This 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.

OUR MANDATE AND STRATEGY.

The Canada Pension Plan Investment Board invests Canada Pension Plan reserve assets on behalf of the 16 million Canadians who contribute to and benefit from the CPP. Our purpose is to build these reserve assets to help sustain the CPP in the long term. As our legislated mandate states, our objective is to achieve "a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan and the ability of the Canada Pension Plan to meet its financial obligations on any given business day."

During our six years of operation, we have followed a strategy of diversifying the CPP reserve fund away from its traditional exclusive reliance on non-marketable provincial and federal bonds and short-term cash deposits. We have done this by investing contributions that are not required to pay current benefits, primarily through passive holdings in public companies, as well as developing a portfolio of private equity investments and by making initial investments in real estate and infrastructure projects.

Diversification beyond bonds and cash deposits is based on the belief that a portfolio with substantial weightings in equities and real return assets will provide higher long-term earnings to the CPP. Successive reviews of the CPP's financial status by the Chief Actuary of Canada have stated that, based on the current contribution rate of 9.9 per cent of the yearly maximum for pensionable earnings, and reasonable demographic and economic growth assumptions, a 4.1 per cent real (inflation-adjusted) rate of return on the reserve fund is sufficient to sustain the CPP over the long term. While bonds are generally regarded as being low in risk, their returns are also not expected to exceed the 4.1 per cent real (inflation-adjusted) rate of return over the long term. Based on historic returns, we believe that equities are likely to earn more than government bonds over the long term. We also expect that returns for such assets as real estate and infrastructure will surpass those for bonds. Real estate and infrastructure have the additional benefit that their underlying values tend to move in line with inflation, as do the benefits paid by the CPP.

With these expectations in mind, we design and manage the portfolio to generate long-term risk-adjusted returns, using as an important reference point the sustainability level of 4.1 per cent real (inflation-adjusted) rate of return identified by the Chief Actuary.

ACCELERATING GROWTH.

Since the CPP Investment Board made its first investment in March 1999, the CPP reserve fund has grown to more than $81.3 billion of diversified investments from $44 billion that was composed almost exclusively of long-term provincial and federal government bonds. Based on the annual infusion of monies not needed to pay current pensions, the CPP reserve fund is expected to continue to grow rapidly and indeed is one of the fastest growing pools of capital in the world. In his most recent report on the CPP, the Chief Actuary stated that the assets managed by the CPP Investment Board are projected to reach $147 billion by 2010. Looking further down the road, the CPP reserve fund is expected to be approximately $200 billion within 10 years.

The $610 million committed to venture capital represents one of the largest pools of venture capital in Canada. Our investments, made through venture funds, nurture young enterprises ranging from optical technology providers in Quebec and advanced medical imaging systems in Ontario to telecom specialists in British Columbia.

CANADIAN VENTURE CAPITAL.

Our private equity investments echo Canada's economic diversity. They include holdings across the country in industries as diverse as auto parts, electronic controls and hockey equipment as well as business software and recycling and waste management.

PRIVATE EQUITY.

Our real estate holdings include interests in seven regional shopping malls in Ontario and British Columbia as well as industrial, retail, multi-family residential and office properties in cities across Canada.

REAL ESTATE.

OUR EVOLVING DIVERSIFICATION STRATEGY.

At March 31, 56.2 per cent or $45.7 billion of the $81.3 billion CPP reserve fund consisted of publicly traded stocks, 3.6 per cent or $2.9 billion of private equity, 1.2 per cent or $1 billion of real estate and infrastructure, and the remaining 39 per cent or $31.7 billion of fixed income securities. We expect this asset mix will change over time as a result of the cash and bond transfer from the federal Department of Finance and as we add to our holdings of private equities, real estate, infrastructure and other real return assets.

As we announced last year, we also plan to increase the proportion of international holdings in the CPP reserve fund over time. Currently, 74.1 per cent, or more than $60 billion, of the CPP reserve fund is invested in Canada. With regard to the CPP Investment Board's directly managed assets, which will continue to be a subset of the total CPP reserve fund until the completion of the fixed income transfer in 2007, we comply with the foreign property rule in a similar manner to many other public pension funds in Canada. In the foreseeable future, we will increase our international holdings as a proportion of the CPP reserve fund. This will give us greater participation in certain global economic sectors that are not well represented in Canada and as a result provide additional diversification to the overall portfolio.

