expectations and Risk Management* that is available on our website.

The CPP Investment Board began implementing this framework during fiscal 2007, with the board approving the passive CPP Reference Portfolio as a relevant benchmark, setting an active risk limit within which management has discretion to make decisions aimed at achieving returns above those available from the CPP Reference Portfolio, and delegating to management the authorities needed to manage the portfolio within the risk limit.

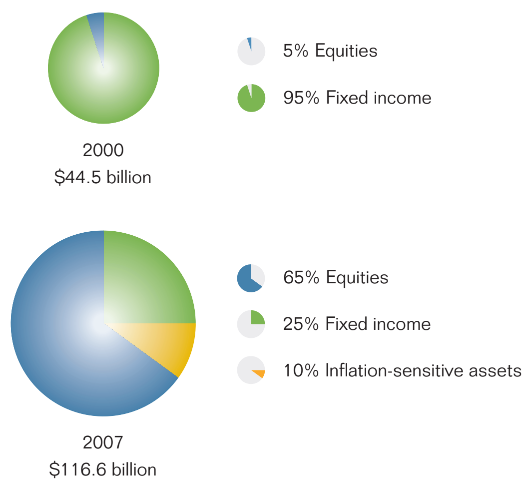
The active risk limit was established through the use of a 10-year historical analysis. It is to be reviewed annually and set at a level that permits flexibility without exposing fund assets to excessive risk or undue underperformance relative to the CPP Reference Portfolio.

Within that limit, management seeks to add value through active investment strategies that may include any combination of asset classes (including asset classes not found in the CPP Reference Portfolio) and alpha programs. To oversee the broad investment strategy, management formed the investment planning committee (IPC). The IPC consists of the president and chief executive officer, the chief operations officer, the senior vice-president in charge of Portfolio Design and Risk Management, and the senior vice-presidents in charge of Public Market Investments, Private Investments and Real Estate Investments. The committee establishes a risk approach for the entire portfolio and then allocates active risk among the various categories of investments in the actively managed portion of the portfolio. The investment departments review their investment activities and performance monthly with the IPC, and management reports to the board of directors at least quarterly.

TOTAL PORTFOLIO APPROACH

We focus on the efficiency of the total portfolio, not the performance of isolated asset classes or individual investment departments. We strive to make the total portfolio as efficient as possible by considering proposed investments in terms of their marginal risk and return contribution. Under this approach, we do not target specific dollar allocations for individual asset classes. Instead we allocate risk to investment strategies. Private equity, for example, is considered a security selection strategy within the equity asset class, and not an asset class in and of itself. Similarly, infrastructure investments include a broad range of assets with very different risk/return characteristics. Established assets with low earnings volatility, such as water distribution networks and toll roads, are relatively low risk compared to the higher-risk equity-like returns associated with developing and building new infrastructure.

TOTAL PORTFOLIO VIEW



Categorizing investments by risk/return attributes, rather than traditional labels, offers a better understanding of the expected contribution of each investment to the portfolio, and permits more accurate assessment of actual outcomes.

Use of the total portfolio approach presents a substantial organizational challenge, as it requires near seamless integration of the Portfolio Design and Risk Management (PDRM) team, the three investment departments and our Finance and Operations area. Within this integration, investment department heads make the actual deployment decisions while PDRM calculates how those transactions contribute to the overall risk/return characteristics of the portfolio. The important role of Finance and Operations is to operationalize the concept by providing the robust reporting, performance measurement and attribution capabilities that enable management and the board of directors to monitor fund performance.

INVESTMENT STRATEGIES

As discussed previously, a passive benchmark – the CPP Reference Portfolio – provides a baseline from which we diverge in seeking value-added returns within an active risk limit set by the board of directors.

The range of investment strategies used in managing the CPP Fund has evolved over time. The federal and provincial finance ministers who reformed the Canada Pension Plan in 1997 envisaged the creation of a diversified portfolio to grow beyond the legacy portfolio of non-marketable federal, provincial and territorial government bonds already in place. When the CPP Investment Board began its investment program in 1999, cash flows were initially invested in public equities. This portion of the fund now holds shares of some 2,600 public companies, including 700 in Canada, largely as a result of replicating the composition of major stock markets.

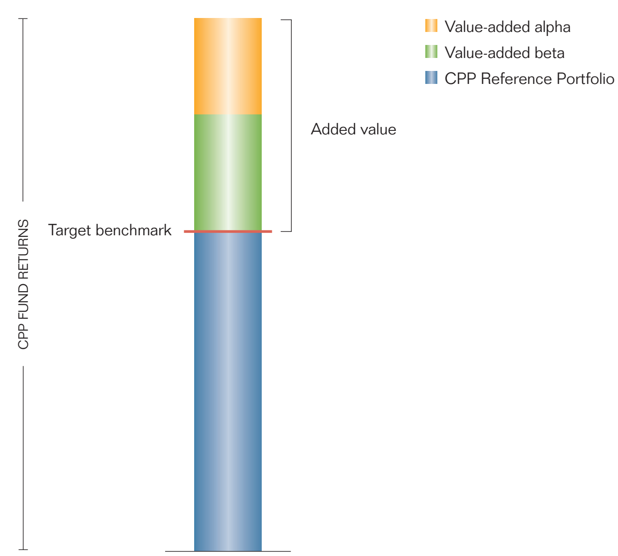
In recent years, management has elected to pursue value-added returns by expanding the range of investment programs to include private equity, real estate and infrastructure, achieving greater global diversification and implementing a variety of active investment strategies. We have done this in the belief that:

- New investment ideas can still be discovered and exploited, but to do so requires skill;
- Early movers into new investment areas accept higher risk, have the opportunity to reap higher rewards and in limited-access markets can maintain their early mover advantage;
- Alpha, or above-market, returns are extremely valuable because they do not add materially to the overall systematic risk of the portfolio;
- Alpha becomes more difficult to capture as more participants enter an investment area; and
- Private equity assets are highly correlated to comparable passive public market assets, but offer greater returns over time.

The CPP Investment Board's value-added commitment aims to efficiently surpass the return generated by the CPP Reference Portfolio in two ways.

The first is what we call "better beta", a strategy to access more sources of beta than are inherent in the CPP Reference Portfolio. Beta is the return one can obtain by investing in a given asset class on a broadly diversified basis. This return and its associated level of risk generally reflect market performance, not manager skill. The CPP Reference Portfolio reflects the returns and risk of investing in conventional public equity markets, inflation-linked bonds and the legacy portfolio of non-marketable government bonds. We seek to generate better beta while taking acceptable risks by expanding into a wider range of asset classes.

ALPHA AND BETA VALUE-ADDED RETURNS



Our second approach is to selectively capture above-market returns, known as alpha. These returns are generated by manager skill, not broad market exposure, and are particularly valuable since they do not add materially to systematic risk. In other words, they tend not to be influenced by whether broad market returns are positive or negative. The pursuit of alpha is strategy-based. For example, in public markets, much of our alpha generation in the initial stages of our value-added investment program has been attributable to the external partners who manage a variety of mandates on our behalf as well as the active overlay program discussed later in this report. Increasingly, we intend to generate public market alpha returns on our own as we develop internal capabilities that complement the ongoing work done by our expanding list of external partners.

Cost minimization is also a priority in our value-added performance, as every dollar saved in transaction costs is equivalent to one dollar of additional income, or alpha, with no increase in risk. For instance, this year the Public Market Investments unit integrated transaction cost measurement and minimization modelling into its portfolio management processes. This will deliver significant cost savings as our trading volumes increase over time.

REPEAL OF SECTION 14

This year the federal and provincial finance ministers agreed to repeal Section 14 of our regulations under the *Canada Pension Plan Investment Board Act*. This change, effective February 1, 2007, removed constraints on our use of derivatives and followed the removal last year of Section 9, which affected our ability to invest in marketable bonds. We are now on the same footing as other Canadian pension funds and therefore can manage the investment portfolio more flexibly while incorporating international best practices. Using derivatives significantly improves the ability of the CPP Investment Board to mitigate risk, reduce costs and increase expected returns.

In using derivatives to help achieve our mandate, it is important to note that the CPP Investment Board has adopted a best practices approach to risk management. This involves the board and management agreeing on the appropriate amount of risk that management may use to earn additional returns for the fund through the selective use of active management strategies, including the use of derivatives. This risk-based framework includes market and credit risk limits, against which actual limits are measured every day. As well, we have created a trading oversight manager within our capital markets area to monitor trading activity in real time. Perhaps most importantly, there is a clear separation of duties between the trade execution and settlement functions. Confirmations are sent directly to the settlement group, which must also approve all cash movements. This prevents an individual trader from taking on a large position that would not be captured by the risk measurement systems.

Further discussion on the use of derivatives is contained in the section on Public Market Investments. Note 2e to the Consolidated Financial Statements provides more information on our use of derivatives.

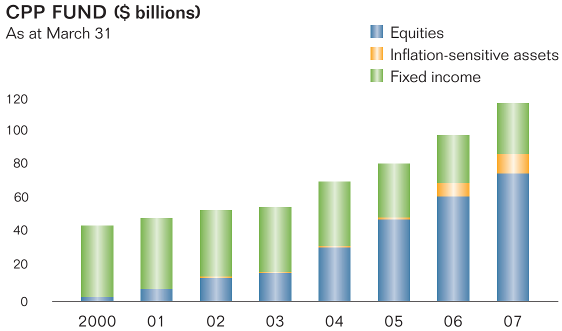
Results

This section reports on the performance of the CPP Fund, the assets within the Canada Pension Plan not needed to pay current CPP benefits.[i] We later report on the short-term Cash for Benefits portfolio, managed by the CPP Investment Board, that is used by the CPP to pay current benefits. See page 36 for more details.

ASSET GROWTH

At March 31, the CPP Fund totalled $116.6 billion versus $98.0 billion at March 31, 2006. This growth consisted of $13.1 billion from investment income and $5.5 billion from CPP contributions not required to pay current benefits. The fund has grown by $71.9 billion since fiscal 1999, when we began our investing operations. This cumulative growth consisted of $48.1 billion from investment income and $23.8 billion from excess CPP contributions.

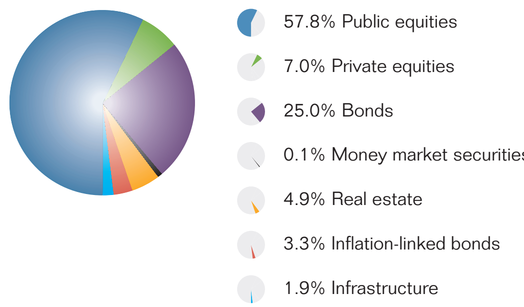
CPP FUND ($ billions)
As at March 31



ASSET MIX

During the past year, we worked to gradually transition the actual portfolio to meet our goal of full comparability to the CPP Reference Portfolio by year end. The historical weightings of assets within the actual portfolio were influenced by factors such as the foreign property rule and legacy CPP bonds.

ASSET MIX
As at March 31, 2007



At March 31, equities totalled $75.6 billion or 64.8 per cent of the portfolio. This consisted of publicly-traded stocks valued at $67.5 billion or 57.8 per cent of the total portfolio plus private equity valued at $8.1 billion or 7.0 per cent of the total. Canadian public equities accounted for $28.5 billion, or 24.4 per cent of the CPP Fund.

We continued to increase the CPP Fund's global exposure measured in both absolute dollars and as a portfolio percentage. Increased global diversification offers better management of the risks inherent in Canada's relatively small, highly concentrated stock market. It enables us to cushion the potential risk that a downturn in the Canadian economy could reduce the flow of CPP contributions and thus increase reliance on investment income. It also allows for income from global investments to flow back to Canada to help fund future pensions. Despite this increase in global investments, the CPP Fund continues to maintain a substantial commitment to the domestic economy with total Canadian assets amounting to $64.6 billion, or 55.4 per cent of the portfolio.

[i] The CPP Fund includes the non-marketable government bonds that predate the creation of the CPP Investment Board. We take these bonds into account when making investment decisions. The following commentary reflects this, but the Consolidated Financial Statements that form the latter half of this annual report deal exclusively with the CPP assets managed directly by the CPP Investment Board. Finance Canada has been moving the legacy bonds to the CPP Investment Board in a series of monthly transfers that ended on April 1, 2007, which is the start of our 2008 fiscal year.

Fixed income totalled $29.3 billion or 25.1 per cent. This was comprised primarily of non-marketable legacy government bonds and money market securities, but also included a $4.3 billion marketable nominal bond portfolio that was created during the year. The non-marketable bonds are carried at calculated market value and their total value at March 31 was $24.9 billion. The geographic and maturity distributions are shown on the CPP Investment Board website. Each issuing jurisdiction can elect to replace a maturing bond with redeemable debt ranging in term from five to 30 years. Replacement debt with a term of less than 30 years can be renewed for successive terms to the maximum of 30 years. If this provision is fully exercised, the last legacy bond will mature in 2043.

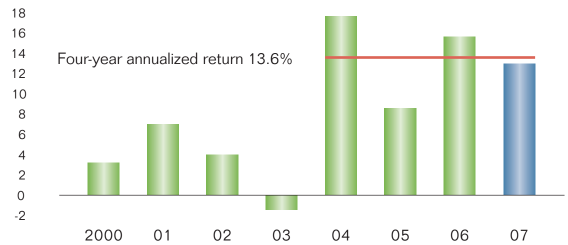
Maturity proceeds of each jurisdiction's final bond will become part of the CPP Fund and be available for investment.

Inflation-sensitive assets represented $11.7 billion or 10.1 per cent. These were comprised of real estate valued at $5.7 billion or 4.9 per cent of the total portfolio, inflation-linked bonds valued at $3.8 billion or 3.3 per cent of the fund and infrastructure investments valued at $2.2 billion or 1.9 per cent of the total portfolio. These types of assets are important because they tend to track inflation over time and are a potential source of value-added returns above those of the CPP Reference Portfolio. In last year's annual report, this category was referred to as "real return" assets but is now more accurately labelled "inflation-sensitive" assets.

CPP FUND PERFORMANCE

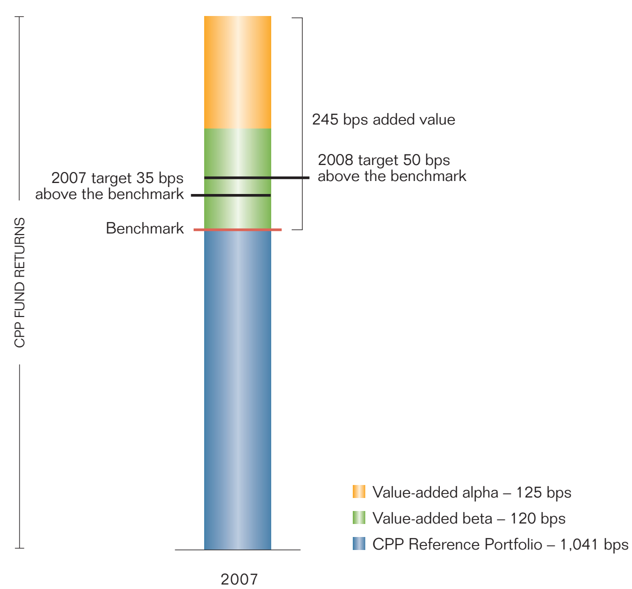
The CPP Fund generated income of $13.1 billion in fiscal 2007 compared with $13.1 billion for fiscal 2006. The rate of return for this year was 12.9 per cent versus 15.5 per cent last year. Over the past four years, the annualized rate of return has been 13.6 per cent.

RATE OF RETURN (%)
For the year ended March 31



A key factor in the CPP Fund's results this year was strong equity markets in the first nine months of our fiscal year, followed by a degree of volatility in the first three months of calendar 2007, including a sharp downturn in equity markets in February. Our value-added performance target for fiscal 2007 was set at 35 basis points[ii] over the CPP Reference Portfolio return, taking into account the stage of development of our active investment capabilities. Actual performance for fiscal 2007 exceeded the CPP Reference Portfolio by 245 basis points. As shown in the accompanying chart, the more efficient generation of beta produced 120 basis points of added value and alpha generation activities produced 125 basis points. On an annualized basis, this represents approximately $2.4 billion of added value relative to what the CPP Reference Portfolio would have contributed to the CPP Fund.

CPP FUND VALUE-ADDED RETURNS



[ii] A basis point is 1/100th of 1 per cent. 35 basis points equal 0.35 per cent.

The greatest source of beta contributing to our performance in 2007 was our expansion into a wider range of asset classes including infrastructure and real estate – categories that are not part of the CPP Reference Portfolio. The alpha-generating activities that helped to deliver value derived from multiple active management decisions, including our active overlay program in Public Market Investments and investment decisions within our private equity and real estate areas.

CPP FUND PERFORMANCE

ASSET CLASS	Return Fiscal 07	Return Fiscal 06
Canadian public equities	12.4%	29.9%
Canadian private equities	45.3%	-4.5%
Foreign public equities	13.5%	14.0%
Foreign private equities	33.1%	22.4%
Fixed income	5.9%	4.3%
Real estate	31.4%	19.7%
Inflation-linked bonds	0.9%	5.4%
Infrastructure	18.4%	-2.1%

The chart above shows the value of diversifying the portfolio as a risk management strategy. While from year to year there may be volatility in individual asset classes, collectively the full range of asset classes in a diversified portfolio performs better over the long term. At the same time diversification reduces the degree of fluctuation of total portfolio returns over the long term.

We have established a value-added performance target of 50 basis points above the CPP Reference Portfolio return for fiscal 2008. Our goal is to measure over time our value-added performance, which will in turn determine some elements of management compensation.

Investment Group Activities

We now review the activities of our three investment departments: Public Market Investments, Private Investments and Real Estate Investments.

PUBLIC MARKET INVESTMENTS

To meet the challenges posed by the rapid growth and increasing complexity of the CPP Fund, the Public Market Investments department doubled its staff this year as it implemented new active strategies and recruited a vice-president to oversee the newly created Relationship Investments group.

The Public Market Investments department invests in all publicly-traded asset classes, not just equities. This unit continued to broaden its scope and deepen its capabilities as it reorganized into the following five groups early in the 2007 fiscal year.

***Capital Markets*:** This team is responsible for trading, liquidity and index management across all products and asset classes. This includes investing cash flows from CPP contributions as well as rebalancing the overall risk profile of the total portfolio. Derivatives are used to manage market exposure and liquidity by replicating underlying cash positions and to add value to the portfolio through activities such as synthetic securities lending. This past year the group established a portfolio of marketable Canadian government bonds valued at approximately $4.3 billion on March 31, 2007. It also integrated into our investment processes a transaction cost modelling system aimed at reducing costs as trading volumes increase. And it implemented a system critical to balancing our private and public equity holdings as part of the total portfolio approach.

Plans for fiscal 2008 include the introduction of emerging markets trading and expansion into a wide array of new instruments such as bond futures and variance swaps, a derivative contract whose value fluctuates with the volatility of the markets.

