

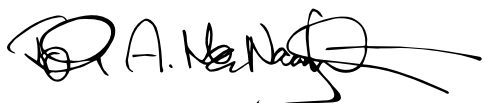
## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Canada Pension Plan Investment Board (“CPP Investment Board”) have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management is responsible for the contents of the financial statements and the financial information contained within the annual report.

The CPP Investment Board maintains records and develops and maintains systems of internal control and supporting procedures to provide reasonable assurance that the CPP Investment Board's assets are safeguarded and controlled and that transactions are in accordance with the *Canada Pension Plan Investment Board Act*, the accompanying regulations, the by-laws, and the Statement of Investment Policies, Standards and Procedures.

The Audit Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Committee meets regularly with both management and the external auditors to discuss the scope and findings of audits and other work that the external auditors may be requested to perform from time to time, to review financial information, and to discuss the adequacy of internal controls. The 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 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 of the CPP Investment Board's financial reporting and the adequacy of internal control systems.



JOHN A. MACNAUGHTON  
President and Chief Executive Officer

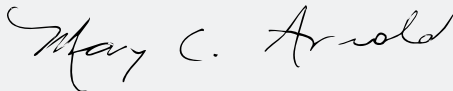


JANE NYMAN  
Vice President – Finance and Operations

## INVESTMENT CERTIFICATE

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

The investments of the CPP Investment Board, held during the year ended March 31, 2001, were in accordance with the *Canada Pension Plan Investment Board Act* and the CPP Investment Board's Statement of Investment Policies, Standards and Procedures.



MARY C. ARNOLD

Chair of the Audit Committee on behalf of the Board of Directors, June 6, 2001

## AUDITORS' REPORT

TO THE BOARD OF DIRECTORS

We have audited the balance sheet and the statement of investment portfolio of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2001 and the statements of income/(loss) and accumulated net income/(loss) from operations and of changes in net assets for the year then ended. These financial statements are the responsibility of the CPP 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 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 financial statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2001 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.

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

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



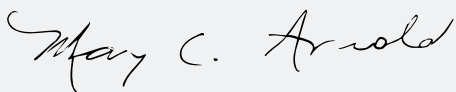
CHARTERED ACCOUNTANTS

Toronto, Ontario, May 18, 2001

## BALANCE SHEET

<i>March 31, 2001</i> (\$ 000's)	<b>2001</b>	<b>2000</b>
<b>ASSETS</b>		
Investments (Note 2)		
Canadian equities	<b>\$ 5,024,457</b>	\$ 1,954,372
Non-Canadian equities	<b>2,130,419</b>	438,389
<b>TOTAL INVESTMENTS</b>	<b>7,154,876</b>	2,392,761
Cash and short-term investments	<b>546</b>	1,022
Other assets (Note 3)	<b>921</b>	1,080
<b>TOTAL ASSETS</b>	<b>7,156,343</b>	2,394,863
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 4)	<b>2,174</b>	3,070
<b>TOTAL LIABILITIES</b>	<b>2,174</b>	3,070
<b>NET ASSETS</b>	<b>\$ 7,154,169</b>	\$ 2,391,793
<b>NET ASSETS, REPRESENTED BY</b>		
Share capital (Note 5)	<b>\$ —</b>	\$ —
Accumulated net income/(loss) from operations	<b>(391,252)</b>	460,338
Canada Pension Plan transfers (Note 6)	<b>7,545,421</b>	1,931,455
<b>NET ASSETS</b>	<b>\$ 7,154,169</b>	\$ 2,391,793

On behalf of the Board of Directors:



