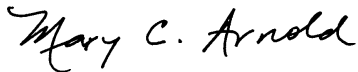


Investment Certificate

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 Investment Board held during the period are in accordance with the Act and the Investment Board’s investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of the Canada Pension Plan Investment Board (the “Investment Board”), held during the six-month period ended March 31, 1999, were in accordance with the *Canada Pension Plan Investment Board Act* and the Investment Board’s Interim Statement of Investment Policies, Standards and Procedures.



Mary C. Arnold,
Chair of the Audit Committee
On behalf of the Board of Directors
May 26, 1999

Auditors' Report

To the Board of Directors

Canada Pension Plan Investment Board

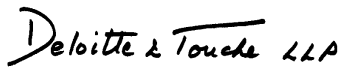
We have audited the balance sheet and the statement of investment portfolio of the Canada Pension Plan Investment Board (the "Investment Board") as at March 31, 1999 and the statements of income and of changes in net assets for the six-month period then ended. These financial statements are the responsibility of the Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 financial statements present fairly, in all material respects, the financial position of the Investment Board and the investments held as at March 31, 1999 and the results of its operations and the changes in its net assets for the six-month period then ended in accordance with generally accepted accounting principles.

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

Further, in our opinion, the record of investments kept by the 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.

The logo for Deloitte & Touche LLP, featuring the company name in a stylized, cursive script font.

Chartered Accountants

Toronto, Ontario

May 26, 1999

Balance Sheet

March 31, 1999

Assets

Investments (Note 2)	
Canadian equities	\$ 9,982,904
Non-Canadian equities	2,160,746
	<hr/>
	12,143,650
Cash and short-term investments (Note 3)	5,745,442
Other assets	68,392
	<hr/>
	17,957,484

Liabilities

Due to Canada Pension Plan (Note 3)	4,948,187
Accrued liabilities	864,835
	<hr/>
Net Assets	\$ 12,144,462
Net Assets, Represented by	
Share capital (Note 4)	\$ 100
Accumulated net income from operations	202,362
Canada Pension Plan transfers (Note 5)	11,942,000
	<hr/>
Net Assets	\$ 12,144,462

Statement of Income

For the six-month period ended March 31, 1999

Investment Activities

Investment income (Note 6)	\$ 203,209
Investment expenses	(847)
	<u>202,362</u>

Administrative Activities (Note 7)

Professional and consulting fees	455,993
Salaries and other operating expenses	356,650
Directors' expenses	263,022

1,075,665

Recovery of Start-up Expenditures (Note 3)

(1,075,665)

Net Income from Operations and Accumulated Net Income
from Operations at Period End

\$ 202,362

Statement of Changes in Net Assets

For the six-month period ended March 31, 1999

Net Assets, Beginning of Period	\$ —
Changes in Net Assets	
Canada Pension Plan transfers (Note 5)	11,942,000
Net income from operations	202,362
Share capital paid	100
Increase in Net Assets and Net Assets at Period End	<u>\$ 12,144,462</u>

Statement of Investment Portfolio

March 31, 1999

	Cost	Fair Value	% of Portfolio (At Cost)
Canadian Equities			
(Managed by TD Quantitative Capital)			
Emerald Canadian Equity Fund – 509,846.87 units (invested to substantially replicate performance of the Toronto Stock Exchange 300 Composite Index)	\$ 9,799,173	\$ 9,982,904	
Total Canadian Equities	9,799,173	9,982,904	82%
Non-Canadian Equities			
(Managed by Barclays Global Investors)			
EAFE Equity Index Fund B – 21,685.47 units Barclays Global Investors Canada Limited	1,097,687	1,091,235	
US Equity Index Fund (Canada) – 97,722.09 units Barclays Global Investors Canada Limited	1,045,396	1,042,157	
Unhedged Synthetic EAFE Equity Index Fund – 2,728.02 units (collectively invested to substantially replicate the Morgan Stanley Capital International (MSCI) World Index ex-Canada)	25,984	27,354	
Total Non-Canadian Equities	2,169,067	2,160,746	18%
Total Equities	\$ 11,968,240	\$ 12,143,650	100%

Organization

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

The Investment Board commenced operations October 1, 1998.