"To meet the challenges posed by the rapid growth and increasing complexity of the CPP Fund, the Public Market Investments department doubled its staff this year as it implemented new active strategies and recruited a vice-president to oversee the newly created Relationship Investments group."

***External Portfolio Management*:** This team selects and manages our relationships with external managers who generate active returns through a variety of mandates. At year end this group was in the process of negotiating our first emerging markets mandate. As we have done in entering other markets, we plan to move at a measured pace, initially investing through external managers that offer immediate access to expertise and diversification.

Earlier in the year, we committed a total of $445 million to two new active Global REIT mandates managed by ING Clarion Real Estate Securities and CBRE Global Real Estate Securities. The team also established a currency overlay mandate with First Quadrant, which incorporates proprietary models to forecast exchange rate movements and uses currency forwards to implement its views.

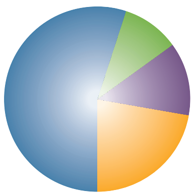
External Portfolio Management also oversees the active overlay program that was launched in fiscal 2005 as our first effort to generate returns over and above passive portfolio returns. Four external investment managers – Barclays Global Investors Canada, Connor, Clark & Lunn Investment Management, Goldman Sachs Asset Management and UBS Global Asset Management – pursue active management strategies by selling securities from our passive portfolio that they expect to underperform and investing the proceeds in securities from which they expect superior returns. Their compensation is primarily performance-based. Collectively, they have delivered $117 million, net of fees, since inception of the program.

Large pension funds are increasingly investing in hedge funds in an attempt to add alpha returns. We do not have a specific hedge fund allocation, but this year transferred a total of approximately $262 million to a pooled fund managed by Bridgewater Associates. Bridgewater had previously managed an active inflation-linked bond mandate for us. The move to a pooled fund provides a broader array of strategies to further diversify our active risk. Fiscal 2008 plans include allocating active risk to a select number of funds of hedge funds.

***Global Corporate Securities*:** This group functions much like the four external managers in the active overlay program with a focus on adding value through bottom-up security selection strategies of stocks and corporate bonds. The approach is complementary in that the Global Corporate Securities team focuses on a longer investment horizon than the external managers. The team has combined the best of quantitative and fundamental portfolio management disciplines and established a U.S. equity strategy at the start of fiscal 2007. A Canadian equity strategy was added later in the fiscal year. Fiscal 2008 plans include expansion to European and Asian stocks as well as building the infrastructure for investing in corporate bonds.

***Global Tactical Asset Allocation*:** This group employs top-down forecasting models to predict returns of various asset classes such as relative country returns in stock markets, bond markets and currencies. Similar to the Global Corporate Securities group, the Global Tactical

GLOBAL DIVERSIFICATION



Asset Allocation strategies are designed to complement those of our external partners by focusing on a longer time horizon. Their first initiative, an active currency program, will begin early in fiscal 2008 and will use currency forward contracts to implement the strategy. Fiscal 2008 plans also include the implementation of a stock-bond-cash timing program often referred to as a tactical asset allocation strategy.

Relationship Investments: This newly created group is responsible for all forms of proactive engagement with public companies. Their activities include proxy voting, implementation of the CPP Investment Board's *Policy on Responsible Investing (PRI)*, as well as capital deployment to generate value-added returns. Capital deployment strategies include applying private equity approaches to public companies.

Our investment horizon and long-term orientation allow a strategic investor like us to give management and boards the shareholder stability required to make business investments needed to create value over the longer term. This long-term focus is becoming more important as the stock market becomes increasingly focused on short-term results that are often delivered without regard for true long-term value creation.

As an example, the Relationship Investments group might seek to generate added value by negotiating the direct purchase, at a discounted price, of a sizeable block of shares in a company that needs cash quickly to relieve liquidity pressure. Or, it might work with other investors to bring about governance changes deemed necessary to revive an underperforming enterprise. We plan to enter the field first through external partners, then co-investments and finally direct investments. We currently participate in one fund, Enterprise Capital Fund LP II, a catalyst investor that acquires as much as 10 per cent of a company with the intention of bringing about change.

POLICY ON RESPONSIBLE INVESTING

Our *Policy on Responsible Investing* was first published in October 2005, and replaced our earlier *Social Investing Policy*. The policy is designed solely within an investment framework and is overseen by the Public Market Investments department. The policy reflects our belief that responsible corporate behaviour with respect to environmental, social and governance factors – commonly referred to as ESG factors – can generally have a positive influence on long-term corporate financial performance.

Our goal is to encourage improved disclosure and performance with respect to ESG matters that enhance long-term financial performance and allow investors to better understand risks and opportunities associated with an investment.

The policy has three core elements:

1. Engagement with companies in our portfolio through proxy voting, coalitions of like-minded investors and direct communications with managements and boards;
2. Research into the long-term materiality of ESG factors; and
3. Integrating ESG factors into our investment processes.

Engagement

We define engagement as any direct contact or communication with a company, such as proxy voting, letters or meetings with management or members of the board.

Since the publication of our policy in October 2005, we have been developing an engagement capability that will allow us to use our ownership position in

2,600 publicly-traded companies to encourage improved disclosure and performance on ESG factors. Engagement is a proven strategy for large institutional investors, like the CPP Investment Board, with a long-term investment horizon.

This year we reviewed our public equity portfolio holdings to identify risks from an ESG perspective. We prioritized issues and identified firms for direct engagement based primarily on their potential impact on our portfolio, as well as research from various sources including independent research providers. We then established three key focus areas for our engagement activities – *extractive industries*, *climate change* and *executive compensation*.

We are focusing on engagement with companies in the extractive industries due to their prevalence in the Canadian economy and therefore our investment portfolio. Companies in these industries typically deal with a wide range of environmental and social factors that can, if addressed well or poorly, translate into more or less favourable prospects for long-term financial performance. Through our initial discussions with mining and oil and gas companies this year, we have sought improved transparency and performance on greenhouse gas (GHG) emissions and local community impact.

Our second focus area for engagement, climate change, stems from our view that potential physical impacts as well as new or increased regulations on GHG emissions could have impacts on many sectors of our portfolio. Our efforts are directed at encouraging companies to disclose the climate change–related elements of their business clearly and consistently so that investors can better analyze risk and opportunity.

With regard to executive compensation, we believe in a pay-for-performance approach, with two qualifications. The first is that pay be correlated with both superior performance and underperformance. The second is that companies provide full disclosure of the true economic value of the entire executive compensation and benefits packages. Our *Proxy Voting Principles and Guidelines* provide further details on our positions regarding executive compensation.

Examples of Collaborative Engagement

We believe that when an investor or group of investors with a sizeable ownership portfolio speaks out, corporations take note and can be encouraged to take action.

- As one example, the CPP Investment Board is a sponsor and signatory to the Carbon Disclosure Project (CDP), a coalition of 284 investors globally, managing more than $41 trillion in assets and designed to encourage companies around the world to disclose the implications of climate change to their business. We supported the first CDP Canada report released in October 2006 and intend to fund the CDP research project again in fiscal 2008.
- We also work with like-minded investors to advance the framework for responsible investment within a fiduciary context. In April 2006, we became signatories to the *Principles for Responsible Investment*, an initiative of the United Nations Environmental Program Finance Initiative and United Nations Global Compact.
- In March 2007, we announced our support for the Extractive Industries Transparency Initiative (EITI). A multi-stakeholder initiative, the EITI supports improved governance in resource-rich emerging market countries through the verification and full publication of company payments and government revenues from oil, gas and mining.

Direct Engagement

While our direct engagement initiative is relatively new, we have already directly engaged with companies in a number of industries including mining, tobacco and energy.

- Our direct engagement on ESG issues has been mostly with Canadian firms, where on average we own 2 to 3 per cent of shares outstanding.

- Once we have identified a firm and issue, we review the firm's financial and ESG performance and develop objectives for our engagement. We generally seek improved transparency on relevant ESG factors and assurance that the company is adequately managing relevant ESG issues in the short and longer term as part of a typical business and financial review.
- We generally do not publicly disclose the names of the companies with whom we are engaging although we reserve the option if companies prove to be unresponsive. We view engagement as an ongoing long-term process.

Proxy voting is another effective form of direct engagement. We voted on 12,393 agenda items at 2,366 meetings during the 12-month proxy year that ended June 30, 2006. Information about how we voted and our *Proxy Voting Principles and Guidelines* are available on our website.

Research

In addition to engagement, we support research into the long-term financial materiality of ESG factors. In March 2006, we were the first Canadian investment organization to join the Enhanced Analytics Initiative (EAI). This is an international collaboration of investors representing over $2 trillion in assets aimed at encouraging brokerage firms to produce better investment research into ESG factors.

We are augmenting the work of the EAI and others in the investment research community, such as the Canadian Coalition for Good Governance, with work being conducted internally as we seek greater insight into ESG issues and potential investment risks or opportunities.

PRI and Our Investment Strategies

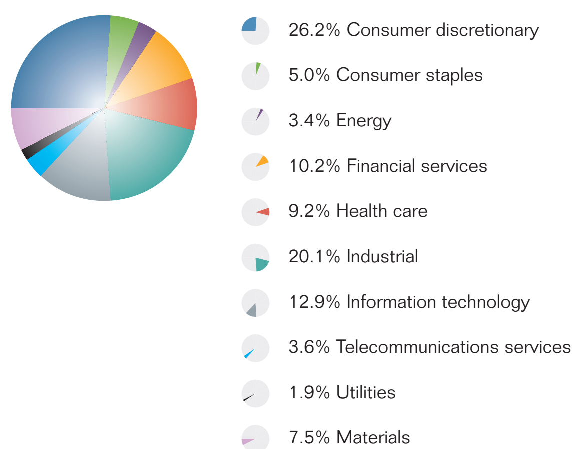
We are working towards building ESG factors directly into our investment strategies by integrating ESG factors that represent material elements of corporate performance, risk and opportunity. While we have initiated this work in fiscal 2007, it is a multi-year undertaking and we will report progress in this area in the years ahead.

PRIVATE INVESTMENTS

To support the implementation of more sophisticated investment strategies and transactions, the Private Investments department significantly increased its staff, recruited two experienced vice-presidents and substantially increased its investment activities this past year. Meanwhile, the global market for private equity and infrastructure changed dramatically with enormous infusions of capital bidding up prices and driving down returns, making it increasingly difficult to find attractive investments.

In private equity, our strategy is to establish relationships with top-tier investment partners through investment in a select number of private equity funds around the world. When possible, we also invest alongside these external partners, often co-sponsoring transactions as a direct investor in private companies. In infrastructure, we favour direct investing over funds because we hold a strong comparative advantage due to our size and long investment horizon.

PRIVATE EQUITY INVESTMENTS BY SECTOR



Funds and Secondaries: This is the first and largest segment of our private investments activities – the cornerstone of our private investments program. The private equity fund portfolio now consists of investments with a combined carrying value of $7.1 billion in 96 funds with 57 managers and is diversified across a wide range of industries, primarily in North America and Western Europe. We consider 39 of these managers to be core to our ongoing strategy. In addition to this invested capital, we have additional unfunded commitments to our fund managers of $11.7 billion in aggregate. The past year saw new commitments of $7.0 billion to 21 funds, including the establishment of eight new fund manager relationships: Actera Group, First Reserve, Goldman Sachs Vintage, KSL Capital Partners, Lightyear Capital, Permira, Providence Equity Partners and Thomas H. Lee Partners. As well, we reinvested in funds managed by Apax Partners, Brookfield Asset Management, Clairvest Group, Coller Capital, CVC Capital Partners, Hellman & Friedman, Kohlberg Kravis Roberts & Co., Lindsay, Goldberg & Bessemer, Partners Group, Silver Lake Partners, Terra Firma Capital Partners, Texas Pacific Group and The Blackstone Group.

Among our new commitments in Canada in fiscal 2007 was $300 million to Brookfield Asset Management's Tricap Partners II, which invests in underperforming companies requiring financial restructuring, strategic redirection, management changes or operational improvement. That investment builds on our earlier investment in the first Tricap Partners fund. Also in Canada we continued to operate under the three-year program that we established in fiscal 2006 to invest $400 million in Canadian private equity and venture capital. Through a "fund of funds" that TD Capital Private Equity Investors manages, the program invests in Canadian mid-market buyout funds and Canadian venture capital funds. As well, our fiscal 2006 commitment of $85 million to Birch Hill Equity Partners III, a Toronto-based private equity fund, continues to be drawn down as part of a five-year commitment. The $850 million fund focuses on mid-market buyout and expansion capital opportunities, primarily in Canada in selected industries including manufacturing, software, outsourced services, health care, energy and entertainment, media and communications. Further, our $100 million commitment to Edgestone Capital Equity Fund III in fiscal 2006 continued to be drawn down as part of a six-year program. The fund makes investments in equity and equity-related securities of mid-market North American companies primarily in three sectors: services, industrials/manufacturing and retail.

Funds and Secondaries is expanding beyond established geographic markets. As an example, the team launched a new venture with the Ontario Teachers' Pension Plan late in fiscal 2007 to fund Actera Partners, Turkey's largest independent private equity firm. CPP Investment Board's $115.3 million commitment was not a large amount for us, but does represent a major stake in the fund. Led by two managers with both Turkish and international experience, Actera's investment strategy focuses primarily on buyout and growth equity investments across a broad range of industries.

Fiscal 2008 plans for this segment include substantial expansion of our private equity fund relationships into Asia, a focus on the further development of opportunities in the mid-market and the further development of exposure to funds that take advantage of distressed opportunities.

Principal Investing: This team invests directly in private companies, alongside our external private equity fund partners. This year the team invested a total of $671 million. The list of companies includes:

- Freescale Semiconductor, Inc., a spin-off from Motorola in 2004 and now a leading semiconductor developer and manufacturer ranking among the top 20 in worldwide sales. Freescale's global operations are based in Austin, Texas.
- Generac Power Systems, Inc., a leading producer of commercial and consumer power generation systems. Generac is based in Waukesha, Wisconsin.
- Continental Group, a global value-added manufacturer and distributor of bar and tubular products for the oilfield service industry. Continental is based in Houston, Texas.
- AWAS, one of the world's largest aircraft leasing companies with 72 customers in 45 countries. Headquartered in Dublin, AWAS has three offices in the United States as well as offices in London, Singapore and Sydney, Australia.
- VNU Group B.V., now known as the Nielsen Company, is one of the world's largest media and information companies with leading market positions in marketing and media information, business information and directories. It is headquartered in both Haarlem, the Netherlands and New York City.
- BondDesk Group, a leading fixed income electronic trading platform, and one of the largest market destinations for trading odd-lot fixed income in the United States. BondDesk is headquartered in Mill Valley, California.
- NXP, a semiconductor company providing semiconductors and software for mobile communications, consumer electronics, security applications, contactless payment and connectivity, and in-car entertainment and networking. NXP is headquartered in Eindhoven, the Netherlands.
- Univision Communications Inc., based in Los Angeles, is the leading Spanish-language media company in the United States. Their portfolio includes television, radio, music and Internet offerings.

In total, we now have 16 principal investments valued at $1 billion.

Infrastructure: The infrastructure team completed two significant infrastructure transactions this year, including its largest to date: the $1.1 billion purchase of a one-third interest in AWG Plc, the parent of Anglian Water, which operates a water distribution network that serves six million customers in Britain. Earlier in the year, we purchased, for $364 million, a 27 per cent ownership position in HQI Transelec Chile S.A. The Transelec power system provides approximately 99 per cent of Chile's population with electricity using over 8,000 kilometres of transmission lines and 51 power substations.

The CPP Fund now has three significant direct infrastructure investments: AWG, Transelec and a 17 per cent ownership interest acquired in 2005 in Wales & West Gas Distribution Network, the natural gas distribution system that serves Wales and southwest England.

We intend to substantially expand our infrastructure portfolio in coming years. We are well equipped to meet this sector's need for large, long-term capital commitments. And, the regulated long-term income streams that are available from infrastructure investments tend to track inflation and therefore are a good match for the CPP's future liabilities.

We plan to further develop this team's capabilities with the goal of being able to complete four to six large-scale transactions a year by the end of this decade. We continue to seek assets that operate in strong regulatory environments and have relatively low technology replacement risk and minimal substitution risk. Examples include utilities such as electricity transmission and distribution systems, gas transmission and distribution systems, water and sewage companies, and certain transportation assets such as toll roads, bridges and tunnels, airports and ports. Our current target investment size for infrastructure investments is $300 million to $600 million, although, given the right opportunity, we will make larger investments in a single infrastructure asset. The current $300 million threshold effectively rules out social infrastructure projects such as hospitals and schools. While foreign projects comprise our direct infrastructure investments thus far, we are prepared to invest in Canadian infrastructure that meet our criteria and compare well with investment opportunities globally. At present, Canada's infrastructure market is more limited than those of other countries.

REAL ESTATE INVESTMENTS

In order to help grow this portion of the CPP Fund, the Real Estate Investments department continued to expand its internal capabilities following its formation in fiscal 2006. This past year it doubled in size and is now organized along geographic lines with one team focusing on North America and another internationally outside of North America. A new vice-president was recruited from Germany to oversee European real estate investments.

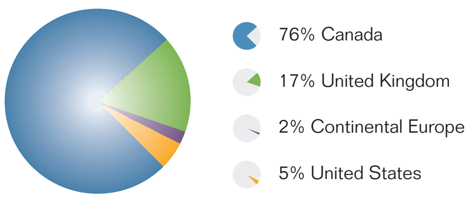
The CPP Investment Board has thus far invested a total of $5.7 billion in real estate, net of debt, including real estate investment trusts (REITs) that are held in our public real estate portfolio.

Total net investments increased by approximately $1.5 billion, primarily comprised of valuation adjustments and additions in both private and public investments. Net new investments were partially offset by the sale of our interest in Trizec Canada. In addition, further commitments were made through funds that will be drawn down over a two- to three-year time frame.

After acquiring nearly $3 billion in direct property interests in Canada during fiscal 2006, we focused primarily on Europe during fiscal 2007. We committed a total of $1.3 billion to eight funds and to a joint venture in which we partnered with ING Real Estate Investment Management UK to purchase two City of London office buildings.

Europe was selected as the first region for international expansion because its major markets are reasonably transparent, provide an attractive spread between the initial yields and borrowing costs, and have strong growth and value enhancement opportunities. Over the past year, the market has become increasingly competitive but still offers selective investment opportunities that are attractive on a risk-adjusted return basis and therefore will continue to be an area of interest.

REAL ESTATE INVESTMENTS – GEOGRAPHIC DIVERSIFICATION



As we expanded our capabilities and capacities, we have also been establishing investment relationships in the United States to complement those in Canada and Europe. The U.S. is the world's largest but most competitive real estate market. Our strategy there is to partner with like-minded investors in joint-venture arrangements for core holdings and invest in funds for specialized opportunities or strategies.