MARY C. ARNOLD  
Chair of the Audit Committee



M. JOSEPH REGAN  
Director, Member of the Audit Committee

## STATEMENT OF INCOME / (LOSS) AND ACCUMULATED NET INCOME / (LOSS) FROM OPERATIONS

<i>Year ended March 31, 2001 (\$ 000's)</i>	<b>2001</b>	2000
INVESTMENT INCOME / (LOSS) (Note 7)		
Canadian equities	<b>\$ (532,109)</b>	\$ 424,603
Non-Canadian equities	<b>(312,746)</b>	39,183
	<b>(844,855)</b>	463,786
INVESTMENT AND ADMINISTRATIVE EXPENSES (Note 8)		
Operating expenses	<b>2,279</b>	1,450
Salaries and benefits	<b>1,963</b>	1,003
External investment management fees	<b>1,535</b>	342
Professional and consulting fees	<b>958</b>	855
	<b>6,735</b>	3,650
NET INCOME / (LOSS) FROM OPERATIONS	<b>(851,590)</b>	460,136
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF YEAR	<b>460,338</b>	202
ACCUMULATED NET INCOME / (LOSS) FROM OPERATIONS, END OF YEAR	<b>\$ (391,252)</b>	\$ 460,338

## STATEMENT OF CHANGES IN NET ASSETS

<i>Year ended March 31, 2001 (\$ 000's)</i>	<b>2001</b>	2000
NET ASSETS, BEGINNING OF YEAR	<b>\$ 2,391,793</b>	\$ 12,144
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 6)	<b>5,613,966</b>	1,919,513
Net income / (loss) from operations	<b>(851,590)</b>	460,136
INCREASE IN NET ASSETS FOR THE YEAR	<b>4,762,376</b>	2,379,649
NET ASSETS, END OF YEAR	<b>\$ 7,154,169</b>	\$ 2,391,793

## STATEMENT OF INVESTMENT PORTFOLIO

<i>March 31, 2001 (\$ 000's)</i>	<i>Fair Value of Investments</i>		<i>% of Portfolio</i>	
	<b>2001</b>	2000	<b>2001</b>	2000
<b>CANADIAN EQUITIES (Note 2)</b>				
<b>Canadian Equities – TSE 300</b>				
(Combination of index funds and direct security investments that substantially replicate the TSE 300)	<b>\$ 3,057,054</b>	\$ 1,954,372	<b>42.7%</b>	81.7%
<b>Other Canadian Equities</b>				
(Diversified portfolio of pooled fund and direct security investments (Note 2))	<b>1,967,403</b>	—	<b>27.5%</b>	0.0%
<b>TOTAL CANADIAN EQUITIES</b>				
(Cost 2001 – \$5,635,082; 2000 – \$1,633,029)	<b>5,024,457</b>	1,954,372	<b>70.2%</b>	81.7%
<b>NON-CANADIAN EQUITIES (Note 2)</b>				
<b>US Equity Index Fund – S&amp;P 500</b>	<b>1,069,852</b>	219,956	<b>15.0%</b>	9.2%
<b>EAFE Equity Index Fund</b>	<b>1,060,567</b>	218,433	<b>14.8%</b>	9.1%
<b>TOTAL NON-CANADIAN EQUITIES</b>				
(Cost 2001 – \$2,407,243; 2000 – \$400,185)	<b>2,130,419</b>	438,389	<b>29.8%</b>	18.3%
<b>TOTAL INVESTMENTS</b>	<b>\$ 7,154,876</b>	\$ 2,392,761	<b>100.0%</b>	100.0%

#### ORGANIZATION

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

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

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### (A) BASIS OF PRESENTATION

These financial statements present the financial position and operations of the CPP 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 Canadian 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.

Market prices for securities and unit values for pooled and mutual funds are used to represent fair value for the investments. Unit values 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 or transfer of investments, unrealized gains and losses on investments held at the end of the year, dividend income, interest income, and distributions from mutual and pooled funds.

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 change in the difference between fair value and cost of investments at the beginning and end of each year.

##### (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 year end are translated at exchange rates in effect at the year end date. The resulting realized and unrealized gains and losses are included in investment income.

