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

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

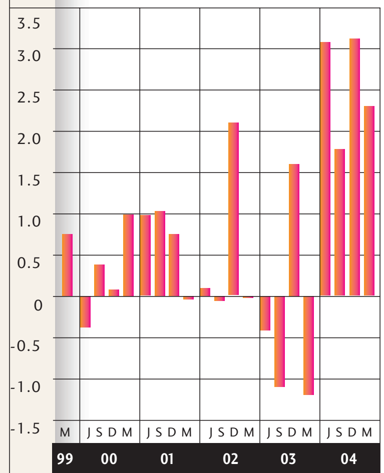
For the 2004 calendar year, the combined contribution rate of Canadian workers and their employers is 9.9 per cent (unchanged from 2003) on a maximum annual pensionable income of $40,500.

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

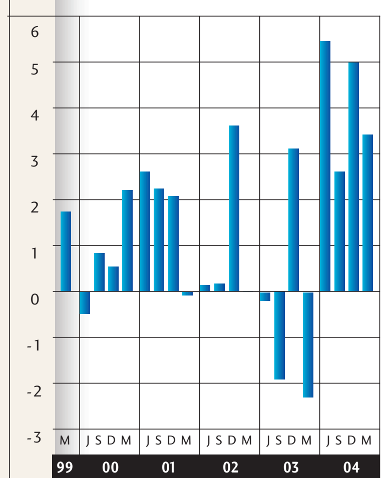
Mandate The CPP Investment Board invests assets not required by the CPP to pay current benefits. Our legislated mandate is to achieve a maximum rate of return without undue risk, having regard to the factors that may affect the funding of the CPP and its ability to meet its ongoing financial obligations.

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

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



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



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

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

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

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

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

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

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

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

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

VALTER VIOLA
VICE PRESIDENT - RESEARCH AND RISK MANAGEMENT

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

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

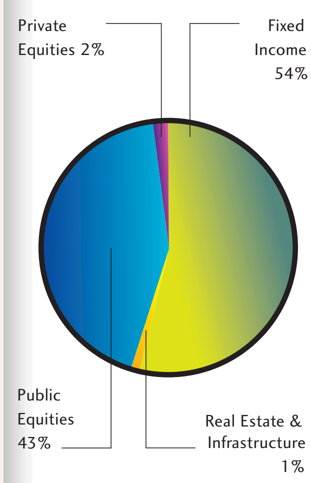
CPP bond and cash assets held by the federal Department of Finance will be gradually transferred to the CPP Investment Board beginning in fiscal 2005. The transfer of $30.2 billion in bonds began on May 1, 2004, and will take three years to complete. If provinces choose to roll over their bonds, the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

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

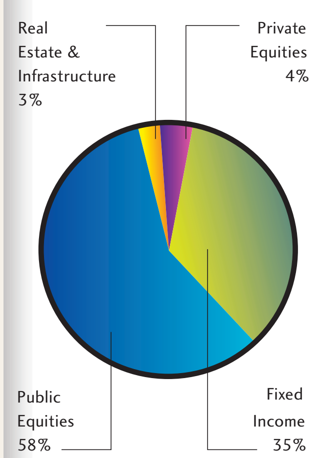
We have put staff and cash management systems in place in preparation for the transfer of these assets to the CPP Investment Board and new obligations. Funds required to pay current benefits will be invested in liquid short-term money market instruments, while the remaining funds will be invested in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

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

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



Expected Asset Mix in 2006



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

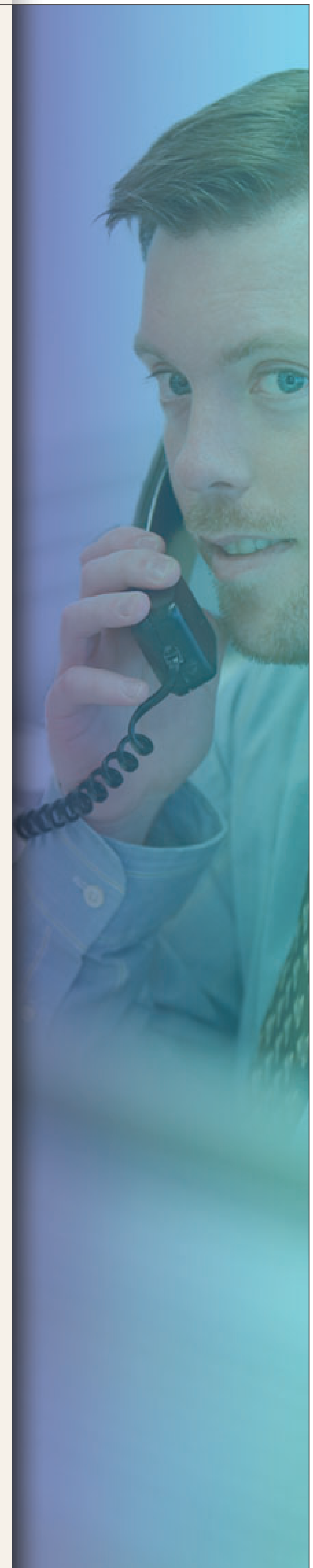
We invest excess CPP funds primarily in publicly traded companies to earn higher long-term expected returns than would be possible with fixed income holdings alone. Our approach is to build an efficient, diversified portfolio with broad exposure to business sectors in Canada and abroad.

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

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

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

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



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

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

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

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

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

DONALD M. RAYMOND
VICE PRESIDENT -
PUBLIC MARKET INVESTMENTS

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

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

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

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

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

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

THOMAS A. TUTSCH
INTERIM HEAD - PRIVATE MARKET INVESTMENTS

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

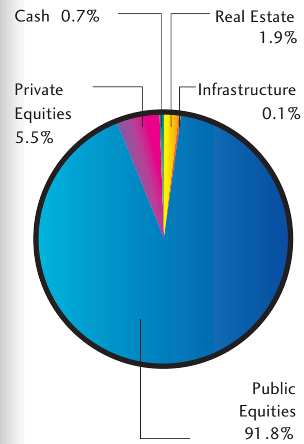
In October 2003, we made a $50 million commitment to Ventures West 8, a venture capital fund that will target early-stage companies across Canada in the information technology, biotechnology, communications and energy technology sectors. This investment brought our total venture capital commitment in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

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

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

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

CPP Investment Board Portfolio
Fiscal year ending March 31, 2004



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

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

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