Shortly before the end of the fiscal year we established a relationship with New York-based TIAA-CREF, committing $330 million to a joint venture that will invest in class A office properties throughout the United States. The gross value of the joint venture, which includes debt, is expected to reach approximately $1.7 billion of which we will hold 49 per cent. TIAA-CREF has seeded the joint venture with one class A office property near San Francisco and another near Washington, D.C. We also committed $220 million to a TIAA-CREF strategy that invests in institutional-quality U.S. real estate assets.

The U.S. real estate assets we had acquired in 2002 through our investment in Trizec Canada and Trizec Properties REIT were sold this year to Brookfield Properties Corporation and The Blackstone Group for a realized gain of $336 million from the original investment.

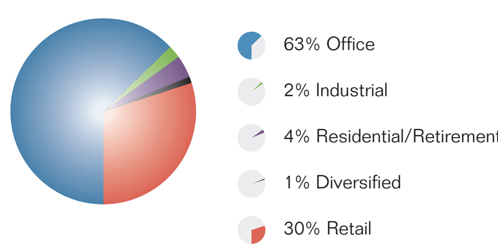
In Canada, we acquired a 50 per cent interest from RioCan REIT in three power centre retail projects under construction in Edmonton, Calgary and Burlington, Ontario. Our total commitment upon completion will be approximately $200 million. We are also participating in the redevelopment of Centre Mall in Hamilton, Ontario, and the construction of a third office tower in downtown Ottawa's Constitution Square. In June we sold eight of the non-core office buildings that were acquired last year as part of the purchase of 50 per cent of the O&Y Properties office portfolio.

At year end, Canadian properties represent 76 per cent of the real estate portfolio while the United States represents 5 per cent, the United Kingdom represents 17 per cent and Continental Europe represents 2 per cent, with investments concentrated in France and Germany.

As the fiscal year ended, we were finalizing the details on our first emerging markets real estate investment through Bentall Balloch China Property Development Fund. This fund will invest in residential development projects in cities within China with populations of between four and 10 million people. Emerging markets offer attractive opportunities as their economies develop and grow, but also entail greater risks than those present in more developed economies. While we recognize the risks, we believe the long-term growth profile of these markets provides opportunities suited to our fund's growth. Our emerging markets real estate strategy will initially be to concentrate on only a few countries in order to gain a good understanding of each market.

Fiscal 2008 plans include expansion of Canadian, U.S. and European relationships along with investigation of investment opportunities in Eastern Europe and additional emerging markets countries.

REAL ESTATE INVESTMENTS – PRODUCT TYPE DISTRIBUTION



REAL ESTATE HOLDINGS

PROPERTY	City	Province/State	Country	Total Gross Leasing Area (sq. ft.)	Ownership Interest (%)
OFFICE PROPERTIES					
Altius Centre	Calgary	AB	Canada	306,000	50
Canterra Tower	Calgary	AB	Canada	819,000	50
Gulf Canada Square	Calgary	AB	Canada	1,120,000	50
Bell Tower	Edmonton	AB	Canada	473,000	50
Canadian Western Bank Place	Edmonton	AB	Canada	406,000	50
Edmonton City Centre (Office)	Edmonton	AB	Canada	998,000	50
Enbridge Tower	Edmonton	AB	Canada	183,000	50
Guinness Tower	Vancouver	BC	Canada	256,000	50
Marine Building	Vancouver	BC	Canada	171,000	50
Oceanic Plaza	Vancouver	BC	Canada	344,000	50
4342 Queen Street	Niagara Falls	ON	Canada	150,000	50
Constitution Square	Ottawa	ON	Canada	706,000	50
Jean Edmonds Towers	Ottawa	ON	Canada	553,000	50
Place de Ville I	Ottawa	ON	Canada	587,000	50
Place de Ville II	Ottawa	ON	Canada	610,000	50
18 King Street E.	Toronto	ON	Canada	229,000	50
2-24 St. Clair Avenue W.	Toronto	ON	Canada	232,000	50
40 St. Clair Avenue W.	Toronto	ON	Canada	122,000	50
First Canadian Place	Toronto	ON	Canada	2,611,000	25
2 Queen Street E.	Toronto	ON	Canada	464,000	50
One Financial Place	Toronto	ON	Canada	654,000	50
Royal Bank Plaza	Toronto	ON	Canada	1,483,000	50
Waterpark Place	Toronto	ON	Canada	802,000	50
Yonge/Richmond Centre	Toronto	ON	Canada	299,000	50
Tour KPMG	Montreal	PQ	Canada	508,000	50
Shenandoah Building	McLean	VA	USA	197,000	49
Stoneridge Corporate Plaza	Pleasanton	CA	USA	560,000	49
1 Bunhill Row	London	–	U.K.	264,000	80
55 Bishopsgate	London	–	U.K.	193,000	80
TOTAL OFFICE				**16,300,000**	
RETAIL PROPERTIES					
Edmonton City Centre (Retail)	Edmonton	AB	Canada	809,000	50
Pine Centre Mall	Prince George	BC	Canada	458,000	80
Cornwall Square	Cornwall	ON	Canada	250,000	80
Centre Mall	Hamilton	ON	Canada	339,000	80
White Oaks Mall	London	ON	Canada	674,000	80
Eastgate Square	Stoney Creek	ON	Canada	544,000	80
New Sudbury Centre	Sudbury	ON	Canada	533,000	80
Intercity Shopping Centre	Thunder Bay	ON	Canada	462,000	80
Promenades Cathédrale	Montreal	PQ	Canada	138,000	50
Les Galeries de la Capitale	Quebec City	PQ	Canada	1,346,000	80
Carrefour de l'Estrie	Sherbrooke	PQ	Canada	1,105,000	80
TOTAL RETAIL				**6,658,000**	
PORTFOLIO TOTAL				**22,958,000**	

CANTERRA TOWER
CALGARY, ALBERTA

CONSTITUTION SQUARE
OTTAWA, ONTARIO

55 BISHOPSGATE
LONDON, ENGLAND

OCEANIC PLAZA
VANCOUVER, BRITISH COLUMBIA

"We believe the success of the CPP Fund's investment program is determined not only by the acquisitions we make but also by those we pass up."

COMPETITIVE MARKETS

Private Investments and Real Estate Investments have been working in particularly challenging markets where investor demand has far outpaced supply. These highly competitive environments demand an iron will to ensure the CPP Fund is fairly compensated for the risk assumed. While we succeeded in acquiring a number of quality assets this year, we were unsuccessful on others where bidding went beyond our valuation range and we adhered to our disciplined investment process. In effect, we believe the success of the CPP Fund's investment program is determined not only by the acquisitions we make but also by those we pass up.

Key Performance Drivers

This commentary discusses the performance of the CPP Fund and the activities of the CPP Investment Board in the context of our key performance drivers:

- ***Focused Mandate:*** Our sole mission is to contribute to the long-term sustainability of the Canada Pension Plan by investing its assets worldwide to maximize return without undue risk of loss.
- ***Governance:*** We are publicly accountable to the federal and provincial finance ministers who act as stewards of the CPP, while operating as an investment manager in the private sector at arm's length from governments.
- ***Long-Term, Risk/Return Management:*** The CPP Fund is managed as one cohesive portfolio to create investment value above a clear benchmark that directly reflects our mission. Its size and multi-generational mandate allow us to function as a long-term strategic investor.
- ***People and Culture:*** We have recruited talented and experienced individuals from around the world who are committed to building an investment organization that is internationally respected for its performance, capabilities and ethical conduct. Equally we ensure that our people understand and act in accordance with our mission to help ensure the pension benefits of generations of Canadians.

Economic and Financial Market Outlook

Given our long-term investment horizon and focus on diversifying the portfolio through global investments, we look at long-term financial trends.

The global economy turned in another stellar performance in fiscal 2007. Emerging markets, led by China and India, continued to record impressive rates of growth. In developed countries, including Europe and Japan, the expansion maintained a healthy pace while growth slowed noticeably over the course of the fiscal year in North America. A housing market correction in the United States and the lagged impact of past increases in the value of the Canadian dollar on trade-oriented sectors in Canada were the principal factors behind the slowdown. Equity markets, reflecting the strength of the global economy, healthy corporate balance sheets and low bond yields, posted strong gains before retreating near the end of the fiscal year.

Inflation remained relatively stable in most major industrial countries. However, since many economies were operating very close to capacity in fiscal 2007, central banks were in a tightening mode. The Federal Reserve Board, the Bank of Japan, the European Central Bank, the Bank of England and the Bank of Canada all raised short-term interest rates at some point during the past fiscal year.

Bond yields moved sideways, on average, although the yield curve remained unusually flat and in some instances was inverted. Currency markets were quite volatile during the past year, reflecting large swings in commodity prices and uncertainty about the durability of the U.S. expansion and that country's large current account deficit. The U.S. dollar moved slightly higher against the Canadian dollar and the Yen, while it declined relative to the Euro.

Going forward, our expectation is that the world economy will perform reasonably well over the next several years. North American economic growth should improve this year and beyond as the housing market correction in the U.S. runs its course and the export-oriented sectors in Canada more fully adjust to a Canadian dollar in the 85 to 90 cent U.S. range. Japan and Europe are expected to continue to experience moderate rates of growth while China and India should remain among the world leaders in terms of economic performance. This favourable environment will likely generate only modest returns in equity markets, given the outsized gains of the past couple of years. We expect that continued vigilance by central banks will contain inflation pressure and in some areas, like Japan and Europe, additional policy tightening may be required. This tightening, together with the steepening in the slope of the yield curve in most major industrial countries, will provide a challenging environment for fixed income markets.

The risks to the outlook are tilted to the downside. World oil prices are vulnerable to geopolitical developments while the U.S. housing market correction could well be more severe than anticipated. In addition, the resolution of the unsustainably large U.S. current account deficit and the staggering Chinese and Japanese current account surpluses threaten significant and abrupt currency adjustments that, in turn, could impair global economic performance.

Emerging Markets

As part of our continued strategy to diversify the portfolio by geography and asset class, we have formulated a strategic approach to emerging markets for our three investment departments. We will not be entering emerging markets seeking short-term opportunities. Instead, we will be making a long-term commitment to participate in these dynamic economies because we believe that emerging markets can have significant potential over the long term. This potential matches our investment horizon as we manage the CPP Fund in the context of our multi-generational mandate. Part of our rationale for international diversification is the belief that prudent investments in rapidly growing regions will enable the CPP Investment Board to harness the positive demographic growth and rising productivity of other regions to create a flow of foreign income back to Canada to help support pensions for Canadians.

Our entry into emerging markets will be measured and incremental, involving disciplined due diligence and strict observance of the risk parameters for each market. Based on in-depth analysis, we expect to focus initially on Greater China (China, Hong Kong and Taiwan) and South Korea. These are among the largest emerging markets in terms of gross domestic product (GDP), population and financial assets; therefore, they are capable of generating a meaningful contribution to our portfolio performance over the long term. They have medium to high projected GDP growth over the next decade and present a medium to low risk profile relative to other emerging markets. An ancillary benefit of this geographic focus is the proximity to Japan, where we see potential for other private equity opportunities. We may also invest in emerging markets outside our target area that meet the characteristics and size criteria in our framework and that also pass our risk management tests.

"The corporate objectives for fiscal 2008 reflect our continued focus on the implementation of our business plan with a commitment to broaden the investment portfolio, deepen our capabilities and build an enduring world-class investment management organization."

We will enter emerging markets in three ways. Initially we will seek broad exposures through the public markets. Subsequently we will pursue specific opportunities in private equity funds, real estate and infrastructure, working through funds and local partners to build expertise for the future. Finally, once we have a sufficient knowledge base, we will engage in direct investments in joint ventures with local partners. This will be a multi-year strategy.

Fiscal 2008 Objectives

The corporate objectives for fiscal 2008 reflect our continued focus on the implementation of our strategic plan with a commitment to broaden the investment portfolio, deepen our capabilities and build an enduring world-class investment management organization. Our over-arching goal is to achieve or exceed the value-added 2008 performance target set in relation to the CPP Reference Portfolio. To support that goal, we have three key objectives:

- Broaden the diversification of the investment portfolio through different geographies and asset classes and through alpha-based strategies;
- Further develop our internal staff capabilities and our investment processes to align with the growing size and complexity of the portfolio, with a focus on expanding our ability to concurrently pursue multiple investment strategies and transactions; and
- Build an enduring organization by fostering an organizational culture that serves our multi-generational mandate, advancing projects on reputation management and human resources management, and building a scalable technology and operational infrastructure.

To deepen our understanding of foreign markets and increase access to investment opportunities and local market expertise, we plan to open our first two international offices – in London and Hong Kong – in fiscal 2009. Logistical planning and staffing will be carried out in fiscal 2008. These offices will initially meet the needs of our Private Investments and Real Estate Investments departments.

Cash for Benefits Portfolio

In August 2005, Finance Canada transferred to the CPP Investment Board full responsibility for managing the short-term cash used by the CPP to pay current benefits. Beginning in fiscal 2007 the assets required for this purpose were segregated from the investment portfolio and separately managed as the Cash for Benefits portfolio. This portfolio is in liquid money market instruments with the primary objective to ensure the CPP has the necessary liquidity to meet benefit payment obligations on any business day. A secondary objective is to match or exceed the benchmark return of the Scotia Capital Markets 91-day T-bill Index. The portfolio earned 3.2 per cent for fiscal 2007 versus 3.1 per cent for the index.

Enterprise Risk Management

Our investment activities and business transactions expose us to a broad range of risks. The Enterprise Risk Management (ERM) framework provides our board of directors and senior management team with a comprehensive view of the risks we face and the controls we have in place to manage those risks within acceptable levels of tolerance. Every member of the CPP Investment Board team plays a role in our risk management culture.

The board of directors is responsible for ensuring that management has identified the principal risks of the business and has established the appropriate control environment. The management team is also charged with ensuring that the organization has adequate tools, training and resources to manage the risk inherent in day-to-day operations. The actual work of managing risk is done at the business level, as close to the source of those risks as possible. Internal and external auditors, in the course of executing their audit plans, provide input to management and the board of directors on the effectiveness of the organization's risk management practices.

Our ERM framework is the blueprint for managing risks throughout the organization. The current framework, created in 2003, was suitable for the organization at that time. Given the growth in size and complexity of the CPP Fund and further changes anticipated for the future, management has determined the need for a more comprehensive framework that is more adaptable and capable of growing with the organization.

The 2003 framework identified seven key risk categories, which were defined in the annual reports for fiscal 2005 and 2006. We have condensed the number of risk categories to five, to better focus on our major risks. The five are:

- ***Investment Risk:*** The risk inherent in achieving investment goals and objectives, including market, credit and liquidity risk.
  - The operationalization of our Risk/Return Accountability Framework has substantially increased the risk management focus of our investment decision-making. Under this approach, risk decisions are made at the total portfolio level. The board of directors has approved an active risk limit, and management strives to maximize active returns within this limit not within individual asset classes.
- ***Strategic Risk:*** The risk that an enterprise or particular business area will make inappropriate strategic choices or be unable to successfully implement selected strategies.
  - The CPP Investment Board's business plans are created annually to operationalize our strategic direction. Progress against the business plans is reviewed quarterly by senior management with our board of directors.
- ***Legislative and Regulatory Risk:*** The risk of loss due to non-compliance with actual or proposed laws, rules and regulations and prescribed industry practices.
  - Our primary risk management strategy here is our compliance management process, which ensures we have robust practices in place to manage legislative and regulatory risk. It includes oversight by our Legal department and also obtains input from external legal counsel to ensure completeness and accuracy in compliance with all relevant regulations.
- ***Operational Risk:*** The risk of loss from inadequate or failed internal processes, people or systems, or from external factors.
  - Strategies to mitigate operational risk include performing risk and control reviews and continuing our strong hiring practices to ensure that we have the right resources to meet our business challenges. Our operational risk activities also include a business continuity program that defines the best response to any business interruption at the CPP Investment Board.

- *Reputational Risk:* Risk of loss of reputation, credibility or image due to internal or external factors.
  – Reputational risk management will continue to be a key focus for our Enterprise Risk and Controls Group in 2008. We will strengthen our approach by building on the solid foundation we currently have in place. The CPP Investment Board has built a culture based on strong ethics which guides all our activities as reflected in our code of conduct. As an example, all employees and directors are required to disclose any personal trading or business interests that might lead to a real, potential or perceived conflict of interest or result in personal benefit.

As the CPP Investment Board grows in size and scope, so does the array of organizational risks that we manage. We have a number of initiatives planned for fiscal 2008 to address our changing risk profile. These include enhancing our ERM framework and implementing a more rigorous ERM process.

We intend to launch an initiative to review, document and evaluate our internal controls over financial reporting. This certification initiative will be integrated with our ERM framework by using the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). While we are not subject to public company certification requirements, we are committed to maintaining a strong corporate governance framework that is consistent with our commitment to accountability.

Running an Efficient, Effective Business Operation

Fiscal 2007 marked a year of substantial growth for the CPP Investment Board. Our staff increased significantly as our investment management activities expanded in scope, complexity and sophistication. We expanded and deepened relationships with the external investment managers who are very important to our success. And we made progress in building our capabilities to develop scalable processes and systems in support of our corporate objectives.

The total cost of operating the CPP Investment Board for the year (excluding external investment management fees) was $114 million compared with $54 million for fiscal 2006. Expressed another way, total operating expenses were 11.2 cents per $100 of invested assets compared with 7.1 cents for the prior year.

Our cost levels have historically been lower than the total operating expenses for other comparable large public pension funds in Canada. This differential is primarily due to our early stage of evolution as a business. As we evolve to address the relative growth and increasing complexity of our portfolio, we expect that this cost differential will narrow.

For further details, please see Note 8 of the Consolidated Financial Statements. External investment management fees are described in Note 7.

Human Resources

Our goal this year was to continue strengthening the organization by adding capabilities in our investment departments, investment decision support areas and core services functions. We were successful on this front despite an industry-wide challenge in finding employees with the right combination of technical expertise, experience and personal attributes. There continues to be heavy demand for and a limited supply of talented investment and information systems professionals.

Key to our success is the fact that the CPP Investment Board presents a compelling career proposition. We have the asset base and resources of one of the world's largest single-purpose capital pools, a disciplined and differentiated approach to investing, a passion for bringing highly talented team players to the organization, and a steadfast commitment to the highest standards of ethical conduct in the service of over 16 million CPP contributors and beneficiaries. Significantly, in addition to these hallmarks of a successful, established organization, we offer the rare opportunity to participate fully in the actual creation of a professional investment management organization capable of investing in any asset class anywhere in the world.

Staff increased by approximately 70 per cent from the previous fiscal year for a total of almost 260 full-time employees, filling more than 90 per cent of our openings within our target of 90 days. This increase – in line with asset growth and the growing complexity of the portfolio – included the recruitment of 15 senior professionals at the director or vice-president level. In fiscal 2008 we expect to hire approximately 100 regular full-time and 30 contract employees. This includes staffing for our first foreign offices, in London and Hong Kong, which are scheduled to open early in fiscal 2009.

