
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

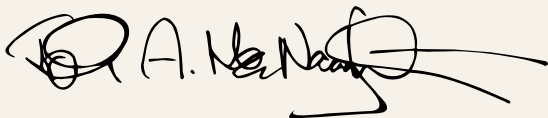
The consolidated financial statements of the Canada Pension Plan Investment Board (the "CPP Investment Board") have been prepared by management and approved by the Board of Directors. Management is responsible for the integrity and reliability of the consolidated financial statements and the financial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

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

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

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

The CPP Investment Board's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings related to the integrity and reliability of the CPP Investment Board's financial reporting and the adequacy of internal control systems.



JOHN A. MACNAUGHTON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

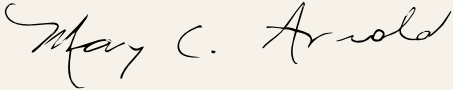


JANE NYMAN
VICE PRESIDENT – FINANCE AND OPERATIONS

INVESTMENT CERTIFICATE

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

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



MARY C. ARNOLD, FCA

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

AUDITORS' REPORT

To the Board of Directors
Canada Pension Plan Investment Board

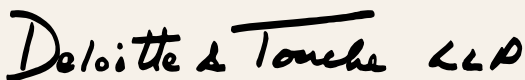
We have audited the consolidated balance sheet and the consolidated statement of investment portfolio of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2004 and the consolidated statements of income/(loss) and accumulated net income/(loss) from operations and of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

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2004 and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles, which were applied on a basis consistent with that of the preceding year.

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

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



CHARTERED ACCOUNTANTS

TORONTO, ONTARIO APRIL 30, 2004

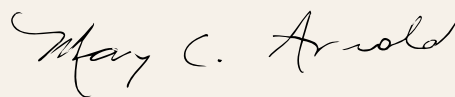
CONSOLIDATED BALANCE SHEET

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

On behalf of the Board of Directors



GAIL COOK-BENNETT
CHAIRPERSON



MARY C. ARNOLD, FCA
CHAIR OF THE AUDIT COMMITTEE

See accompanying Notes to the Consolidated Financial Statements

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

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

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

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

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INVESTMENT PORTFOLIO

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

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

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INVESTMENT PORTFOLIO

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

As at March 31, 2004 (\$000's)	2004		2003	
	Fair Value	(%)	Fair Value	(%)
EQUITIES¹				
Canada	\$ 22,571,543	68.6%	\$ 11,560,652	66.2%
Non-Canada ²	9,326,240	28.4%	5,510,035	31.6%
REAL RETURN ASSETS				
Real estate ³	611,531	1.9%	312,972	1.8%
Infrastructure	22,013	0.1%	—	—
NOMINAL FIXED INCOME				
Money market securities ⁴	362,882	1.0%	68,975	0.4%
	\$ 32,894,209	100.0%	\$ 17,452,634	100.0%

¹ Includes derivative contracts and associated money market securities as described more fully in Note 2a.

² Includes private equity liabilities offset by money market securities held to discharge those liabilities, as described more fully in Note 2d.

³ Net of mortgage debt on real estate properties as described more fully in Note 2b.

⁴ Includes credit facility liability, accrued interest and dividends receivable.

See accompanying Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*Year ended March 31, 2004*

ORGANIZATION

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) BASIS OF PRESENTATION**

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

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

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

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

Fair value is determined as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2004

- (iii) The fair value of private market investments in real estate properties is determined annually, commencing after the first year of ownership, using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for real estate. Debt on real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics.
- (iv) Fair value for over-the-counter derivatives such as swaps is determined based on the market prices for underlying assets with similar characteristics. Fair value for exchange-traded futures is based on quoted market prices.
- (v) Money market securities are recorded at cost which, together with accrued interest income, approximates fair value.

(c) INVESTMENT INCOME RECOGNITION

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

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

(d) TRANSLATION OF FOREIGN CURRENCIES

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

(e) CANADA PENSION PLAN TRANSFERS

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

(f) INCOME TAXES

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

(g) USE OF ESTIMATES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2004

2. INVESTMENTS, INVESTMENT RECEIVABLES AND INVESTMENT LIABILITIES

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

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

(a) DERIVATIVE CONTRACTS

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

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

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

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

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

(b) REAL RETURN ASSETS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*Year ended March 31, 2004*

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

(c) INVESTMENT RECEIVABLES

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

(d) DUE TO PRIVATE EQUITY PARTNERSHIPS

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

(e) PRIVATE EQUITY AND INFRASTRUCTURE MANAGEMENT FEES

Private equity and infrastructure investments are generally made by buying interests in limited partnerships with a typical term of 10 years. The private equity limited partnerships' underlying investments represent equity ownerships or investments with the risk and return characteristics of equity.