1. Summary of Significant Accounting Policies

a. Basis of Presentation

These financial statements present the financial position and operations of the Investment Board as a separate legal entity, and therefore include only a portion of the assets (as described in Note 2) and none of the pension liabilities of the CPP. The statements have been prepared in accordance with generally accepted accounting principles and the requirements of the Act and the accompanying Regulations.

b. Valuation of Investments

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

Fair value for the equity investments represents unit values in pooled and mutual funds which reflect the quoted market prices of the underlying securities. Short-term investments are valued at cost plus accrued income which approximates fair value.

c. Income Recognition

Investment income is recorded on the accrual basis and represents realized gains and losses on disposal of investments, unrealized gains and losses on investments held at the end of the period, and interest income.

Realized gains and losses on investments sold during the period represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the change in the difference between fair value and cost of investments at the beginning and end of each period.

d. Translation of Foreign Currencies

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

e. Canada Pension Plan Transfers

Transfers made in accordance with the *Canada Pension Plan* are recorded on a cash basis.

f. Income Taxes

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

2. Investments

The statement of investment portfolio provides detailed information on the investments held as of March 31, 1999.

a. Investment Policy

The Investment Board has prepared an Interim Statement of Investment Policies, Standards and Procedures (the “Statement”) which sets out the manner in which assets shall be invested. In determining the asset mix, the Investment Board must take into consideration certain assets of the CPP which are held outside of the Investment Board. As of March 31, 1999, these assets totalled approximately \$30.8 billion (at cost) and consisted of government debt obligations. As a result, and in accordance with the Statement, 100% of the assets of the Investment Board are invested in equities with approximately 80% allocated to Canadian equities and the remainder to non-Canadian equities.

The Regulations under the Act require the Investment Board’s Canadian equities to substantially replicate the composition of one or more broad market indices. The Toronto Stock Exchange 300 Composite Index (the “TSE 300 Index”) has been selected as an appropriate market index for the Canadian equities. Under the terms of the Statement, the Investment Board’s investments in non-Canadian equities should also substantially replicate broad market indices. The Morgan Stanley Capital International (“MSCI”) World Index ex-Canada has been selected for this purpose.

To implement the investment strategy, a Canadian equity fund was purchased to substantially replicate the TSE 300 Index, and U.S. and EAFE (Europe, Australia and New Zealand, and the Far East) index funds were purchased to substantially replicate the MSCI World Index ex-Canada.

b. Derivative Financial Instruments

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, interest rates or exchange rates.

As outlined in the Statement, certain derivatives may be used from time to time to achieve market exposure by replicating direct investments in relevant equity indices. Because the non-Canadian EAFE Equity Index Fund B is open to new investment at only certain times of the month, a synthetic EAFE index fund utilizing derivatives (primarily forward foreign exchange contracts and futures contracts on equity indices of countries within EAFE) is used in the interim period to maintain continuous equity exposure.

In accordance with the Statement and the Regulations, the Investment Board may not use derivatives to create leverage. The synthetic EAFE index fund in which the Investment Board holds units has a policy of no leverage and uses a combination of Canadian dollar money market instruments and forward foreign exchange contracts to cover the amount of outstanding futures contracts.

c. Foreign Currency Exposure

The Investment Board is exposed to currency risk through holdings of units in pooled funds of non-Canadian equities where investment values will fluctuate due to changes in foreign exchange rates. The underlying currency exposures as at March 31, 1999, are as follows:

Country/Region	Investment Value	% of Total
United States	\$ 1,042,157	48%
Europe	802,370	37%
Far East	282,138	13%
Australia and New Zealand	34,081	2%
	\$ 2,160,746	100%

In accordance with the Statement, the foreign exchange exposures are not hedged.

3. Due to Canada Pension Plan

As permitted under Section 57 of the Act, the Investment Board received an allocation of \$6,000,000 from the CPP for start-up expenditures. Of this amount, a total of \$1,075,665 was utilized during the period. Since the Investment Board is now regularly receiving transfers under Section III of the *Canada Pension Plan*, the excess amount of \$4,948,187 (including interest of \$23,852) is scheduled to be repaid to the CPP in the first quarter of the 2000 fiscal year. The excess funds have been invested in short-term investments.