To support the development of organizational capabilities aimed at generating higher portfolio returns, we invested heavily this year in making our Human Resources recruitment and retention programs more efficient, scalable and enduring. This included the development and implementation of comprehensive applicant tracking and HR information systems.

Our leadership team is now almost fully in place and we are moving toward a full staff complement over the next two years. The growth prospects of the CPP Fund enable us to continue to offer attractive career opportunities to our current employees and prospects. In our recruiting activities, we have benefited from the recommendations of our employees to others as well as our expanded on-campus recruitment at universities across Canada.

Effective External Partners

The accelerated growth of the CPP Fund is unprecedented for a Canadian public pension fund, and external partners continue to be an important part of how we invest, create value and operate the organization. Page 53 lists our investment partners in fiscal 2007 – 14 more than in the previous year.

Partnering enables us to enter markets faster, at lower cost and with more diversification than we could achieve on our own. We obtain efficient access to different asset classes, different active strategies, top-performing investment managers, and to specialized investment expertise and local knowledge in specific geographic regions.

External partners also assist us in building internal capabilities in areas where we have a comparative advantage by sharing their keen proprietary insights. Our internal investment program has been carefully designed to complement, not compete with, the activities of the partners whose service we value.

While most institutional investors are relatively passive providers of capital to their external partners, the CPP Investment Board views these relationships as mutually beneficial alliances. As mentioned earlier, our approach to new markets has been to enter fund relationships while concurrently increasing our own internal experience and capabilities. Management has adopted a structured policy under which we seek partners who:

- Offer capabilities, experience and knowledge transfer that can accelerate our development as an investment management organization;
- Are willing to invest to understand our goals and approaches to investing;
- Are committed to integrity and fair dealing in their business practices; and
- Offer a diverse skill set, ongoing support and the ability to work with us for an extended period of time.

In addition to fair remuneration for their skills, we offer in return a sophisticated research and test environment, the opportunity to address complex problems in a high-growth environment, relevant access to our strategy and goals, and potential access to future assignments.

Finance and Operations

Finance and Operations is responsible for processing and oversight of our investment operations including Investment Performance and Risk Measurement, Information Services, Enterprise Risk Management and External Reporting.

This department has been particularly challenged by our concurrent requirements to fulfill today's responsibilities while developing systems and processes to address future needs. Finance and Operations must expand existing processes and systems to meet current needs as the portfolio grows in scope and complexity, while at the same time look ahead to develop scalable processes and systems that will support the long-term growth we envision. Operationally, we have made a clear distinction between maintaining existing systems and creating new ones.

Finance and Operations underwent a change in leadership in fiscal 2007. Last spring we filled the newly created position of chief operations officer and in the fall recruited a vice-president in charge of information services. The department has been reorganized to better align with our investment departments and new emphasis has been placed on increasing and augmenting leadership and specialized expertise. Staffing doubled this year with additional growth expected in fiscal 2008.

Finance and Operations has been implementing a multi-year program to continue to support the organization's investment strategies. Priorities for fiscal 2008 include implementing a target state technology architecture and continuing to streamline processes within the department. This includes defining our technology and process architecture roadmap by understanding our current state and defining how we transition to our target state. In addition, we are identifying our core competencies to best determine which functions or processes we should internalize. As an example, late this past fiscal year, we contracted to outsource our data centre and network infrastructure processes to a major technology firm, allowing our Information Services team to focus on systems applications and architecture.

While realigning itself, Finance and Operations contributed directly to the achievement of corporate objectives in fiscal 2007 through the implementation of a number of major management projects. Operationalizing the total portfolio approach required a complete overhaul of investment performance reporting and risk measurement. This also included the implementation of a major initiative to balance our private equity investments and our public market holdings and measure performance accordingly. This initiative will also enable us to better understand the underlying companies within the private equity funds in

"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."

CPP Investment Board Disclosure Policy

which we invest and thereby better monitor and evaluate the performance of our fund partners.

Another initiative this year was to enhance our valuation policies for private investments and real estate investments to conform with new fair value accounting standards, and we will be implementing new policies effective April 1, 2007. Current valuation policies are discussed on page 42 and in Note 1b of the Consolidated Financial Statements.

Responsibly Serving Canadians

Accountability and disclosure are hallmarks of the distinct governance model that was carefully designed by the federal and provincial finance ministers to meet our specific investment mission.

ACCOUNTABILITY

As set out in our founding legislation, the CPP Investment Board is accountable to the stewards of the Canada Pension Plan: the federal finance minister and the finance ministers of the participating provinces. We report to Parliament through the finance minister, who tables our annual report in the House of Commons. Quarterly financial statements are filed with the federal and provincial finance ministers. Further, the Chair and the CEO take questions and comments from individual Canadians and stakeholder groups at biennial public meetings in each of the provinces that participate in the Canada Pension Plan. Nine such meetings were held during fiscal 2007.

An external audit firm conducts an audit every year. The federal and provincial finance ministers include the CPP Investment Board as part of their scheduled review of the entire Canada Pension Plan every three years. Every six years, we undergo external examination of our records, systems and practices, as required for all Crown corporations. Additionally, the federal minister of finance can order a special audit at any time.

As part of our commitment to ethical conduct, the CPP Investment Board has exceeded legislated requirements as well as industry norms in establishing and maintaining high standards of conduct and business practice. Our comprehensive governance and accountability framework includes a number of measures designed to preserve the public trust. One such measure is our code of conduct for directors, officers and employees. This code, for example, obligates directors, officers and employees to act as whistle-blowers if they become aware of any suspected breaches. Any such report can be made confidentially to an external conduct review advisor, who is not part of management or the board of directors, and who reports formally to the Chair and the board at least once a year. The Honourable Frank Iacobucci, a former justice of the Supreme Court of Canada, former member of the Ontario Securities Commission and author of five major books on business law, was appointed to this position in fiscal 2006.

We have also adopted internal standards and policies to ensure we always act responsibly as a capital markets participant.

DISCLOSURE

Our disclosure policy goes well beyond legislated requirements. Indeed, we disclose more information, more often, than any other pension fund in Canada and, to our knowledge, anywhere in the world. This includes the quarterly release of investment results. Our website contains more than 1,200 pages of information about how we operate, a complete list of investment holdings and a list of our investment partners with links to their websites. As well, interested parties can access the legislation and regulations that govern our activities, and our by-laws, governance manual and policies including the investment statements that guide us in managing the CPP Fund and Cash for Benefits portfolio. The website maintains an archive dating back to fiscal 1999, when we began investing, and contains a page that solicits feedback and questions.

Accounting Policies

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to adopt accounting policies and to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The significant accounting policies adopted by the CPP Investment Board are described in Note 1 of the Consolidated Financial Statements. The most critical accounting estimates made by management are in the valuation of investments as described below.

VALUATION OF INVESTMENTS

All of our investments are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Quoted market prices are used to represent the fair value for investments traded on an active market, such as publicly-traded stocks.

In the case of private equity, infrastructure and private real estate investments, where quoted market prices are not available, fair value is determined using accepted industry valuation methods. Bonds transferred from the CPP are non-marketable and are valued using discounted cash flows based on current market yields of instruments with similar characteristics and then adjusted for the non-marketability and rollover provisions of the bonds. Significant estimates and judgments are required in determining the estimated fair value of these investments and, therefore, actual results could differ from those estimates.

FUTURE ACCOUNTING POLICY CHANGE

In April 2005, the Canadian Institute of Chartered Accountants (CICA) issued section 3855, Financial Instruments – Recognition and Measurement, which is effective for fiscal years beginning on or after October 1, 2006. As the CPP Investment Board qualifies as an Investment Company and reports its investments at fair value in accordance with CICA Accounting Guideline 18, Investment Companies, only certain aspects of section 3855 are applicable.

Effective April 1, 2007, the CPP Investment Board will adopt the fair value measurement considerations of section 3855. The impact on the CPP Investment Board is a change in the way certain investments are valued, expensing of transaction costs when incurred and applying the effective interest method in accounting for interest income on bonds. On April 1, 2007, the investments of the CPP Investment Board will be remeasured to reflect the new valuation standards. This transition adjustment will be recognized in the opening accumulated net income from operations at April 1, 2007, and is not expected to have a material impact to the CPP Investment Board's consolidated financial position.

Compensation Discussion and Analysis

Report on Executive Compensation

Committee Mandate

The human resources and compensation committee (HRCC) assists the board in fulfilling its obligations relating to compensation of the chief executive officer and his or her senior vice-presidents (collectively the "officers"), as well as to compensation and human resources issues relating to all other employees. Specifically, the HRCC:

- Reviews and approves value-added performance benchmarks applicable to all incentive-based compensation, including that of the officers and the CEO;
- Participates in a performance evaluation process for the CEO, and determines and recommends to the board the CEO's compensation level based on this evaluation;
- Reviews and recommends to the board the framework for officer compensation plans and the compensation levels for officers, as well as the aggregate level of incentive compensation for non-officer employees;
- Oversees the disclosure of directors' and officers' compensation in the CPP Investment Board's annual report; and
- Reviews organizational structure and succession planning, and oversees employee benefits, employee pension plans and human resources policies.

The committee, the members of which are set out below, is composed entirely of directors who are independent of management as defined by Canadian regulatory standards, and none of the HRCC's members are sitting CEOs.

The CEO and the senior vice-president of Human Resources of the CPP Investment Board are not members of the committee, but attend portions of HRCC meetings at the request of the committee. *In-camera* sessions are held as determined by the committee, including at the beginning and end of each committee meeting.

Committee members during fiscal 2007 were

- Ronald E. Smith, chair
- Jacob Levi[i]
- Helen M. Meyer
- Dale G. Parker
- Germaine Gibara

Committee members for fiscal 2008 are

- Ronald E. Smith, chair
- Dale G. Parker
- Germaine Gibara
- Helen M. Meyer[ii]
- Ian A. Bourne (appointed effective May 10, 2007)
- D. Murray Wallace (appointed effective May 10, 2007)

To ensure that the Corporation's longer-term compensation programs are effective in delivering their objectives, the committee regularly reviews modeled compensation scenarios that illustrate the impact of various future performance outcomes on previously awarded and outstanding compensation. The committee is satisfied that the intended relationship between pay and performance is appropriate for all of the officers, and that, in aggregate, the resulting compensation modelled under various performance scenarios is reasonable, not excessive, and delivers the intended differentiation of compensation value based on performance.

[i] Jacob Levi's term as a director ended in December 2006.
[ii] Helen M. Meyer's term as a director ended in April 2007.

In administering the plan, HRCC may use its judgment in varying the amounts payable to officers.

ADVISORS TO THE COMMITTEE

In order to assist in the fulfillment of its obligation to the board and to the stakeholders of the CPP Investment Board, the committee has the authority to employ or commission outside advisors.

The HRCC directly employs an independent advisor to provide it with advice and guidance on compensation issues. The HRCC had two such advisors during 2006, Mercer Human Resources Consulting (Mercer) and Hugessen Consulting Inc. (HCI). A change in advisor was prompted when the HRCC's primary consultant left Mercer in 2006 to form HCI. After due consideration, HCI was selected in October 2006 as the HRCC's primary advisor on the strength of its experience providing large financial institutions in Canada with advice on executive and board compensation issues.

HCI's mandate is to provide advice on the competitiveness and appropriateness of compensation programs for officers, and on related compensation and governance issues. Any services provided by HCI other than in its role as advisor to the committee require written pre-approval by the committee, outlining the scope of work and related fees. The committee will not approve any such work that, in its view, could compromise HCI's independence as an advisor to the committee. HCI provided no other services to the CPP Investment Board in fiscal 2006 or 2007.

The decisions made by the HRCC are the responsibility of the committee, and may reflect factors other than the recommendations and information provided by HCI.

HRCC's Key Activities Relating to Fiscal Year 2007 (Summary)

ANNUAL ACTIVITIES

- Reviewed and recommended for board approval on the following matters:
  - For the CEO, fiscal 2007 salary adjustment and fiscal 2007 bonus, taking into account the results of the board's evaluation of the CEO's performance
  - For each individual officer, the CEO's proposed fiscal 2007 salary adjustment and fiscal 2007 bonus, taking into account the CEO's evaluation of the officer's performance
  - For non-officers, merit budget for fiscal 2007 salary adjustments and pool for fiscal 2007 bonuses
  - Overall compensation framework for the CPP Investment Board, including performance targets
  - Directors' and officers' compensation disclosure in the annual report
- Oversaw benchmarking review of officers' compensation
- Monitored staffing and succession plans
- Reviewed pension committee's reports
- Reviewed human resources policies
- Provided oversight of benefits changes

SPECIAL ACTIVITIES

- Reviewed HRCC's Terms of Reference
- Approved offer details and compensation for a new officer (Myra Libenson, Chief Operations Officer (COO))
- Expanded disclosure in HRCC report section of CPP Investment Board annual report
- Oversaw implementation of a deferral option for Short-Term Incentive Plan (STIP) payments
- Reviewed strategic human resources business plan

- Oversaw changes to the executive compensation framework for the CEO and qualifying senior investment professionals (see "Recent changes to the executive compensation framework" section on page 46)

The HRCC held four meetings in fiscal 2007; during each meeting, time was set aside for *in-camera* sessions. The committee also held a meeting in May focusing on performance targets and compensation decisions, and will hold at least three further meetings in fiscal 2008.

Compensation Program Overview

STRATEGIC CONTEXT

The CPP Investment Board is managed independently of the Canada Pension Plan by experienced investment and management professionals to help sustain the pensions of Canadians. Its role is to invest the CPP Fund to maximize returns without undue risk of loss; in fulfilling this mission, the CPP Investment Board believes that:

- World-class investment management capability is a cornerstone of its operation;
- Ongoing talent acquisition, retention and motivation in the investment management marketplace is essential;
- Proven investment professionals are recruited from a small, highly sought after talent pool; and therefore
- Providing a competitive compensation opportunity relative to the investment management industry is essential.

OBJECTIVES OF THE EXECUTIVE COMPENSATION PROGRAM

The CPP Investment Board's executive compensation philosophy is founded on a recognition of the importance of an experienced and effective leadership team to the achievement of the organization's long-term goals. Its objectives are therefore:

- To recruit and retain best-in-class leadership talent with a particular focus on investment management leadership, recognizing that for certain roles the CPP Investment Board is increasingly having to compete in global markets to find the requisite talent;
- To reward officers for achieving results that contribute to the long-term goals of the CPP Investment Board, through a "pay-for-performance" framework; and
- To create and sustain partnering throughout the organization with a meaningful proportion of incentives for investment and core services professionals linked to CPP Fund performance.

The CPP Investment Board's compensation framework is comparable to those at other large public sector pension plans, and is based on and meant to support the CPP Investment Board's guiding principles of integrity, partnership and high performance.

PAY-FOR-PERFORMANCE PHILOSOPHY

The CPP Investment Board is firmly committed to a pay-for-performance approach that directly links compensation to fund and individual performance. Performance is measured as follows:

- CPP Fund investment performance is measured by comparing overall investment returns to returns posted by a CPP Reference Portfolio.
- Asset class investment performance is measured against the returns from benchmark portfolios appropriate to each class.
- Individual performance is measured against "S.M.A.R.T." criteria (i.e., criteria that are specific, measurable, achievable, relevant and time-based) established at the beginning of each fiscal year.

Depending on an individual officer's seniority and investment responsibility, the weightings of performance measures will vary, as shown in the tables below.[iii]

"STIP" (Short-Term Incentive Plan) weightings:

TABLE 1: STIP WEIGHTINGS

	Investment Performance		Individual Performance
	CPP Fund	Asset Class	
CEO	High	None	High
Officers – investment	Medium	Medium	Medium
Officers – core services	Medium	None	High

"LTIP" (Long-Term Incentive Plan) weightings:

TABLE 2: LTIP WEIGHTINGS

	Investment Performance	
	CPP Fund	Asset Class
CEO	All	None
Officers – investment	Medium–High	Medium
Officers – core services	All	None

MARKET POSITIONING

The competitiveness of the CPP Investment Board's executive compensation framework is assessed relative to peer organizations employing investment management and other talent similar to that employed by the CPP Investment Board, also weighed against criteria such as assets under management and geographic scope. Such organizations include other major Canadian pension funds and large investment management firms. Also used are various independent surveys of compensation in the investment management industry, including data on corporate and public pension funds, insurance companies, controlled and independent investment managers, and private equity firms.

RECENT CHANGES TO THE EXECUTIVE COMPENSATION FRAMEWORK

The CPP Investment Board's current incentive compensation framework was formally adopted in June 2005, and since then has evolved with changes in the CPP Investment Board's investment program and with the growing sophistication of the organization and its capabilities.

As the CPP Investment Board increasingly adopts an active management style with regard to investments, the need for investment professionals with the requisite active management skills and experience has increased markedly. The CPP Investment Board now finds itself competing in a global market for the specialized investment talent that it needs to accomplish its goals.

[iii] Established in fiscal 2006, the compensation framework is in the midst of transitioning to a "steady state" mix of weightings, a transition due to be complete by fiscal 2009. The tables reflect this mix. For STIP, an increasing percentage of the incentive payout will be based on the performance of the fund and a decreasing percentage on individual performance; simultaneously, both the short- and long-term plans will extend their performance-measurement baselines from one year to four years, reflecting the CPP Investment Board's view that performance should be achieved on a sustained basis.

To address this challenge, the board has approved revisions to the compensation framework as it applies to the CEO and to qualifying senior investment professionals. For fiscal 2008 and onwards, the short-term incentive plan's (STIP) percentage of base salary at target has been increased, and an additional long-term compensation and retention program has been introduced using "Restricted Fund Units" (RFUs), a notional investment in the CPP Fund that fluctuates in value according to CPP Fund performance and pays out over three years.

In addition to these changes to the ongoing compensation framework, the board also approved discretionary compensation adjustments comprised of cash, LTIP and RFUs, for the CEO and a small number of senior investment professionals, in order to appropriately reward extraordinary 2007 performance and to ensure retention of these key executives.

Executive Compensation Components and Mix

Commensurate with the CPP Investment Board's compensation philosophy, the majority of total pay is incentive-based, as shown in the following table:

TABLE 3: MIX OF TOTAL DIRECT COMPENSATION, FISCAL 2007

	Mix of Total Direct Compensation at Target and at Maximum (in brackets)			
	Salary	STIP (four-year results)	LTIP (four-year results)	Total Direct Compensation
CEO	33% (17%)	33% (33%)	34% (50%)	**100%**
Officers – investment	33% (17%)	33% (33%)	34% (50%)	**100%**
Officers – core services	46% (26%)	36% (42%)	18% (32%)	**100%**

BASE SALARY

Base salaries for officers are intended to be market-competitive. Officers' salaries are reviewed annually after the end of each fiscal year and are approved by the board. They are adjusted each year based on individual merit and on salary range adjustments occurring among CPP Investment Board's comparators.

STIP

The Short-Term Incentive Plan is designed to incent and reward investment performance at CPP Fund and/or asset class levels, along with the individual performance of officers over the course of the year.