(E) CANADA PENSION PLAN TRANSFERS

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

(F) INCOME TAXES

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

(G) USE OF ESTIMATES

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

## 2. INVESTMENTS

The statement of investment portfolio provides detailed information on the investments held as at March 31, 2001.

(A) INVESTMENT POLICY

The CPP Investment Board has established a Statement of Investment Policies, Standards and Procedures (the "Investment Policy") which sets out the manner in which assets shall be invested. In determining the asset mix, the CPP Investment Board must take into consideration certain assets of the CPP which are held outside of the CPP Investment Board. As at March 31, 2001, these assets totalled approximately \$36.0 billion (at cost) and consisted primarily of government debt obligations. As a result, and in accordance with the Investment Policy, 100% of the CPP Investment Board's investments are allocated to equities, with at least 70% of the book value allocated to Canadian equities and the remainder to non-Canadian equities.

The regulations governing the CPP Investment Board allow the active management of up to 50% of Canadian equities, on a book value basis. The regulations restrict the remaining investments in Canadian equities to substantially replicate the composition of one or more broad market indices. As at March 31, 2001, approximately 64% of Canadian equity investments, on a book value basis, substantially replicated the Toronto Stock Exchange 300 Composite Index.

Under the terms of the Investment Policy, investments in non-Canadian equities should substantially replicate broad market indices. Non-Canadian investments are held in funds that substantially replicate the Morgan Stanley Capital International ("MSCI") EAFE Index and the Standard & Poor's ("S&P") 500 Index. Investments are not hedged against changes in foreign currency exchange rates.

**(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 Investment Policy, certain derivatives may be used to achieve market exposure by replicating direct investments in a relevant equity index, provided that the derivatives are not used to create leverage. The mutual and pooled funds in which the CPP Investment Board owns units are permitted to, and may from time to time, use derivatives subject to this constraint. Other than through such funds, the CPP Investment Board has not directly entered into derivative contracts during the year ended March 31, 2001.

**(C) FOREIGN CURRENCY EXPOSURE**

The CPP 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 by geographical area as at March 31, 2001 were as follows:

(\$ 000's)	2001		2000	
	Fair Value	% of Total	Fair Value	% of Total
United States	\$ 1,069,852	50%	\$ 219,956	50%
Europe	743,059	35%	145,796	34%
Far East	287,063	14%	67,454	15%
Australia and New Zealand	30,445	1%	5,183	1%
	<b>\$ 2,130,419</b>	<b>100%</b>	<b>\$ 438,389</b>	<b>100%</b>

In accordance with the Investment Policy, foreign currency exposures are not hedged.

**3. OTHER ASSETS**

Other assets consisted of the following:

(\$ 000's)	2001	2000
Pending trades	\$ —	\$ 533
Dividends receivable	493	384
Fixed assets	261	141
Other assets	167	22
	<b>\$ 921</b>	<b>\$ 1,080</b>

**4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities consisted of the following:

(\$ 000's)	2001	2000
Pending trades	\$ —	\$ 1,801
Other accounts payable and accrued liabilities	2,174	1,269
	<b>\$ 2,174</b>	<b>\$ 3,070</b>



## 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 in right of Canada.

## 6. CANADA PENSION PLAN TRANSFERS

Section 111 of the *Canada Pension Plan* provides for the transfer to the CPP Investment Board of funds not required by the CPP to pay current pensions. These funds come from both employer and employee contributions to the CPP, as well as from the proceeds of maturing and redeemed government bonds held in a portfolio administered by the federal government. During the year, a total of \$5,613,966,000 (2000 – \$1,919,513,000) was transferred to the CPP Investment Board. Since the CPP Investment Board's inception, \$7,545,421,000 has been received from the CPP.