4. Share Capital

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

5. Canada Pension Plan Transfers

There are two conditions under which transfers to the Investment Board are permitted, as outlined in Section III of the *Canada Pension Plan*. The first relates to the approximately \$30.8 billion in government securities held by the CPP outside of the Investment Board. In certain instances these securities may be rolled over at maturity, either wholly or in part, at the option of the issuer. To the extent that the existing issuer does not replace the matured securities and the funds are not required by the CPP to pay current pensions, the proceeds are transferred to the Investment Board. The second condition of transfer occurs when the Minister of Finance determines that the CPP has an excess operating balance. The excess portion is then transferred to the Investment Board.

During the period, a total of \$11,942,000 was transferred to the Investment Board.

6. Investment Income

Investment activity commenced with receipt of the first cash flow on March 1, 1999. As a result, the investment income and the performance measurement information reflect only one month's activity. The investment income for the six-month period ended March 31, 1999, is comprised of:

Unrealized gains	\$ 175,410
Realized gains	19,506
Interest income	8,293
	\$ 203,209

Investment performance and benchmark returns for the six-month period ended March 31, 1999, are as follows:

	Portfolio Return	Benchmark Return
Canadian Equities	4.9%	4.8%
Non-Canadian Equities	5.4%	4.4%
Total Return	5.0%	4.7%

The benchmark for the Canadian equities is the TSE 300 Index and for the non-Canadian equities is the MSCI World Index ex-Canada. The total return benchmark aggregates the two benchmark returns according to the weightings (80% for Canadian equities and 20% for non-Canadian equities) specified in the Statement.

Returns have been calculated in accordance with the methods set forth by the Association for Investment Management and Research and the Pension Investment Association of Canada.

7. Administrative Activities

Administrative expenses for the six-month period ended March 31, 1999, are comprised of:

a. Professional and Consulting Fees

Consulting fees	\$ 291,417
Legal fees	125,610
Professional accounting and audit fees	38,966
	\$ 455,993

Consulting fees represent amounts paid for professional advice in connection with the development of the Statement of Investment Policy, Standards and Procedures, the creation of corporate governance procedures, the selection of a custodian and external fund managers, the search for a Chief Executive Officer, and other advice required to prepare the Investment Board for the receipt of cash flows from the CPP.

b. Salaries and Other Operating Expenses

Salaries	\$ 256,930
Other operating expenses	99,720
	\$ 356,650

Until such time as the Chief Executive Officer has been recruited and commences full-time employment, the Chairperson of the Board of Directors has undertaken certain management responsibilities. Salaries include compensation for these services as well as compensation paid to other temporary employees.

c. Directors' Expenses

Directors' expenses include remuneration earned, and travel and accommodation expenses incurred in connection with their role as directors of the Investment Board. In accordance with the fee schedule established in Bylaw 2 of the Investment Board, the remuneration earned by the directors during the six-month period was \$168,550.

8. The Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations.

The Investment Board has undertaken a review of the potential impact of the Year 2000 Issue on its operations and has worked with third-party service providers such as its custodian and fund managers to assess their Year 2000 readiness. It is not possible to be certain, however, that all aspects of the Year 2000 Issue affecting the Investment Board, including those related to the efforts of the fund managers, custodian, suppliers, information providers and other third parties, will be fully resolved.

Corporate Information

Board Committee Membership

Audit Committee

Mary Arnold (Chair)
 Jacob Levi
 Helen Meyer
 Joseph Regan

Governance Committee

Dale Parker (Chair)
 Susan Carnell
 Gerard La Forest
 Richard McAloney
 Helen Meyer

Human Resources and Compensation Committee

Richard Thomson (Chair)
 Pierre Michaud
 David Walker

Investment Committee (Committee of the Whole)

Search Committee

Gail Cook-Bennett (Chair)
 Mary Arnold
 Joseph Regan
 Richard Thomson
 David Walker

Canada Pension Plan Investment Board

Chair, Board of Directors

Gail Cook-Bennett

President and Chief Executive Officer Designate

John A. MacNaughton
 (appointment effective September 7, 1999)

Canada Pension Plan Investment Board

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 Fax: 416-868-4083
 Web site: www.cppib.ca

Ce rapport annuel est aussi disponible en français.



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