Target STIP awards are set as a percentage of salary, to which a multiplier is applied. The multiplier is based both on actual fund performance (CPP Fund and asset class) and on individual performance, and cannot result in a payout of more than two times the target award. By fiscal 2009 the investment performance measurement timeframe will be based on a four-year trailing historical span; for fiscal 2007 a two-year span is used.

In fiscal 2007, the CPP Investment Board instituted a deferral option for STIP that will allow employees to defer some or all of their bonus payouts for up to two years. Deferred payouts will be notionally invested in the CPP Fund or, if the officer so elects, up to 50 per cent in the CPP Fund Private Investment Portfolio; the payouts will thus increase or decrease in value over the deferral period. This serves as another means of aligning executive interests with the performance of the CPP Fund.

LTIP

The Long-Term Incentive Plan is designed to incent and reward investment performance over a four-year span, which supports the CPP Investment Board's overall goal of contributing to the long-term strength of the Canada Pension Plan.

Target LTIP awards are set as a percentage of salary at the outset of each year, and are paid out at the end of a four-year cycle. As with STIP, a multiplier is applied to the target percentage, based on the investment performance of the CPP Fund and its asset classes as compared with specified benchmarks; by the end of the four-year period this multiplier cannot exceed three times the value of the target award. The final payout is increased (or decreased) based on the fund's four-year compounded rate of return.

RFUs (RESTRICTED FUND UNITS)

Restricted Fund Units are designed to retain senior investment professionals and to moderate the volatility of overall pay while maintaining a direct link between the value of the units and the performance of the CPP Fund. A notional investment in the fund, RFUs fluctuate in value according to CPP Fund performance, and vest and are paid out in cash at a rate of ⅓ per year.

BENEFITS AND OTHER COMPENSATION

Non-pension benefits offered by the CPP Investment Board are competitive with the industry, and include life insurance, disability benefits, health and dental benefits, time-off policies and an employee assistance program. The CPP Investment Board's pension benefits, comprising contributions to a defined contribution registered pension plan and a defined contribution supplementary pension plan, and its perquisites, including fitness and club dues, paid parking or transit passes, and other miscellaneous remuneration, are all conservative relative to comparables.

Summary Performance Table

As described in more detail on page 22 in this report, the CPP Fund in fiscal 2007 significantly exceeded its maximum target for added value:

TABLE 4: CPP FUND PERFORMANCE

			Target Value-Added (bps)				
	CPP Reference Portfolio Return	CPP Fund Return	Threshold	Target	Maximum	Actual Value-Added (bps)	Actual Value-Added ($ billions)
CPP Fund	10.4%	12.9%	-5	35	195	245	2.4

Specific asset classes performed in fiscal 2007 as follows:

TABLE 5: ASSET CLASS PERFORMANCE

ASSET CLASS	Fiscal 2007 Performance
Public Market Investments	Did not fully meet target
Private Investments	Significantly exceeded target
Real Estate Investments	Significantly exceeded target
Infrastructure	Exceeded target

CPP Investment Board also established a series of non-financial goals for fiscal 2007, as outlined in the 2006 annual report:

1. Continue to diversify the portfolio by asset class, risk/return characteristics and geography with a particular focus on increasing international investments;
2. Fully operationalize the total portfolio approach to portfolio management and create value-added returns above the CPP Reference Portfolio benchmark;
3. Begin our internal active management program for public equities and expand our principal investing activities in private equities, infrastructure and real estate; and
4. Extend the implementation of the technology and business process architecture that was defined in fiscal 2006.

Underlying these goals were 35 specific and measurable objectives. Progress against these objectives was reviewed with the board on a quarterly basis and, at year's end, the status of the CPP Investment Board's primary goals was as follows:

TABLE 6: STATUS OF NON-FINANCIAL GOALS

OBJECTIVES	Status at Year-End
Diversify portfolio	Achieved
Operationalize total portfolio approach to portfolio management	Achieved
Begin internal active management program for public equities; expand investing activities in private equities, infrastructure and real estate	Achieved
Extend implementation of technology and business process architecture	Achieved

Compensation of the CEO

As with other officers, Mr. Denison's total compensation is closely linked to a combination of individual and CPP Fund performance measures. At the beginning of each fiscal year, the board and the CEO agree on key objectives, and Mr. Denison's performance in achieving those objectives is evaluated by the board at the end of the fiscal year. This evaluation is then used by the HRCC in recommending his incentive compensation to the board for the year. For fiscal 2007, Mr. Denison's compensation consisted of base salary, awards under the STIP and LTIP programs, a discretionary compensation adjustment (as described on page 47), and various pension and non-pension benefits and perquisites.

As summarized above and discussed elsewhere in the annual report, the CPP Fund's overall performance under Mr. Denison's leadership exceeded the target value-add benchmark significantly in 2007. Mr. Denison's personal objectives for 2007 were aligned with the non-financial goals summarized above, and all four of these key goals were achieved in 2007. In evaluating the CEO's overall performance, the board took particular note of the CEO's outstanding leadership in implementing a demanding business strategy, the positioning of the corporation for sustained growth with an increasing ability to meet ever more demanding investment objectives and the CEO's direct contribution toward success in building a high-performance organization.

Summary Compensation Table

Compensation earned in fiscal 2007 by the CEO, the COO and the CPP Investment Board's three most highly compensated officers other than the CEO or COO (collectively, the named executive officers, or NEOs) amounted to $7,829,994 (2006 – $4,047,815). Individual compensation for these officers consisted of the following[1]:

TABLE 7: SUMMARY COMPENSATION TABLE

	Year	Salary	Annual Bonus[2]	Long-Term Bonus[3]	Pension Contributions[4]	SPP Contributions[4]	Benefits and Other Compensation[5]	Total Compensation
David F. Denison, CEO[6]	2007	$ 460,000	$1,840,000	–	$ 12,765	$ 51,334	$ 10,013	**$2,374,112**
	2006	$ 450,000	$ 562,500	–	$ 13,576	$ 31,196	$ 9,705	**$1,066,977**
	2005	$ 93,462	$ 82,500	–	$ 5,767	–	$ 1,968	**$ 183,697**
Myra Libenson, COO[7]	2007	$ 223,269	$ 320,000	–	$ 13,529	–	$ 4,367	**$ 561,165**
Mark D. Wiseman, SVP PRIVATE INVESTMENTS[8]	2007	$ 310,000	$1,360,000	–	$ 12,784	$ 23,334	$ 6,426	**$1,712,544**
	2006	$ 242,308	$ 900,000	–	$ 14,684	–	$ 4,722	**$1,161,714**
Donald M. Raymond, SVP PUBLIC MARKET INVESTMENTS[9]	2007	$ 310,000	$1,177,000	$ 240,438	$ 12,777	$ 34,423	$ 6,580	**$1,781,218**
	2006	$ 295,000	$ 330,000	$ 190,960	$ 12,396	$ 32,599	$ 6,368	**$ 867,323**
	2005	$ 275,000	$ 285,000	$ 119,302	$ 12,132	$ 21,163	$ 8,957	**$ 721,554**
Graeme M. Eadie, SVP REAL ESTATE INVESTMENTS	2007	$ 285,000	$1,077,000	–	$ 12,828	$ 19,884	$ 6,243	**$1,400,955**
	2006	$ 216,827	$ 275,000	–	$ 13,027	–	$ 5,188	**$ 510,042**

[1] Jane Nyman, former Vice-President – Finance, ceased employment with the CPP Investment Board on May 17, 2006. Total compensation earned during fiscal 2007 by Ms. Nyman amounted to $40,341, which consisted of a salary of $26,654 and other payments of $13,687.

[2] STIP: Target STIP awards are set as a percentage of salary, to which a multiplier is applied. The multiplier is based both on actual CPP Fund performance (Total Fund and asset class) and on individual performance, and cannot result in a payout more than two times the target award. Additionally for Mr. Denison, Mr. Wiseman, Mr. Raymond, and Mr. Eadie, annual bonus includes the cash portion of discretionary compensation adjustments. These payments were designed to transition senior investment professionals closer to market compensation levels (levels reflected in the 2008 compensation structure).

[3] LTIP and RFUs: Long-term bonuses reflect amounts payable for the current year. Prior to fiscal 2006, LTIP bonuses were granted at the end of each fiscal year based on the achievement of agreed upon objectives; amounts awarded but not yet paid under this plan are adjusted annually by the CPP Investment Board returns and are payable at the end of a three-year period from the date they were granted. Starting in fiscal 2006, target LTIP awards are set as a percentage of salary at the outset of each year, and are paid out at the end of a four-year cycle. As with STIP, a multiplier is applied to the target percentage based on the investment performance of the CPP Fund and its asset classes as compared with specified benchmarks; by the end of the four-year period this multiplier cannot exceed three times the value of the target award. The final payout is increased (or decreased) based on the CPP Fund's four-year compounded rate of return. RFUs: A notional investment in the CPP Fund, RFUs fluctuate in value according to CPP Fund performance, and vest and are paid out in cash at a rate of ⅓ per year. No RFU grants were made and no amounts are payable in fiscal 2007.

[4] CPP Investment Board contributes to the defined contribution pension plan and notionally contributes to the supplementary pension plan. Under the defined contribution registered pension plan, officers contribute 3 per cent of annual eligible earnings and the CPP Investment Board contributes 6 per cent to the maximum allowed under the *Income Tax Act (Canada)*. Eligible earnings include salary plus annual bonus to a maximum of 50 per cent of total salary. Under the defined contribution supplementary pension plan, which is unfunded, officers earn contribution credits equal to 9 per cent of their eligible earnings in excess of the maximum eligible earnings under the defined contribution registered pension plan. The total unfunded liability for the NEOs as at March 31, 2007 is $235,417 (2006 – $106,442).

[5] Benefits include life insurance, disability benefits, health and dental benefits, time-off policies, and an employee assistance program (EAP). Perquisites include fitness and club dues, paid parking or transit passes, and other miscellaneous remuneration. Does not include pension contributions.

[6] Joined the CPP Investment Board on January 17, 2005.

[7] Joined the CPP Investment Board on June 5, 2006.

[8] Annual bonus in 2006 and 2007 included an amount paid in consideration of compensation forgone from Mr. Wiseman's previous employer.

[9] Long-term bonus in 2005, 2006 and 2007 included amounts paid out under previous plans and deferred from 2003, 2004 and 2005.

LTIP Awards Made in Fiscal Year 2007

The following table shows the range of future payouts, calculated before CPP Fund investment returns,[1] generated by LTIP awards granted in fiscal 2007:

TABLE 8: LTIP AWARDS MADE IN FISCAL 2007

	Fiscal 2007 Grant	Vesting Period	Estimated Future Payouts		
			Threshold	Target	Maximum
David F. Denison, CEO	$ 460,000	4 years	$ 0	$ 460,000	$1,380,000
Myra Libenson, COO	$ 108,000	4 years	$ 0	$ 108,000	$ 324,000
Mark D. Wiseman, SVP PRIVATE INVESTMENTS	$ 350,000	4 years	$ 0	$ 350,000	$1,050,000
Donald M. Raymond, SVP PUBLIC MARKET INVESTMENTS	$ 310,000	4 years	$ 0	$ 310,000	$ 930,000
Graeme M. Eadie, SVP REAL ESTATE INVESTMENTS	$ 285,000	4 years	$ 0	$ 285,000	$ 855,000

[1] Actual LTIP payout values will be determined by a combination of an investment fund performance-based multiplier and the CPP Fund's compound rate of return over the four-year vesting period from 2007 to 2010. See LTIP section, above, for discussion.

LTIP Awards, Accumulated Value

The total accumulated value as of March 31, 2007 of all long-term bonuses granted but not yet paid, by officer and by payment year, is as follows[1]:

TABLE 9: LTIP AWARDS, ACCUMULATED VALUE

	2008	2009	2010
David F. Denison, CEO[2]	$ 109,232	$1,095,262	$ 999,198
Myra Libenson, COO	–	–	$ 234,594
Mark D. Wiseman, SVP PRIVATE INVESTMENTS	$1,029,406	$ 886,082	$ 789,880
Donald M. Raymond, SVP PUBLIC MARKET INVESTMENTS[2]	$ 251,564	$ 730,175	$ 673,373
Graeme M. Eadie, SVP REAL ESTATE INVESTMENTS	–	$ 487,345	$ 643,188
Total	$1,390,202	$3,198,864	$3,340,233

[1] Accumulated values are estimated by using actual fund and/or asset class performance multipliers for those years where performance is known (i.e., 2006 and 2007), and a target multiplier (1.0x) for future years; and applying the CPP Fund's rates of return for 2006 and 2007.
[2] LTIP accumulated value includes awards from plans prior to fiscal 2006.

Pension Plans

All employees are eligible, based on compensation, to participate in two pension plans: a defined contribution registered pension plan, and a defined contribution supplementary pension plan.

Under the defined contribution registered pension plan, officers contribute 3 per cent of annual eligible earnings and the CPP Investment Board contributes 6 per cent to the maximum allowed under the *Income Tax Act (Canada)*. Eligible earnings include salary plus annual bonus to a maximum of 50 per cent of total salary.

Under the defined contribution supplementary pension plan, which is unfunded, officers earn contribution credits equal to 9 per cent of their eligible earnings in excess of the maximum eligible earnings under the defined contribution registered pension plan. The total unfunded liability for the named executive officers as at March 31, 2007, is $235,417 (2006 – $106,442).

TABLE 10: PENSION PLAN CONTRIBUTIONS[1]

NAME	Plan Type	CPP Investment Board Contributions to March 31, 2006	CPP Investment Board Contributions in Fiscal 2007	Total CPP Investment Board Contributions to March 31, 2007
David F. Denison, CEO	Registered[2]	$ 19,343	$ 12,765	$ 32,108
	Supplementary[3]	$ 31,196	$ 51,334	$ 82,530
Myra Libenson, COO	Registered[2]	$ 0	$ 13,529	$ 13,529
	Supplementary[3]	$ 0	$ 0	$ 0
Mark D. Wiseman, SVP PRIVATE INVESTMENTS	Registered[2]	$ 14,684	$ 12,784	$ 27,468
	Supplementary[3]	$ 0	$ 23,334	$ 23,334
Donald M. Raymond, SVP PUBLIC MARKET INVESTMENTS	Registered[2]	$ 50,248	$ 12,777	$ 63,025
	Supplementary[3]	$ 75,246	$ 34,423	$ 109,669
Graeme M. Eadie, SVP REAL ESTATE INVESTMENTS	Registered[2]	$ 13,027	$ 12,828	$ 25,855
	Supplementary[3]	$ 0	$ 19,884	$ 19,884

[1] Table depicts employer-contributed amounts only.
[2] Does not include returns on funds invested to the registered pension plan.
[3] Includes notional investment returns on contribution credits to the supplementary pension plan.

Post-Employment Policies

For the CEO, the COO and the three most highly compensated named executive officers, severance pay is generally set at 12 months of base salary and target bonus, plus one month of salary and target bonus (one-twelfth of the full-year target bonus) for every year of service, up to a cap.

As a Crown corporation, the CPP Investment Board has established no "change of control" policies or payments in its employment arrangements. There are no supplementary payouts under the retirement arrangements.

The following table describes the potential payments upon termination for CPP Investment Board's named officers:

TABLE 11: POTENTIAL POST-EMPLOYMENT PAYMENTS

NAME	Years of Service[1]	Severance[2]	Resignation	Retirement
David F. Denison, CEO	2	$ 1,073,333	$ 0	$ 0
Myra Libenson, COO	0	$ 486,000	$ 0	$ 0
Mark D. Wiseman, SVP PRIVATE INVESTMENTS	1	$ 715,000	$ 0	$ 0
Donald M. Raymond, SVP PUBLIC MARKET INVESTMENTS	5	$ 878,333	$ 0	$ 0
Graeme M. Eadie, SVP REAL ESTATE INVESTMENTS	1	$ 902,500	$ 0	$ 0

[1] Assumes a notional termination date of March 31, 2007.
[2] Severance is generally equal to 12 months of base salary plus target short-term bonus, plus one month of salary and target short-term bonus (i.e., full-year target bonus divided by 12) per year of service.

Summary

The committee is satisfied that the CPP Investment Board's current executive compensation policies and levels of compensation are aligned with the CPP Investment Board's performance. The committee will continue to assess the competitiveness and effectiveness of the CPP Investment Board's approach to executive compensation, and adjustments will be made as necessary.

Investment Partners

Private Investments

Actera Group
Advent International
AlpInvest Partners
Apax Partners
Apollo Management
Ares Management
Birch Hill Equity Partners
Bridgepoint Capital
Brookfield Asset Management
Candover
Celtic House Venture Partners
Cinven
Clairvest Group
Coller Capital
Credit Suisse First Boston
CVC Capital Partners
Diamond Castle
Edgestone Capital Partners
First Reserve
Goldman Sachs Vintage
Heartland Industrial Partners
Hellman & Friedman
JP Morgan Partners
Kensington Capital Partners
Kohlberg Kravis Roberts & Co
KSL Capital Partners
Lehman Brothers
Lexington Partners
Lightyear Capital
Lindsay, Goldberg & Bessemer
Lone Star Funds
Matlin Patterson
MDS Capital
MidOcean Partners
MPM Capital
Onex Partners
PAI Partners
Partners Group
Paul Capital Partners
Performance Equity Management
Permira
Perseis
Providence Equity Partners
Silver Lake Partners
Skypoint Capital
Standard Life
SV Life Sciences
TD Capital
Terra Firma Capital Partners
Texas Pacific Group
The Blackstone Group
The Carlyle Group
Thomas H. Lee Partners
Thomas Weisel Partners
Ventures West
Veronis Suhler Stevenson
Welsh, Carson, Anderson & Stowe

Public Market Investments

Arrow Street Capital
Barclays Global Investors
Bridgewater Associates
CBRE Global Real Estate Securities
Connor, Clark & Lunn Investment Management
Enterprise Capital
First Quadrant
Goldman Sachs Asset Management
ING Clarion Real Estate Securities
UBS Global Asset Management

Real Estate Investments

Brookfield Properties
ING Real Estate Investment Management UK
LaSalle Investment Management Inc.
Liquid Realty Partners
Osmington Inc.
Oxford Properties
RioCan Real Estate Investment Trust
TIAA-CREF Asset Management

Infrastructure

Macquarie Bank Limited

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. The systems of internal control are designed to provide reasonable assurance that assets are safeguarded; that transactions are properly recorded, authorized and are in accordance with the *Canada Pension Plan Investment Board Act*, the accompanying regulations, the by-laws and investment policies of the CPP Investment Board; and that there are no material misstatements in the Consolidated Financial Statements or the financial information contained within the annual report.

The internal control framework includes a strong corporate governance structure, an enterprise-wide risk management framework that indentifies, monitors and reports on key risks facing the organization, code of conduct and conflict of interest procedures, and other policies and guidelines that guide decision-making. The controls also include the establishment of an organization 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. The systems of internal control are further supported by a compliance management system to monitor the CPP Investment Board's compliance with legislation and policies and by internal and external auditors who review and evaluate internal controls 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 Consolidated Financial Statements. The audit committee, consisting of five independent directors, meets regularly with management and the internal and the 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.