## 7. INVESTMENT INCOME / (LOSS)

### (A) INVESTMENT INCOME / (LOSS) FOR THE PERIOD

Investment income / (loss) consisted of the following:

(\$ 000's)	2001	2000
CANADIAN EQUITIES		
Unrealized gains / (losses)	<b>\$ (931,968)</b>	\$ 321,159
Fund distributions of capital gains and dividends	<b>213,298</b>	9,000
Realized gains	<b>180,277</b>	89,355
Other investment income	<b>6,284</b>	5,089
	<b>(532,109)</b>	424,603
NON-CANADIAN EQUITIES		
Unrealized gains / (losses)	<b>(315,028)</b>	38,213
Fund distributions of capital gains and dividends	—	281
Realized gains / (losses)	<b>(99)</b>	286
Other investment income	<b>2,381</b>	403
	<b>(312,746)</b>	39,183
TOTAL INVESTMENT INCOME / (LOSSES)	<b>\$ (844,855)</b>	\$ 463,786

In implementing its market replication strategy, the CPP Investment Board utilizes index funds. In instances where a large dollar value of index fund units is to be purchased, the CPP Investment Board initially purchases individual securities that make up the index. The securities are then transferred to the index fund in exchange for units in the fund. On transfer, a gain or loss may be realized representing the difference between the market price of the securities at the time of the transfer and their original cost.

## (B) INVESTMENT PERFORMANCE

Portfolio returns and benchmark returns are as follows:

	2001		2000	
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns
Canadian equities	(7.7%)	(18.6%)	45.3%	45.5%
Non-Canadian equities	(17.5%)	(18.2%)	16.6%	16.1%
Total portfolio	(9.4%)	(17.8%)	40.1%	39.3%

The CPP Investment Board uses a variety of metrics over the short, medium and long term to make an informed judgment about investment performance. Benchmark returns are used to measure investment performance relative to the return of the broad markets in which the CPP Investment Board invests: the TSE 300 for Canadian equities, the S&P 500 (MSCI U.S. to November 2000) and the MSCI EAFE for non-Canadian equities.

The total return composite benchmark aggregates the asset class benchmark returns according to the asset mix policy weights specified in the Investment Policy.

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

## 8. INVESTMENT AND ADMINISTRATIVE EXPENSES

## (A) OPERATING EXPENSES

Operating expenses consisted of the following:

(\$ 000's)	2001	2000
Communication expenses	\$ 700	\$ 364
Directors' remuneration	376	269
Custodial fees	281	140
Office supplies and equipment	252	179
Occupancy costs	237	231
Travel and accommodation for directors' meetings	129	100
Other operating expenses	304	167
	<b>\$ 2,279</b>	<b>\$ 1,450</b>

Communication expenses for fiscal 2001 include expenditures in respect of public meetings required by legislation and held across the country in January 2001.

Directors' remuneration includes an annual retainer for each director of \$12,000, board and committee meeting fees of \$900 per meeting, plus an additional annual retainer of \$3,000 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 usual custom.) The Chair also receives \$32,000 in additional annual compensation for the position of Chair of the Board of Directors but is not eligible to receive the \$3,000 retainer paid to committee chairs.

Directors of the CPP Investment Board come from various regions of the country and accordingly they incur travel and accommodation expenses in attending meetings of the board

and committees. In fiscal 2001, 14 board and investment committee meetings and 17 committee meetings were held.

(B) EXECUTIVE COMPENSATION

Compensation earned by executive officers of the CPP Investment Board during fiscal 2001 amounted to \$ 1,214,697 (2000 - \$ 422,931). Included in this total are the following amounts:

Employee	Year	Salary	Annual Bonus <sup>5</sup>	Long-Term Bonus <sup>5</sup>	Benefits <sup>6</sup>
John A. MacNaughton <sup>1</sup>	2001	\$ 350,000	\$ 175,000	\$ 30,490	\$ 50,406
President and Chief Executive Officer	2000	\$ 201,923	\$ 100,962	—	\$ 4,256
Valter Viola <sup>2</sup>	2001	\$ 109,846	\$ 74,695	—	\$ 7,303
Vice President – Research and Risk Management	2000	\$ —	\$ —	—	\$ —
Jane Nyman <sup>3</sup>	2001	\$ 101,231	\$ 49,603	\$ 4,952	\$ 15,501
Vice President – Finance and Operations	2000	\$ 78,077	\$ 37,589	—	\$ 124
Mark Weisdorf <sup>4</sup>	2001	\$ 85,385	\$ 68,308	—	\$ 9,206
Vice President – Private Market Investments	2000	\$ —	\$ —	—	\$ —

<sup>1</sup> Commenced employment on September 7, 1999.