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

(f) COMMISSIONS

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

(g) FOREIGN CURRENCY RISK

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2004

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

(h) CREDIT RISK

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

(i) SECURITIES LENDING

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

3. CREDIT FACILITY

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

4. SHARE CAPITAL

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

5. CANADA PENSION PLAN TRANSFERS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2004

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

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

(\$000's)	2004	2003
EQUITIES¹		
Canada		
Public markets	\$ 5,376,659	\$(2,288,626)
Private markets ²	(13,595)	(3,505)
	5,363,064	(2,292,131)
Non-Canada		
Public markets	1,546,533	(1,578,225)
Private markets ²	174,302	(98,291)
	1,720,835	(1,676,516)
Less: Public markets external investment management fees	(753)	(1,809)
	7,083,146	(3,970,456)
REAL RETURN ASSETS		
Public markets real estate ³	151,961	(172,576)
Private markets real estate ⁴	30,693	921
Less: External investment management fees	(4,385)	(285)
	26,308	636
	178,269	(171,940)
NOMINAL FIXED INCOME		
Money market securities ⁵	(32,806)	1,163
INVESTMENT INCOME/(LOSS), NET OF EXTERNAL INVESTMENT MANAGEMENT FEES⁶		
	\$ 7,228,609	\$ (4,141,233)

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2004

(b) INVESTMENT PERFORMANCE

Portfolio returns and benchmark returns are as follows:

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

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

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

7. OPERATING EXPENSES

(a) GENERAL OPERATING EXPENSES

General operating expenses consist of the following:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2004

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

(b) EXECUTIVE COMPENSATION

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2004

(c) PROFESSIONAL AND CONSULTING FEES

Professional and consulting fees consist of the following:

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

¹ Includes non-audit-related fees of \$27,000 (2003 – \$Nil) that were paid to the external auditors of the CPP Investment Board.

² Includes audit fees of \$557,000 (2003 – \$370,000), other audit-related fees of \$101,000 (2003 – \$180,000) and fees to date of \$488,000 (2003 – \$Nil) for the special examination carried out by the external auditors pursuant to the Act.

8. COMMITMENTS

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

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

9. GUARANTEES AND INDEMNIFICATIONS

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

10. LEGISLATIVE AMENDMENT

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

GOVERNANCE PRACTICES OF BOARD OF DIRECTORS

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

DUTIES, OBJECTIVE AND MANDATE OF THE BOARD OF DIRECTORS

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

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

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

COMPOSITION, MANDATES AND ACTIVITIES OF BOARD COMMITTEES

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

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

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

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

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

DECISIONS REQUIRING PRIOR BOARD APPROVAL

Management's discretion in making operational and investment decisions is established in board-approved policies. The board is required to consider and approve the majority of the recommendations made by management to board

GOVERNANCE PRACTICES OF BOARD OF DIRECTORS

committees. In particular, board approval is required for the strategic direction for the organization, and the annual business plan and budget. Annual and incentive-based compensation, as well as officer appointments, require board approval.

PROCEDURES FOR THE ASSESSMENT OF BOARD PERFORMANCE

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

BOARD EXPECTATIONS OF MANAGEMENT

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

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

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

TOTAL COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

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

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

RESULTS OF SPECIAL AUDIT OR SPECIAL EXAMINATION

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

CONFLICT OF INTEREST PROCEDURES

Conflicts of interest were anticipated in the CPP Investment Board's legislation as a result of the federal and provincial governments' desire to recruit directors with financial and investment expertise and to engage employees with financial expertise. Codes of conduct have been established to manage and where possible eliminate such conflicts. The procedures under the legislation and these codes of conduct are designed to ensure that directors and employees do not profit or otherwise benefit from a transaction by or with the CPP Investment Board. Stringent disclosure of any personal

GOVERNANCE PRACTICES OF BOARD OF DIRECTORS

or business interest that might lead to a real, potential or perceived conflict is required. The process for identifying, reporting and discussing such conflicts culminates with the board's Governance Committee recommending a resolution to the full board.

CODES OF CONDUCT

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

BOARD ATTENDANCE: FISCAL 2004

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

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

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

VISION, MISSION, VALUES

VISION

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

MISSION

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

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

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

VALUES

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

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

Accountability Accountability is critical to achieving our mission. We will delegate clear and appropriate accountability and authority to

VISION, MISSION, VALUES

individuals throughout the organization and ensure that it is coupled with commensurate authority. We will provide the appropriate resources and ensure the necessary support, feedback and reward in support of that delegation.

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

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

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

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

CHAIR, BOARD OF DIRECTORS

Gail Cook-Bennett

BOARD OF DIRECTORS AND
INVESTMENT COMMITTEE

Gail Cook-Bennett (*Chair*)

Mary C. Arnold

Germaine Gibara

Gilbert Gill

Jacob Levi

Helen M. Meyer

Dale G. Parker

M. Joseph Regan

Helen Sinclair

Ronald Smith

David Walker

AUDIT COMMITTEE

Mary C. Arnold (*Chair*)

Gilbert Gill

Jacob Levi

Helen M. Meyer

Ronald Smith

HUMAN RESOURCES AND
COMPENSATION COMMITTEE

M. Joseph Regan (*Chair*)

Jacob Levi

Helen M. Meyer

Helen Sinclair

David Walker

GOVERNANCE COMMITTEE

Dale G. Parker (*Chair*)

Gail Cook-Bennett

Germaine Gibara

Helen Sinclair

David Walker

OFFICERS

John A. MacNaughton
*President and
Chief Executive Officer*

John Butler
*Vice President -
General Counsel and
Corporate Secretary*

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

Jane Nyman
*Vice President -
Finance and Operations*

Donald M. Raymond
*Vice President -
Public Market Investments*

Valter Viola
*Vice President - Research
and Risk Management*

Thomas A. Tutsch
*Interim Head -
Private Market Investments*

OUR ADDRESS

One Queen Street East
Suite 2700,

P.O. Box 101

Toronto, Ontario,

M5C 2W5

Tel: 416-868-4075

Fax: 416-868-4083

Toll Free: 1-866-557-9510

WEBSITE: WWW.CPPIB.CA

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