D F Denison

DAVID F. DENISON
President and Chief Executive Officer

Myra Libenson

MYRA LIBENSON
Chief Operations Officer

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, 2007, were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures.

ROBERT M. ASTLEY
Chair of the audit committee on behalf of the board of directors
May 10, 2007

Auditors' Report

TO THE BOARD OF DIRECTORS
Canada Pension Plan Investment Board

We have audited the consolidated balance sheet and the consolidated statements of investment portfolio and investment asset mix of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2007, and the consolidated statements of net income and accumulated net income 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, 2007 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 and those of its subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the "Act") and the by-laws and the by-laws of the subsidiaries, as the case may be.

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
Licensed Public Accountants

Toronto, Ontario
May 1, 2007

Consolidated Balance Sheet

AS AT MARCH 31 ($ millions)		2007		2006
ASSETS				
Investments (Note 2)	$	117,465	$	89,781
Amounts receivable from pending trades		2,477		255
Premises and equipment (Note 3)		12		6
Other assets		5		6
TOTAL ASSETS		119,959		90,048
LIABILITIES				
Investment liabilities (Note 2)		1,382		775
Amounts payable from pending trades		2,576		703
Accounts payable and accrued liabilities		66		38
TOTAL LIABILITIES		4,024		1,516
NET ASSETS	$	115,935	$	88,532
NET ASSETS, REPRESENTED BY				
Share capital (Note 5)	$	–	$	–
Accumulated net income from operations		32,766		20,092
Accumulated net transfers from the Canada Pension Plan (Note 6)		83,169		68,440
NET ASSETS	$	115,935	$	88,532

The accompanying notes are an integral part of these Consolidated Financial Statements.

On behalf of the board of directors

GAIL COOK-BENNETT
Chair

ROBERT M. ASTLEY
Chair of the audit committee

Consolidated Statement of Net Income and Accumulated Net Income from Operations

FOR THE YEAR ENDED MARCH 31 ($ millions)	2007	2006
NET INVESTMENT INCOME (Note 7)	$ 12,788	$ 12,193
OPERATING EXPENSES		
Salaries and benefits	72	26
General operating expenses (Note 8a)	31	21
Professional and consulting fees (Note 8b)	11	7
	114	54
NET INCOME FROM OPERATIONS	12,674	12,139
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF YEAR	20,092	7,953
ACCUMULATED NET INCOME FROM OPERATIONS, END OF YEAR	$ 32,766	$ 20,092

Consolidated Statement of Changes in Net Assets

FOR THE YEAR ENDED MARCH 31 ($ millions)	2007	2006
NET ASSETS, BEGINNING OF YEAR	$ 88,532	$ 58,580
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 6)		
Transfers from the Canada Pension Plan	33,494	34,499
Transfers to the Canada Pension Plan	(18,765)	(16,686)
Net income from operations	12,674	12,139
INCREASE IN NET ASSETS FOR THE YEAR	27,403	29,952
NET ASSETS, END OF YEAR	$ 115,935	$ 88,532

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Investment Portfolio

The CPP Investment Board's investments are grouped by asset class based on the intent of the investment strategies of the underlying portfolios. The investments, before allocating the market exposure of derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

AS AT MARCH 31 ($ millions)	Fair Value 2007	Fair Value 2006
EQUITIES (Note 2)		
Canada		
Public equities	$ 14,800	$ 20,003
Private equities	667	455
	15,467	20,458
Foreign		
Public equities	36,656	27,743
Private equities	7,436	3,995
Pooled funds	260	–
	44,352	31,738
TOTAL EQUITIES	59,819	52,196
NOMINAL FIXED INCOME		
Bonds (Note 2c)	27,867	17,288
Money market securities	15,561	10,356
TOTAL NOMINAL FIXED INCOME	43,428	27,644
INFLATION-SENSITIVE ASSETS (Note 2d)		
Public real estate	1,409	1,178
Private real estate	5,441	3,676
Inflation-linked bonds	3,802	3,837
Infrastructure	2,181	350
TOTAL INFLATION-SENSITIVE ASSETS	12,833	9,041
INVESTMENT RECEIVABLES		
Accrued interest	699	513
Derivative receivables (Note 2e)	519	259
Dividends receivable	167	128
TOTAL INVESTMENT RECEIVABLES	1,385	900
TOTAL INVESTMENTS	$ 117,465	$ 89,781
INVESTMENT LIABILITIES		
Debt on private real estate properties (Note 2d)	(1,174)	(664)
Derivative liabilities (Note 2e)	(208)	(111)
TOTAL INVESTMENT LIABILITIES	(1,382)	(775)
Amounts receivable from pending trades	2,477	255
Amounts payable from pending trades	(2,576)	(703)
NET INVESTMENTS	$ 115,984	$ 88,558

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Investment Asset Mix

This Consolidated Statement of Investment Asset Mix illustrates the full market exposure and is grouped by asset class based on the intent of the investment strategies of the underlying portfolios. The investments, after allocating the market exposure of derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

AS AT MARCH 31 ($ millions)	2007		2006	
	Fair Value	(%)	Fair Value	(%)
EQUITIES[1]				
Canada	$ 29,174	25.2%	$ 28,965	32.7%
Foreign	46,390	40.0	32,741	37.0
	75,564	65.2	61,706	69.7
NOMINAL FIXED INCOME				
Bonds[2]	28,519	24.6	17,752	20.0
Money market securities[3]	145	0.1	601	0.7
	28,664	24.7	18,353	20.7
INFLATION-SENSITIVE ASSETS				
Real estate[1,4]	5,696	4.9	4,190	4.7
Inflation-linked bonds[1,2]	3,852	3.3	3,959	4.5
Infrastructure[1]	2,208	1.9	350	0.4
	11,756	10.1	8,499	9.6
NET INVESTMENTS	$ 115,984	100%	$ 88,558	100%

[1] Includes derivative receivables and liabilities and associated money market securities.
[2] Includes accrued interest.
[3] Includes amounts receivable/payable from pending trades, dividends receivable and accrued interest.
[4] Net of mortgage debt on private real estate properties, as described more fully in Note 2d.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2007

Organization

The Canada Pension Plan Investment Board (the "CPP Investment Board") was established pursuant to the *Canada Pension Plan Investment Board Act* (the "Act"). The CPP Investment Board is a federal Crown corporation, all of the shares of which are owned by Her Majesty the Queen in right of Canada. The CPP Investment Board is responsible for assisting the Canada Pension Plan (the "CPP") in meeting its obligations to contributors and beneficiaries under the Canada Pension Plan. It is responsible for managing amounts that are transferred to it under Section 108.1 of the *Canada Pension Plan*, and its interest in any bonds transferred to it (described in Note 2), in the best interests of the beneficiaries and contributors. The CPP Investment Board's assets 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 CPP and the ability of the CPP to meet its financial obligations on any given business day.

The Consolidated Financial Statements provide information on the net assets managed by the CPP Investment Board as at March 31, 2007. They exclude certain assets held by the CPP but which will ultimately be transferred to the CPP Investment Board by April 2007. The remaining CPP holdings yet to be transferred to the CPP Investment Board consist of a portfolio of non-marketable federal, provincial and territorial bonds of $630 million at fair market value and are discussed in Note 2. These Consolidated Financial Statements do not include the pension liabilities of the CPP.

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

1. Summary of Significant Accounting Policies

(A) BASIS OF PRESENTATION

The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act and the accompanying regulations.

These Consolidated Financial Statements present the consolidated financial position and results of operations of the CPP Investment Board, its wholly-owned subsidiaries and the proportionate share of the fair value of assets, liabilities and operations of privately held real estate investments in joint ventures. Inter-company transactions and balances have been eliminated in preparing these Consolidated Financial Statements.

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

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

Investments, investment receivables and investment liabilities are recorded on a trade date basis and are stated at fair value. Fair value is an estimate of the amount of 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 and pooled funds are used to represent fair value for these investments. Unit values reflect the quoted market prices of the underlying securities. In the case where quoted market prices are not available or reliable, such as those for securities that are not sufficiently liquid to be used as a basis for fair value, fair value is determined using accepted industry valuation methods.

(ii) Private equity and infrastructure investments are either held directly or through ownership in limited partnership arrangements. The fair value for investments held directly is determined using accepted industry valuation methods. These methods include considerations such as earnings multiples of comparable publicly-traded companies, discounted cash flows and third party transactions, or other events that would suggest a change in the value of the investment. In the case of investments held through a limited partnership, fair value is generally determined based on carrying values and other relevant information reported by the external managers using accepted industry valuation methods. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for private equity and infrastructure investments unless there is evidence of a significant change in value.

(iii) Quoted market prices are used to represent the fair value for marketable bonds. Where quoted market prices are not available, fair value is calculated using discounted cash flows based on current market yields of instruments with similar characteristics.

(iv) Fair value for non-marketable Canadian federal, provincial and territorial government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, adjusted for the non-marketability and rollover provisions of the bonds.

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

(vi) Quoted market prices are used to represent the fair value for public real estate investments.

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

(viii) Quoted market prices are used to represent the fair value for inflation-linked bonds.

(ix) Fair value for exchange-traded derivatives, which include equity, bond and interest rate futures, is based on quoted market prices. Fair value for over-the-counter derivatives, which include equity swaps, inflation-linked bond swaps and foreign exchange forward contracts, is determined based on the quoted market prices of the underlying instruments.

(C) **INVESTMENT INCOME RECOGNITION**

Investment income is recorded on the accrual basis and includes realized gains and losses from investments, unrealized gains and losses on investments held at the end of the year, dividend income (recognized on ex-dividend date), interest income and net operating income from private 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 at the end of the year. The current-year unrealized gains and losses represent the year-over-year change in this difference.

(D) **TRANSLATION OF FOREIGN CURRENCIES**

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the transaction date. Investments and other monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the year end date with any resulting gain or loss being included in investment income.

(E) **CANADA PENSION PLAN TRANSFERS**

Amounts from the CPP are recorded as received.

(F) **INCOME TAXES**

The CPP Investment Board and its subsidiaries are exempt from Part I tax under paragraphs 149(1)(d) and 149(1)(d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board and its subsidiaries are owned by Her Majesty the Queen in right of Canada or by a corporation whose shares are owned by Her Majesty the Queen in right of Canada, respectively.

(G) **USE OF ESTIMATES**

The preparation of Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported values of assets and liabilities as at the date of the financial statements and income and expenses during the reporting period. Significant estimates and judgments are required principally in determining the reported estimated fair values of investments since these determinations include estimates of expected future cash flows, rates of return and the impact of future events. Actual results could differ from those estimates.

(H) **PREMISES AND EQUIPMENT**

Premises and equipment are recorded at cost and amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment and software	3 years
Office furniture and equipment	5 years
Leasehold improvements	over the term of the leases

(I) **CHANGE IN ACCOUNTING POLICY**

In February 2007, the Canadian Institute of Chartered Accountants ("CICA") amended Accounting Guideline 15 ("AcG-15"), Consolidation of Variable Interest Entities, which results in the CPP Investment Board being no longer subject to the consolidation requirements of AcG-15 as it reports under Accounting Guideline 18 ("AcG-18"), Investment Companies. Effective March 31, 2007, the CPP Investment Board has retrospectively adopted this amendment and, accordingly, is no longer required to consolidate its interests in variable interest entities in which it is the primary beneficiary. This change in accounting policy did not have a material impact on the Consolidated Financial Statements of the CPP Investment Board.

(J) **FUTURE ACCOUNTING POLICY CHANGE**

In April 2005, the CICA issued section 3855, Financial Instruments – Recognition and Measurement, which is effective for fiscal years beginning on or after October 1, 2006. As the CPP Investment Board qualifies as an Investment Company and reports its investments at fair value in accordance with AcG-18, Investment Companies, only certain aspects of section 3855 are applicable.

Effective April 1, 2007, the CPP Investment Board will adopt the fair value measurement considerations of section 3855. The impact to the CPP Investment Board is a change in the way certain investments are valued, expensing of transaction costs when incurred and applying the effective interest method in accounting for interest income on bonds. On April 1, 2007, the investments of the CPP Investment Board will be remeasured to reflect the new valuation standards. This transition adjustment will be recognized in the opening accumulated net income from operations at April 1, 2007, and is not expected to have a material impact on the CPP Investment Board's consolidated financial position.

2. Investments and Investment Liabilities

The CPP Investment Board has established investment policies that set out the manner in which assets shall be invested. In setting the policies, the CPP Investment Board takes into consideration certain specified CPP assets that are held outside of the CPP Investment Board and that are in the process of being transferred to the CPP Investment Board as set out in the following paragraph.

The *Canada Pension Plan*, the Act and an administrative agreement between Her Majesty the Queen in right of Canada and the CPP Investment Board (the "Agreement") together provide for the transfer of certain specified CPP assets currently administered by the federal government to the CPP Investment Board. These assets, totalling $630 million at fair market value as at March 31, 2007, consist of a portfolio of non-marketable federal, provincial and territorial bonds to be transferred to the CPP Investment Board in 36 installments over a period that began May 1, 2004, and ends on April 1, 2007 (see Note 2c).

(A) **INVESTMENT RISK MANAGEMENT**

Investments may be exposed to a variety of financial risks: price risk (including currency risk, interest rate risk and market risk), credit risk and liquidity risk. The CPP Investment Board manages financial risks in accordance with the Act, regulations and the investment policies. In addition, derivatives are used, where appropriate, to manage certain risk exposures (see Note 2e).

Currency Risk: The CPP Investment Board is exposed to currency risk through holdings of investments in various currencies. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value of these investments.

The net underlying currency exposures, after allocating foreign currency derivatives, as at March 31 are as follows:

($ millions)	2007		2006	
CURRENCY	Net Exposure	% of Total	Net Exposure	% of Total
Canadian Dollar	$ 68,929	59%	$ 54,387	61%
United States Dollar	23,502	20	18,771	21
Euro	8,744	7	5,900	7
Japanese Yen	5,299	5	3,370	4
British Pound Sterling	4,166	4	3,266	4
Swiss Franc	1,167	1	760	1
Australian Dollar	1,799	2	893	1
Other	2,378	2	1,211	1
Total	$ 115,984	100%	$ 88,558	100%

Interest Rate Risk: Interest rate risk refers to the effect on the fair value of investments due to fluctuations in market interest rates. The fair value of the CPP Investment Board's marketable, non-marketable and inflation-linked bonds and debt on private real estate properties is directly affected by changes in interest rates. At March 31, 2007, should nominal interest rates have increased/decreased by 1%, the fair value of the bonds would decrease/increase by 7% (2006 – 7%).

Market Risk: Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. The CPP Investment Board manages market risk by investing across a wide spectrum of asset classes and investment strategies to earn a diversified risk premium at the total fund, based on risk limits established in the investment policies.

Credit Risk: Credit risk refers to the risk of financial loss due to a counterparty failing to meet its contractual obligations. 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 to any single counterparty is limited to maximum amounts as specified in the investment policies.

Liquidity Risk: Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost-effective manner to meet commitments as they come due. The CPP Investment Board is exposed to liquidity risk through its responsibility for providing cash management services to the CPP, as described in Note 6. The CPP Investment Board mitigates liquidity risk through its unsecured credit facilities (see Note 4).

(B) PRIVATE EQUITY INVESTMENTS

Private equity investments are generally made directly or through ownership in limited partnership arrangements, which have a typical term of 10 years. The private equity investments represent equity ownerships or investments with the risk/return characteristics of equity.

With respect to limited partnership arrangements, 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, 2007, management fees of $131 million (2006 – $87 million) were paid to the limited partnerships and recorded as part of the cost of the investment. As discussed more fully in Note 1b, the carrying values of these investments are reviewed quarterly and any resulting adjustments are reflected as unrealized gains or losses in investment income (see Note 7).

(C) BONDS

Bonds consist of marketable and Canadian government non-marketable bonds. Commencing May 1, 2004, the CPP portfolio of non-marketable bonds has been transferred monthly to the CPP Investment Board. Bonds of $8.0 billion based on fair market value at the time of transfer were transferred during the year ended March 31, 2007.

The non-marketable bonds issued by the provinces and territories and purchased by the CPP prior to 1998 contain a rollover provision that will permit these issuers, at their option, to roll over the bonds for a further 20-year term at a rate based on capital markets borrowing rates existing at the time of rollover. The non-marketable bonds are also redeemable at the option of the issuers for redemption amounts calculated in accordance with Section 110 of the *Canada Pension Plan*.

Effective June 2005, the Agreement was amended to permit the CPP Investment Board to purchase replacement bonds directly from a province or territory upon the maturity of the non-marketable bonds issued by the provinces and territories prior to 1998, subject to the relevant province or territory having entered into an agreement with the CPP Investment Board. The maximum term of such securities is 30 years including rollover periods. The issuer may elect to have the CPP Investment Board purchase a replacement debt security or securities in a total principal amount not exceeding the principal amount of the maturing security for a term of not less than five and not greater than 30 years. Such replacement bonds contain rollover provisions that will permit the issuer, at its option, to roll over the debt security for successive terms of not less than five years and subject in all cases to the maximum 30 years outside maturity date. The replacement bonds are also redeemable at the option of the provinces or territories prior to maturity. Agreements between the CPP Investment Board and the relevant provinces or territories were effective commencing July 1, 2005.

The terms to maturity of the marketable and non-marketable bonds, not including any rollover options, as at March 31 are as follows:

	2007						2006	
	Terms to Maturity							
($ millions)	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Average Effective Yield	Total	Average Effective Yield
MARKETABLE BONDS								
Government of Canada	$ –	$ 999	$ 449	$ 752	$ 2,200	4.1%	$ –	–%
Provincial	–	229	300	581	1,110	4.5	–	–
Government corporations	7	539	230	144	920	4.3	–	–
NON-MARKETABLE BONDS								
Government of Canada	691	1,132	13	–	1,836	4.4	2,142	4.5
Provincial and territorial	1,375	8,010	1,905	10,511	21,801	4.9	15,146	5.0
TOTAL	$ 2,073	$ 10,909	$ 2,897	$ 11,988	$ 27,867	4.8%	$ 17,288	5.0%

(D) **INFLATION-SENSITIVE ASSETS**

(i) 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 wholly-owned subsidiaries and are managed on behalf of the CPP Investment Board by external advisors and managers through co-ownership arrangements. As at March 31, 2007, the subsidiary's share of these investments includes assets of $5,441 million (2006 – $3,676 million) and $1,174 million of secured debt (2006 – $664 million), with a weighted average fixed interest rate of 6.2 per cent and terms to maturity of one to 20 years.