<sup>2</sup> Commenced employment on August 9, 2000. In addition to the amounts noted herein, Mr. Viola was paid \$50,000 upon commencement of employment representing compensation foregone from his previous employer.

<sup>3</sup> Commenced employment on September 13, 1999. Fiscal 2001 salary represents 8½ months of compensation.

<sup>4</sup> Commenced employment on October 16, 2000.

<sup>5</sup> Bonus awards include an annual and a long-term component and are based on the achievement of agreed objectives. The long-term bonus, which is paid out over a three year period, reflects amounts payable for the current year.

<sup>6</sup> Benefits include pension contributions in connection with a defined contribution registered pension plan and supplemental executive retirement plan, life insurance, club dues, and other miscellaneous non-cash remuneration.

(C) PROFESSIONAL AND CONSULTING FEES

Professional and consulting fees consisted of the following:

(\$ 000's)	2001	2000
Consulting	\$ 532	\$ 626
Legal	225	124
Professional accounting and audit	201	105
	\$ 958	\$ 855

Consulting fees represent amounts paid for professional assistance in connection with items such as strategic planning, governance matters, executive search, and other human resource related matters.

9. COMPARATIVE FIGURES

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

## CORPORATE INFORMATION

### BOARD OF DIRECTORS AND INVESTMENT COMMITTEE

Gail Cook-Bennett ( <i>Chair</i> )	Dale G. Parker
Mary C. Arnold	M. Joseph Regan
Gilbert Gill	Helen Sinclair
Monique Leroux	Richard M. Thomson
Jacob Levi	David Walker
Helen M. Meyer	

### OFFICERS

John A. MacNaughton, *President and Chief Executive Officer*  
Jane Beatty, *Vice President – General Counsel and Corporate Secretary*  
(appointment effective June 11, 2001)  
Jane Nyman, *Vice President – Finance and Operations*  
Valter Viola, *Vice President – Research and Risk Management*  
Mark A. Weisdorf, *Vice President – Private Market Investments*

### AUDIT COMMITTEE

Mary C. Arnold (*Chair*)  
Gilbert Gill  
Jacob Levi  
Helen M. Meyer  
M. Joseph Regan

### HUMAN RESOURCES AND COMPENSATION COMMITTEE

Richard M. Thomson (*Chair*)  
Gail Cook-Bennett  
Helen M. Meyer  
M. Joseph Regan  
David Walker

### GOVERNANCE COMMITTEE

Dale G. Parker (*Chair*)  
Gail Cook-Bennett  
Monique Leroux  
Jacob Levi  
Helen Sinclair

### ADDRESS

181 University Avenue  
Suite 1800  
Toronto, Ontario M5H 3M7

---

After September 1, 2001

One Queen Street East  
Suite 2700  
P.O. Box 101  
Toronto, Ontario M5C 2W5

Tel: (416) 868-4075  
Fax: (416) 868-4083  
Toll Free: 1-800-557-9510  
Web site: [www.cppib.ca](http://www.cppib.ca)

Ce rapport annuel est aussi  
disponible en français



181 University Avenue  
Suite 1800  
Toronto, Ontario M5H 3M7

After September 1, 2001

One Queen Street East  
Suite 2700,  
Toronto, Ontario  
M5C 2W5  
[www.cppib.ca](http://www.cppib.ca)