Included in private real estate are investments in joint ventures. The CPP Investment Board's proportionate interest in joint ventures at March 31 is summarized as follows:

PROPORTIONATE SHARE OF NET ASSETS ($ millions)	2007	2006
Assets	$ 4,790	$ 3,312
Liabilities	(1,174)	(664)
	$ 3,616	$ 2,648

PROPORTIONATE SHARE OF NET INCOME ($ millions)	2007	2006
Revenue	$ 484	$ 273
Expenses	(325)	(183)
	$ 159	$ 90

(ii) The terms to maturity of the inflation-linked bonds as at March 31 are as follows:

	2007						2006	
	Terms to Maturity							
($ millions)	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Average Effective Yield	Total	Average Effective Yield
Inflation-linked bonds	$ –	$ 332	$ 560	$ 2,910	$ 3,802	3.3%	$ 3,837	4.8%

(iii) Infrastructure investments are generally made directly, but can also occur through limited partnership arrangements that have a typical term of 10 years. Direct investments do not have management fees, while management fees for limited partnership infrastructure investments are treated similarly to private equity management fees as discussed in Note 2b. During the year ended March 31, 2007, management fees paid to the limited partnerships were $4.7 million (2006 – $5.4 million).

(E) 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 fair value of these contracts is reported as derivative receivables and derivative liabilities on the Consolidated Statement of Investment Portfolio. In the Consolidated Statement of Investment Asset Mix, the derivative exposure is allocated to the asset class to which each contract relates. Derivative exposure includes the fair value plus the notional amount of the contract.

The CPP Investment Board uses the following types of derivative instruments as described below:

EQUITY AND INFLATION-LINKED BOND SWAPS

Swaps are over-the-counter contractual agreements between two counterparties to exchange financial returns with predetermined conditions based on notional amounts. Swaps are used for yield enhancement purposes or to adjust exposures to certain equities and inflation-linked bonds without directly purchasing or selling the underlying asset. Swap contracts create credit risk exposure due to the possible inability of counterparties to meet the terms of the contracts. There is also risk arising from exposure to movements in equity values, interest rates and foreign exchange rates, as applicable.

EQUITY, INTEREST RATE AND BOND FUTURES

Futures are standardized contracts transacted on an exchange to purchase or sell a specified quantity of equities, interest rate sensitive financial instruments or bonds at a predetermined price and date in the future. Futures are used to adjust exposure to specified equities, interest rate sensitive financial instruments and bonds without directly purchasing or selling the underlying asset. The primary risks associated with futures contracts are related to the exposure to movements in equity values, interest rates and foreign exchange rates, as applicable. Credit risk on exchange-traded futures is limited, as these transactions are executed on regulated exchanges, each of which is associated with a well-capitalized clearing house that assumes the obligations of both counterparties.

FOREIGN EXCHANGE FORWARD CONTRACTS

Foreign exchange forward contracts are over-the-counter contractual agreements negotiated between two counterparties to exchange a specified amount of one currency for a specified amount of a second currency on a predetermined date in the future. Foreign exchange forward contracts are used to manage exposures to currencies other than the Canadian dollar. The primary risks associated with foreign exchange forward contracts arise from exposure to movements in foreign exchange rates and from the possible inability of counterparties to meet the terms of the contract.

All derivative contracts have a term to maturity of one year or less.

Notional amounts of derivative contracts represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged. The notional amounts are used to determine the returns and fair value of the contracts and are a measure of the exposure to the asset class to which the contract relates. They are not recorded as assets or liabilities on the balance sheet. Notional amounts do not represent the potential gain or loss associated with the market risk and are not indicative of the credit risk associated with a derivative contract.

The notional amounts and fair value of derivative contracts held at March 31 are as follows:

	As at March 31, 2007				For the Year Ended March 31, 2007	
($ millions)	Notional Amount	Gross Positive Fair Value	Gross Negative Fair Value	Net Fair Value	Average Gross Positive Fair Value[1]	Average Gross Negative Fair Value[1]
Equity swaps	$ 14,435	$ 373	$ (134)	$ 239	$ 274	$ (156)
Equity futures	1,797	1	(2)	(1)	4	(4)
Foreign exchange forward contracts	19,170	145	(72)	73	132	(147)
Inflation-linked bond swaps	–	–	–	–	–	–
Interest rate and bond futures	–	–	–	–	–	(1)
Total	$ 35,402	$ 519	$ (208)	$ 311	$ 410	$ (308)

	As at March 31, 2006				For the Year Ended March 31, 2006	
($ millions)	Notional Amount	Gross Positive Fair Value	Gross Negative Fair Value	Net Fair Value	Average Gross Positive Fair Value[1]	Average Gross Negative Fair Value[1]
Equity swaps	$ 8,874	$ 213	$ (44)	$ 169	$ 93	$ (45)
Equity futures	1,047	1	(3)	(2)	3	(15)
Foreign exchange forward contracts	6,184	45	(59)	(14)	24	(43)
Inflation-linked bond swaps	126	–	(5)	(5)	4	(5)
Interest rate and bond futures	–	–	–	–	–	–
Total	$ 16,231	$ 259	$ (111)	$ 148	$ 124	$ (108)

[1] Determined using month-end values.

(F) **SECURITIES LENDING**

The CPP Investment Board engages in securities lending to enhance portfolio returns. Credit risk associated with securities lending 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, 2007, the CPP Investment Board's investments include securities loaned with a fair value of $3,047 million (2006 – $1,847 million). The fair value of collateral received in respect of the securities loaned is $3,202 million (2006 – $1,942 million).

(G) **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 added to losses as a cost of disposition. During the year ended March 31, 2007, the CPP Investment Board paid total brokerage commissions of $39 million (2006 – $28 million).

3. Premises and Equipment

	2007			2006		
($ thousands)	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
Computer equipment and software	$ 5,184	$ 2,483	$ 2,701	$ 2,926	$ 1,362	$ 1,564
Office furniture and equipment	3,641	1,251	2,390	1,883	713	1,170
Leasehold improvements	8,649	1,868	6,781	4,620	915	3,705
Total	$ 17,474	$ 5,602	$ 11,872	$ 9,429	$ 2,990	$ 6,439

4. Credit Facilities

The CPP Investment Board maintains $1.5 billion (2006 – $1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2007, the total amount drawn on the credit facilities is $nil (2006 – $nil).

5. 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 the Queen in right of Canada.

6. Canada Pension Plan Transfers

Pursuant to Section 108.1 of the *Canada Pension Plan* and the Agreement, referred to in Note 2 above, amounts not required to meet specified obligations of the CPP are transferred to the CPP Investment Board. The funds originate from 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.

The CPP Investment Board is responsible for providing cash management services to the CPP, including the periodic return, on at least a monthly basis, of funds required to meet CPP benefits and expenses.

During the year ended March 31, 2007, a total of $33.5 billion was transferred to the CPP Investment Board, including bonds of $8.0 billion, based on fair market value at the time of transfer, and cash of $25.5 billion. During the same year, a total of $18.8 billion was returned to the CPP to meet its liquidity requirements.

The accumulated transfers from the CPP since inception are as follows:

($ millions)	March 31, 2007	March 31, 2006
Accumulated transfers from the Canada Pension Plan	$ 125,289	$ 91,795
Accumulated transfers to the Canada Pension Plan	(42,120)	(23,355)
Accumulated net transfers from the Canada Pension Plan	$ 83,169	$ 68,440

7. Net Investment Income

Investment income is reported net of external investment management fees. Investment management fees in respect of publicly-traded investments are expensed as incurred. These fees include an incentive portion that fluctuates with investment performance. Investment management fees for private 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 Notes 2b and 2d.

Net investment income by asset class and after giving effect to derivative contracts and investment receivables and liabilities for the year ended March 31 are as follows:

($ millions)	2007	2006
EQUITIES[1]		
Canada		
Public equities	$ 3,175	$ 7,567
Private equities	77	(13)
	3,252	7,554
Foreign		
Public equities	4,955	3,054
Private equities	1,837	585
Pooled funds	(1)	–
	6,791	3,639
Less: External investment management fees	(10)	(30)
	10,033	11,163
NOMINAL FIXED INCOME[2]		
Bonds	1,184	465
Money market securities	98	41
	1,282	506
INFLATION-SENSITIVE ASSETS		
Public real estate[3]	453	298
Private real estate[4]	855	183
Inflation-linked bonds	30	57
Infrastructure	150	(8)
	1,488	530
Less: External investment management fees	(15)	(6)
	1,473	524
NET INVESTMENT INCOME[5]	$ 12,788	$ 12,193

[1] Includes unrealized losses of $922 million (2006 – unrealized gains of $3,715 million), realized gains of $9,333 million net of external investment management fees (2006 – realized gains of $6,449 million net of external investment management fees), dividends of $1,615 million (2006 – $993 million) and securities lending income of $7 million (2006 – $6 million).

[2] Includes interest income of $1,645 million (2006 – $1,092 million), realized losses of $75 million (2006 – realized losses of $44 million) and unrealized losses of $288 million (2006 – unrealized losses of $542 million).

[3] Includes unrealized gains of $133 million (2006 – unrealized gains of $260 million), realized gains of $269 million (2006 – realized losses of $0.3 million) and dividends of $51 million (2006 – $38 million).

[4] Includes private markets real estate operating income of $230 million (2006 – $110 million), which is net of interest expense of $63 million (2006 – $42 million), unrealized gains of $622 million (2006 – unrealized gains of $73 million) and realized gains of $3 million (2006 – $nil).

[5] Includes foreign exchange gains of $1,053 million (2006 – foreign exchange losses of $1,679 million).

8. Operating Expenses

(A) **GENERAL OPERATING EXPENSES**

General operating expenses consist of the following:

($ thousands)	2007	2006
Custodial fees	$ 9,999	$ 6,835
Office rent, supplies and equipment	7,162	4,618
Data, performance and information services	5,367	4,021
Travel and accommodation	2,295	1,461
Amortization of premises and equipment	2,648	1,244
Communications	678	865
Directors' remuneration	593	563
Other	1,938	1,580
	$ 30,680	$ 21,187

(B) **PROFESSIONAL AND CONSULTING FEES**

Professional and consulting fees consist of the following:

($ thousands)	2007	2006
Consulting	$ 8,461	$ 5,300
Legal	1,105	1,139
External audit and tax services[1]	1,061	880
	$ 10,627	$ 7,319

[1] Includes fees paid to the external auditors of the CPP Investment Board for audit services of $946,620 (2006 – $765,000), tax services of $26,090 (2006 – $61,000) and non-audit services of $88,145 (2006 – $54,000).

9. 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, 2007, the remaining commitments total $13.4 billion (2006 – $8.3 billion).

As at March 31, 2007, the CPP Investment Board has made lease and other commitments of $54.9 million (2006 – $26.0 million) over the next seven years.

10. Guarantees and Indemnifications

The CPP Investment Board provides indemnifications to its officers, directors and, in certain circumstances, to various counterparties. 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 pursuant to such indemnifications.

Board of Directors

The board is responsible for the stewardship of the CPP Investment Board, including oversight of management. Each director possesses business and professional credentials that contribute to effective oversight of the organization. Their credentials include expertise and experience in board and board committee work for financial institutions, senior management, investment, actuarial services, audit, valuation, accounting, retirement and pension consulting, cash flow consulting, public policy, investment, due diligence, corporate finance, governance, equities trading, securities regulation, compensation, risk analysis, performance measurement, private equity, Crown corporations and government interface. Together the board as a whole has the required range of experience and qualifications to fulfill its duties.

GAIL COOK-BENNETT, Chair

Economist, Ph.D. Economics
Toronto, Ontario
Director and Chair since October 1998

Previously held academic positions at the University of Toronto and senior executive positions at Bennecon Ltd., a management consulting firm specializing in advising corporations on cash flow, and the C.D. Howe Institute, Montreal, a public policy institute. Director of Manulife Financial Corporation, Petro-Canada and Emera Inc. Fellow of the Institute of Corporate Directors. Former director of the Bank of Canada, Toronto-Dominion Bank and Ontario Teachers' Pension Plan Board and former member of the Canadian Group of the Trilateral Commission. Ph.D. (Economics) from the University of Michigan. Qualifications include 29 years of experience as a corporate director chairing audit and pension committees and serving on executive, investment, finance, governance and compensation committees.

Investment (chair) and governance committees

ROBERT M. ASTLEY

Fellow, Canadian Institute of Actuaries
Waterloo, Ontario
Director since September 2006

Former president of Sun Life Financial Canada, former president and CEO of Clarica Life Insurance Company. Director of the Bank of Montreal. Member of the Dean's Advisory Council, Laurier School of Business and Economics. Former chair of Canadian Life and Health Insurance Association and of Wilfrid Laurier University. Qualifications include extensive senior management experience in pension and life and health insurance financial services, including oversight of the successful integration of Clarica with Sun Life Financial.

Investment and audit (chair) committees

GERMAINE GIBARA

Chartered Financial Analyst
Montreal, Quebec
Director since November 2002

President and CEO of Avvio Management Inc., a management consulting firm specializing in strategic planning and the commercialization of technology. Served in senior positions with Caisse de dépôt et placement du Québec, TAL Global Asset Management Inc. and Alcan Aluminum Ltd. Director of Sun Life Financial, IFPT Management, Cogeco Cable Inc., Agrium Inc. and St. Lawrence Cement Group Inc. Former co-chair of the Institute for Research on Public Policy. Former director of the Economic Council of Canada. Qualifications include expertise in public pension plan investments with responsibility for private equity at Caisse de dépôt, in management of an international organization as former president of Alcan Automotive Structures and in governance as the former chair of the governance committee at Clarica Life Insurance Company.

Investment, governance and human resources and compensation committees

PETER K. HENDRICK

Chartered Accountant, Chartered Financial Analyst
Toronto, Ontario
Director since October 2004

Former executive vice-president of investments and chief investment officer of Mackenzie Financial Corporation. Former vice-president and director of CIBC Wood Gundy Securities Inc. (now CIBC World Markets) in the Corporate Finance, Institutional Equity and Capital Markets divisions. Former lecturer at the Graduate School of Business Administration at Harvard University in the area of management and financial accounting relating to financial controls. Qualifications include experience in equities trading, due diligence reviews, securities regulation, derivatives, hedging, risk analysis and performance measurement from roles at Mackenzie Financial and CIBC World Markets, and audit experience from Ernst & Young.

Investment and audit committees

JACOB LEVI

Actuary
Vancouver, British Columbia
Director since October 1998. Left the board effective December 2006 after his term expired.

Retired in 2006 from Eckler Partners, actuarial consultants, after more than 30 years as an actuarial consultant – 25 years as partner. Former external actuary to four major public sector pension plans in British Columbia and to the Workers' Compensation Board of British Columbia. Former chairman of the workers' compensation committee of the Canadian Institute of Actuaries and a member of the B.C. executive of the Canadian Pension and Benefits Institute. Qualifications include extensive experience and expertise in pension oversight and actuarial consulting.

Investment, audit and human resources and compensation committees

PHILIP MacDOUGALL

Fellow, Institute of Chartered Accountants of Prince Edward Island
Charlottetown, Prince Edward Island
Director since October 2004

President of MacDougall Consulting. Served as Deputy Minister in several departments in the government of Prince Edward Island, including Finance, Industry and Commerce, and Health & Social Services. Was a member of the Deputy Ministers' Committee on the Canada Pension Plan. Qualifications include experience in oversight of investment management as Deputy Minister of Finance with responsibility for Sinking Fund assets and for the Master Trust for P.E.I. Public Sector Pensions, and as CEO of the Workers' Compensation Board of P.E.I. Expertise in management in a government context, intergovernmental relations and negotiations, pension plan oversight and in board oversight, primarily for Crown corporations.

Investment and governance committees

HELEN M. MEYER

Financial Executive
Toronto, Ontario
Director since October 1998. Left the board effective April 2007 after her term expired.

President of Meyer Corporate Valuations Ltd., which specializes in performing valuations of public companies. Served in senior corporate finance positions with Merrill Lynch Canada, Morgan Bank of Canada and Dominion Securities Limited. Former Governor of the Cundill Funds. Former commissioner with the Ontario Securities Commission. Former director of Petro-Canada. Director of the Mutual Fund Dealers Association of Canada and director and vice-president of Forrest Communications Inc. Qualifications include expertise in corporate finance.

Investment, audit and human resources and compensation committees

DALE G. PARKER

Corporate Director
Vancouver, British Columbia
Director since October 1998

Former CEO of the British Columbia Financial Institutions Commission, Bank of British Columbia, and Workers' Compensation Board of British Columbia. Director of Encorp Pacific (Canada), Century Mining Corp., Industrial Alliance Pacific Insurance and Financial Services, and Growth Works Ltd., a venture capital enterprise. Active in senior leadership or board roles at charitable and non-profit organizations. Qualifications include expertise in financial institutions and Crown corporations at the CEO and chair levels and experience in privatization.

Investment, audit and human resources and compensation committees

M. JOSEPH REGAN

Bank Executive (retired)
Port Hope, Ontario
Director since October 1998. Left the board effective September 2006.

Former senior executive vice-president of Royal Bank of Canada, concluding a 40-year career with the bank. Former chair of the Pension Commission of Ontario. Director of the Bank of Tokyo-Mitsubishi-UFJ (Canada). Former director of the Canada Pension Plan Advisory Board and of the Ontario Pension Board, where he chaired the audit committee. Qualifications include high-level senior leadership roles in a financial institution and board experience with public pension plans.

Investment and governance committees

MARY C. RITCHIE

Fellow, Institute of Chartered Accountants of Alberta
Edmonton, Alberta
Director since October 1998. Left the board effective April 2007 after her term expired.

President and CEO of Richford Holdings Ltd. of Alberta, an accounting and investment advisory firm. Governor of Royal Bank Mutual Funds and chair of the audit committees of RBC Funds Inc. and RBC Advisor Global Fund Inc. Director and vice-chair of EPCOR Utilities. Director of Alberta Credit Union Deposit Guarantee Corporation, Industrial Alliance Insurance and Financial Services Inc., Alberta Ingenuity Fund, Isotechnika Inc. and AxCan Pharma. Member of the CICA Accounting Standards Oversight Council. Qualifications include expertise in audit and management consulting for financial institutions.

Investment committee

HELEN SINCLAIR

Financial Executive
Toronto, Ontario
Director since March 2001

CEO of BankWorks Trading Inc., a business television and webcasting company. Former president of the Canadian Bankers Association, and former senior vice-president of Scotiabank. Director of TD Bank Financial Group, McCain Capital Corporation and Bankworks Trading Inc. Trustee of Davis + Henderson Income Fund. Member of the Ontario Securities Act Advisory Committee. Qualifications include extensive experience in senior management roles at financial institutions and on boards of financial institutions.

Investment and governance (chair) committees

RONALD E. SMITH

Fellow, Institute of Chartered Accountants of Nova Scotia
Dartmouth, Nova Scotia
Director since November 2002

Part-time CFO and director of Immunovaccine Technologies Inc. Former senior vice-president and CFO of Emera, Inc., a Halifax-based energy company. Former CFO of Aliant Telecom Inc. and its predecessor, Maritime Telephone & Telegraph Inc. Former director of Bangor Hydro Electric Company. Chair of the Board of Governors of Acadia University. Former partner Ernst & Young. Qualifications include extensive experience in investment, finance and compensation from various CFO roles.

Investment and human resources and compensation (chair) committees

DAVID WALKER

Business Executive
Winnipeg, Manitoba
Director since October 1998

President of West-Can Consultants Ltd. and W.C. Investments Ltd., providing strategic advisory services to major public and private sector organizations. Director and secretary of Beverly Resources Ltd. Former professor of political science at the University of Winnipeg, former member of Parliament for Winnipeg North-Centre, and former parliamentary secretary to the Minister of Finance. Chief federal representative for consultations on the Canada Pension Plan in the 1990s. Chairman of Acsion Industries Inc. Qualifications include expertise in interface with governments and a strong background in the CPP Investment Board's governance model.

Investment and governance committees

The following individuals joined the board in April 2007.

IAN A. BOURNE

Corporate Director
Calgary, Alberta
Director since April 2007

Retired executive vice-president and CFO of TransAlta Corporation, a power generation company, and president of TransAlta Power L.P. Thirty-eight years of experience in senior finance roles at TransAlta, General Electric and Canada Post Corporation. Director and chair of Ballard Power Systems Inc., serving on the audit, corporate governance and management development, nominating and compensation committees. Director of Wajax Income Fund, serving on the audit committee, and Wajax Limited. Former director of TransAlta Power L.P., TransAlta CoGeneration, L.P. and Purolator Courier Ltd. Qualifications include expertise in finance in major corporations and international experience.

Investment, audit and human resources and compensation committees (effective May 10, 2007)

GERALDINE B. SINCLAIR

Corporate Director
Vancouver, British Columbia
Director since April 2007

Executive director of the graduate school program at the new Centre for Digital Media, accredited by the University of British Columbia and three other universities in the province. Former general manager of Microsoft Networks (MSN) Canada and former founder and CEO of NCompass Labs Inc. Director of TSX Group Inc., Ballard Power Systems Inc., B.C. Premier's Technology Council, Canadian Communications Research Council, FINCAD Corporation, the Canadian Foundation for Innovation and Genome B.C. Former chair of the Federal Telecommunications Policy Review Panel. Former director of Telus Communications Inc. and B.C. Telecom Inc. Ph.D. and Doctor of Science (honoris causa). Qualifications include extensive expertise in high technology, board experience in the investment sector, entrepreneurial business experience and government interface.

Investment and governance committees (effective May 10, 2007)

D. MURRAY WALLACE

Fellow, Institute of Chartered Accountants of Ontario
London, Ontario
Director since April 2007

Chairman and CEO of Park Street Capital Corporation, a corporate and investment advisory firm. Former president of Axia NetMedia Corporation. Director of IPSCO Inc., Crown Life Insurance Co., Western Surety Ltd., Terravest Income fund, and Critical Outcome Technologies Inc. Former director of Ontario Hydro, London Insurance Group and Queen's University School of Business (Advisory Committee) among others. Former Deputy Minister of Finance and Deputy Minister to the Premier for the Government of Saskatchewan. Qualifications include expertise as a chartered accountant, senior-level financial experience from five years as President of Avco Financial Services Canada Ltd. and eight years in executive roles with companies in the Trilon Financial Group, experience in public pension plan management and interface with government.

Investment and human resources and compensation committees (effective May 10, 2007)

Governance Practices of the Board of Directors

This section sets out certain key governance practices of the board of directors. More extensive governance information is posted at www.cppib.ca.

Adopting Best Practices

SAFEGUARDING A SOUND GOVERNANCE MODEL

DUTIES, OBJECTIVE AND MANDATE OF THE BOARD OF DIRECTORS

The board is responsible for the stewardship of the Canada Pension Plan Investment Board, including oversight of management.

As fiduciaries, the directors are required to act honestly and in good faith with a view to the best interests of the CPP Investment Board. They must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Directors must employ any special knowledge or skill they possess in carrying out their duties.

Among other duties, the directors appoint the chief executive officer and annually review his or her performance; determine with management the organization's strategic direction; review and approve investment policies, standards and procedures; review and approve the annual business plan and budget; appoint the external auditor; establish procedures to identify and resolve conflicts of interest; establish a code of conduct for directors and employees; assess the performance of the board itself including an annual peer review; establish disclosure and other policies; and review and approve the stakeholder communications strategy, including material disclosure such as quarterly and annual financial statements and the annual report.

A key part of the carefully designed governance structure that balances independence with accountability is that investment professionals are accountable to an independent board of directors operating at arm's length from governments with decisions made on the basis of sound investment principles, not political considerations. Directors, like officers and employees, have a positive duty in accordance with the written code of conduct to report immediately any attempted political interference if they have been subjected to pressure with respect to investments, procurement or hiring decisions. As intended by the stewards, directors have always been able to report no interference.

DIRECTOR APPOINTMENT PROCESS

The Canada Pension Plan is governed by an independent board. Directors are appointed by the federal finance minister in consultation with his counterparts in the participating provinces and assisted by an external nominating committee with private sector involvement. The director nomination process is designed to ensure that the board has directors with proven financial ability or relevant work experience so that the CPP Investment Board will be able to effectively achieve its objectives. In keeping with Treasury Board government reforms for Crown corporations implemented during the past few years, the external nominating committee consulted with the board in the latest search for qualified candidates to serve as directors of the CPP Investment Board.

COMPOSITION, MANDATES AND ACTIVITIES OF BOARD COMMITTEES

The board has four committees – investment, audit, human resources and compensation, and governance. Membership of the other committees is shown in the Board Attendance chart on page 83.

The investment committee oversees the core of the CPP Investment Board's business, which is making investment decisions within the context of a risk limit. The committee reviews and recommends to the board the CPP Investment Board's investment policies and reviews, approves and monitors the investment program. It also reviews portfolio risk tolerances and approves the engagement of all external investment managers, as required by legislation, and approves large investment transactions and all custodians. All members of the board serve on the investment committee.

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

The governance committee ensures that appropriate governance best practices are followed at the CPP Investment Board. The committee monitors application of the code of conduct, recommends governance initiatives, makes recommendations to the board to improve the board's effectiveness, reviews criteria and qualifications for new directors, recommends directors' compensation and establishes and recommends a performance evaluation process for the chief executive officer and board.

The human resources and compensation committee administers the performance evaluation process for the chief executive officer, reviews and recommends the compensation framework, reviews organizational structure and ensures succession planning. It also oversees employee benefits and human resource policies and the employee pension plans.

At every meeting, the board of directors and all committees have *in-camera* sessions, meaning that no member of management is in attendance. As noted above, the audit committee also has *in-camera* meetings with both internal and external auditors. In addition, the board has *in-camera* meetings with the president and chief executive officer in which no other management team member is present.

DECISIONS REQUIRING PRIOR BOARD APPROVAL

Management's discretion in making operational and investment decisions is described in board- or committee-approved policies. 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.

A COMMITMENT TO CONTINUOUS LEARNING

PROCEDURES FOR BOARD MEMBER ORIENTATION AND EDUCATION

The board has a process in place for new director orientation. This comprehensive full-day session includes discussion of the background, history and mandate of the CPP Investment Board as well as its strategy, business planning process and current corporate and departmental business plans. It also involves interaction between the new directors and management.

In recognition of the evolving nature of a director's responsibilities and the unique nature of the CPP Investment Board, in-house development for all directors is a key focus for the board. Management business presentations are provided on an ongoing basis. Because board members also seek outside perspectives, this year the board arranged seminars from Canada's Chief Actuary, Jean-Claude Ménard; Kurt Winkelmann of Goldman Sachs Asset Management, who spoke about the practical application of risk/return management principles to the CPP Investment Board; John Campbell of Harvard University, who spoke about equity risk premium and long-term investing; and Don Ezra of Russell Investment Group, who discussed the current status of defined benefit pensions and the increasing importance of the CPP.

ACCOUNTABILITY

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, that of the chairperson and that of its committees. In May 2005, the board enhanced the chairperson effectiveness assessment process with a confidential separate assessment. The assessments are conducted through confidential questionnaires that are summarized by an independent consultant. The summaries are reviewed by the full board and provide a basis for action plans for improvement. The board conducts a confidential annual peer review to assist each director in identifying self-development initiatives and assist in providing the external nominating committee with guidance when it considers individual re-appointments. The chairperson places a particular emphasis on discussion following the first steps of the review and meets formally with each director as part of the board and individual director assessment process. As part of a drive for best practices, the board continues to refine and bolster these procedures each year.

BOARD EXPECTATIONS OF MANAGEMENT

Management is expected to comply with the *Canada Pension Plan Investment Board Act* and 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 outlook for capital markets. The strategy 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 the markets and asset classes in which CPP assets are invested. Once approved by the board, benchmarks assist the board in evaluating management's investment performance and structuring performance-based compensation incentives.

The implementation of the CPP Reference Portfolio this year established a relevant benchmark for the CPP Fund which has enabled management to more precisely measure total CPP Fund value-added returns, enabling the board to tailor compensation more precisely to performance.

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

ROBUST TRANSPARENCY AND DISCLOSURE

TOTAL COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The total compensation of directors is provided on page 83. Director compensation this year was based in part on data contained in a study prepared by Mercer Human Resources Consulting in March 2004 using relevant data with respect to TSX companies and selected public sector organizations. Directors implemented two board compensation changes this year: a reduction in board meeting fees to $750 from $1,000 for any special meetings conducted by teleconference; and implementation of a separate travel fee for attending meetings in person, ranging from $250 to $1,000 based on distance travelled. Fees that remained unchanged were the annual retainer of $20,000 for each director, in-person board and committee meeting fees of $1,000 per meeting and the annual retainer of $7,500 for each committee chair. Also unchanged at $95,000 was the annual compensation of the chair of the board of directors. The chair is not eligible to receive annual or committee chair retainers or meeting fees unless the fees relate to public meetings.

Director compensation will change for fiscal 2008, effective April 1, 2007, to reflect the responsibilities and time commitment expected. Directors' compensation, which is overseen by the governance committee, is reviewed at least every two years, and any changes are recommended to the board. The last such review occurred in November and December 2006 with the assistance of Mercer Human Resources Consulting. Based in part on the data in that study, the annual retainer for the chairperson will rise to $120,000 and for other directors to $25,000. Non-teleconference meeting fees will increase to $1,500 for board meetings and $1,250 for committee meetings.

A separate independent compensation consulting firm, Hugessen Consulting Inc., advises the human resources and compensation committee on executive compensation. The total compensation of the CEO, the COO and the three most highly compensated officers of the CPP Investment Board is detailed on page 50 of the annual report. Executive officer compensation is partially incentive-based and is reviewed annually by the board. Incentive compensation is awarded based on the achievement of a combination of corporate, investment and personal objectives and is a combination of annual bonus and long-term (four-year) incentive components.

The implementation of the CPP Reference Portfolio this year has enabled the board to tailor executive compensation more precisely toward successful achievement of value-added results as part of a pay-for-performance system. Consistent with the human resources and compensation committee's emphasis on best practice disclosure, executive compensation is detailed at length this year in our first Compensation Discussion and Analysis on page 43.

RESULTS OF SPECIAL AUDIT OR SPECIAL EXAMINATION

At least once every six years, as required under Section 47 of the *Canada Pension Plan Investment Board Act*, the Minister of Finance routinely orders a special examination of the CPP Investment Board's financial and management control and information systems and management practices. The last examination was conducted in 2004 and is available on our website, www.cppib.ca.

A CULTURE OF INTEGRITY

CONFLICT OF INTEREST PROCEDURES

Conflicts of interest were anticipated in the CPP Investment Board's legislation as a result of the need to recruit directors with financial and investment expertise and to engage employees with financial expertise. The code of conduct has been established to manage and, where possible, eliminate such conflicts. The procedures under the legislation and the code 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 interests that might lead to a real, potential or perceived conflict of interest is required. Further, directors are expected to resign from the board if they take on executive responsibilities with an organization whose objectives and mandates may be, or may reasonably be perceived to be, in conflict with the objectives and mandates of the CPP Investment Board.

It is CPP Investment Board policy that non-audit services being provided by either the internal or external auditor must be approved by the audit committee. Firms that perform an internal or external audit function must also provide confirmation that the provision of non-audit services does not impair their independence.

CODE OF CONDUCT

In the interests of making the code of conduct more accessible, the board this year merged the code of conduct for directors and the code for employees into one "plain language" document. The code can be found on our website at www.cppib.ca.

The code is designed to help create a corporate culture of trust, honesty and integrity. It deals with such matters as relations with suppliers, personal investments and confidentiality of proprietary information. For example, the code establishes strict pre-clearance procedures for personal trading in securities. It also sets out strict limits on the acceptance by directors and employees of entertainment, gifts or special treatment that could create or appear to create a favoured position for actual or potential contractors or suppliers.

As part of the hiring process for all employees, new recruits are required to read and agree to comply with the code of conduct and related personal trading guidelines that together set a high standard in the areas of conflict of interest and ethical conduct. They must reconfirm that compliance semi-annually in writing. When the board hires or conducts annual performance reviews of the chief executive officer and senior vice-presidents, it uses integrity as a key criterion.

To augment the code of conduct, the board of directors decided in 2003 to appoint an external conduct review advisor. This individual, currently the Honourable Frank Iacobucci, is available to discuss ethical issues with directors and employees on a confidential basis.

Board Attendance: Fiscal 2007

The board held 16 meetings in fiscal 2007. 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 number of meetings that director could have attended.

DIRECTOR	Board and Investment Committee[1]	Audit Committee	Governance Committee	Human Resources and Compensation Committee (HRCC)
Gail Cook-Bennett[2]	16/16	4/4	5/6	5/5
Robert M. Astley[3]	8/8	1/1	–	–
Germaine Gibara	15/16	–	6/6	5/5
Peter K. Hendrick	15/16	4/4	–	–
Jacob Levi[4]	13/13	3/3	–	4/4
Philip MacDougall	15/16	–	6/6	–
Helen M. Meyer[5]	14/16	4/4	–	5/5
Dale G. Parker	15/16	4/4	–	4/5
M. Joseph Regan[6]	8/8	–	4/4	–
Mary C. Ritchie[7]	12/16	2/3	–	–
Helen Sinclair	16/16	–	6/6	–
Ronald E. Smith	15/16	–	–	5/5
David Walker	16/16	–	6/6	–

1 Seven regular meetings and nine special meetings.
2 Chair of board and investment committee and member of governance committee, but attends all committee meetings.
3 Joined the board September 15, 2006, and replaced Mary C. Ritchie as chair of the audit committee effective December 5, 2006.
4 Left the board effective December 31, 2006, after his term expired.
5 Left the board effective April 24, 2007, after her term expired.
6 Left the board effective September 14, 2006.
7 Left the board effective April 24, 2007, after her term expired.

Directors' Remuneration

DIRECTOR	Annual Retainer	Board and Committee Meeting Fees	Public Meeting Fees	Travel Fees	Total Remuneration
Gail Cook-Bennett, CHAIR	$ 95,000	$ –	$ 10,000	$ –	$ 105,000
Robert M. Astley, CHAIR OF AUDIT COMMITTEE[1]	11,875	9,750	–	–	21,625
Germaine Gibara	20,000	23,500	–	1,750	45,250
Peter K. Hendrick	20,000	17,000	–	–	37,000
Jacob Levi[2]	15,000	18,000	–	6,000	39,000
Philip MacDougall	20,000	18,750	1,000	3,500	43,250
Helen M. Meyer[3]	20,000	21,000	–	–	41,000
Dale G. Parker	20,000	21,000	1,000	7,000	49,000
M. Joseph Regan[4]	10,000	10,750	–	–	20,750
Mary C. Ritchie[5]	25,625	12,250	–	5,000	42,875
Helen Sinclair, CHAIR OF GOVERNANCE COMMITTEE	27,500	19,500	–	–	47,000
Ronald E. Smith, CHAIR OF HRCC	27,500	17,750	1,000	3,500	49,750
David Walker[6]	27,500	19,500	1,000	3,500	51,500
Total	$ 340,000	$ 208,750	$ 14,000	$ 30,250	$ 593,000

Directors' remuneration includes an annual retainer for each director of $20,000, board and committee meeting fees of $1,000 per meeting or $750 if the meeting is held by teleconference, plus an annual retainer of $7,500 for each committee chair. Separate fees are not paid for investment committee meetings when they are held on the same day as board meetings, which is the custom. The Chair of the board of directors receives $95,000 in annual compensation but is not eligible to receive annual or committee chair retainers or meeting fees unless the fees relate to public meetings. Directors who travel to meetings receive a separate travel fee ranging from $250 to $1,000 based on distance travelled.
1 Joined the board September 15, 2006, and replaced Mary C. Ritchie as chair of the audit committee.
2 Left the board effective December 31, 2006, after his term expired.
3 Left the board effective April 24, 2007, after her term expired.
4 Left the board effective September 14, 2006.
5 Left the board effective April 24, 2007, after her term expired.
6 Chair of the ad hoc communications committee.

Eight-Year Review

FOR THE YEAR ENDED MARCH 31 ($ billions)	2007	2006	2005	2004	2003	2002	2001	2000
CHANGE IN NET ASSETS								
Income								
Net contributions	5.5	3.6	4.5	4.6	3.1	2.6	1.2	(1.3)
Investment income	13.1	13.1	6.3	10.3	(1.1)	2.3	3.0	1.1
Increase in net assets	18.6	16.7	10.8	14.9	2.0	4.9	4.2	(0.2)

AS AT MARCH 31 ($ billions)	2007	2006	2005	2004	2003	2002	2001	2000
NET ASSETS								
Equities								
Canada	29.2	29.1	27.7	22.6	11.7	10.0	5.0	2.0
Foreign	46.4	32.6	20.9	9.3	5.4	4.1	2.1	0.4
Nominal fixed income								
Bonds	29.2	27.2	28.6	30.2	31.0	32.6	35.3	35.8
Money market securities	0.1	0.6	3.1	7.7	7.2	6.8	6.3	6.3
Inflation-sensitive assets								
Real estate	5.7	4.2	0.8	0.7	0.3	0.1	–	–
Inflation-linked bonds	3.8	4.0	–	–	–	–	–	–
Infrastructure	2.2	0.3	0.2	–	–	–	–	–
Net assets	116.6	98.0	81.3	70.5	55.6	53.6	48.7	44.5
PERFORMANCE (%)								
Rate of return (annual)[1]	12.9%	15.5%	8.5%	17.6%	(1.5)%	4.0%	7.0%	3.2%

[1]Commencing in fiscal 2007, the rate of return reflects the performance of the CPP Fund which excludes the short-term cash required to pay current benefits.

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General Counsel and Corporate Secretary

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Communications and Stakeholder Relations

GRAEME M. EADIE
Senior Vice-President
Real Estate Investments

JOHN H. ILKIW
Senior Vice-President
Portfolio Design and Risk Management

MYRA LIBENSON
Chief Operations Officer

DONALD M. RAYMOND
Senior Vice-President
Public Market Investments

DAVID WEXLER
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