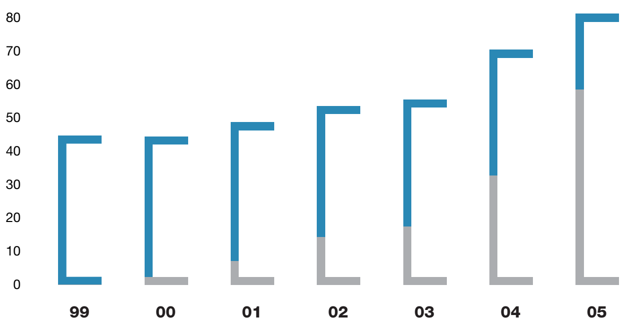
Although we will continue to have a strong presence in Canada, part of the diversification and risk-management strategy for the CPP reserve fund is to reduce its correlation to the Canadian economy. In this regard, we welcome the federal decision to repeal the foreign property rule since it will enhance our ability to globally diversify the portfolio and increase our rate of return.

CUSTOMIZING PUBLIC MARKET INVESTING.

Following our strategy of diversifying and growing CPP reserve fund assets, we have created a large passively managed portfolio of publicly traded equities. Public equity investing is carried out by our in-house staff of investment professionals, although we periodically use the services of proven external investment managers for transition management services in order to minimize the costs and market impact of investing new funds.

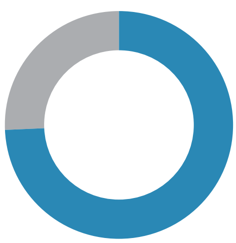
CPP RESERVE FUND *($ billions)*
Fiscal year ending March 31

Fixed Income
Equities and Real Return Assets



CPP RESERVE FUND GEOGRAPHIC DIVERSIFICATION
Fiscal year ending March 31, 2005

Canada 74%
International 26%



We invest in some 300 publicly traded companies that span both the geography and sectors of the Canadian economy, from Aliant of Halifax, BCE of Montreal and CanWest Global Communications of Winnipeg to Potash Corp. of Saskatchewan, Suncor Energy of Calgary and Canfor Corp. of Vancouver.

CANADIAN PUBLIC EQUITY.

The CPP reserve fund remains a major holder of provincial ($24.7 billion) and federal ($3.9 billion) government bonds which help to fund public services across the country.

BONDS.

We are the largest investor in the Macquarie Essential Assets Partnership, which invests in infrastructure assets in Canada and the United States. This fund's holdings include an ownership position in AltaLink, the largest provider of electricity transmission in Alberta.

INFRASTRUCTURE.

We have increasingly customized our passive portfolio by defining the weights assigned to various economic sectors. Prior to fiscal 2004, our public equity investments replicated well-known indexes for Canadian, U.S. and non-North American stocks. Consistent with the foreign property provision of the *Income Tax Act* in effect at the time, our holdings were 70 per cent Canadian and 30 per cent Non-Canadian. However, because the Canadian equity market represents less than 3 per cent of global equity market capitalization and is under-represented in some of the world's 12 major economic sectors, this approach increased the risk of not achieving our long-term rate of return target. Accordingly, in fiscal 2004, we began to invest our passive portfolio on a global economic sector basis that takes into account the nature of CPP liabilities and avoids concentrating risk in certain sectors or individual stocks.

The federal government announced it would repeal the foreign property rule in the February 2005 budget. While the CPP Investment Board currently complies with the foreign property rule in a similar manner to many other pension funds in Canada, this policy change should mean broader investment opportunities that should ultimately benefit our stakeholders. Once enabling legislation is passed, we anticipate further diversification of the portfolio on a global basis that will help us to reduce concentration risk with the expectation of increasing the reserve fund's overall rate of return.

Within our global approach to our public equities portfolio, we expect to retain a significant allocation to Canada. At March 31, our Canadian public equity investments were valued at $27.2 billion, equivalent to 33.4 per cent of the CPP reserve fund. These investments include shares in some 300 firms, including most of the companies represented in the S&P/TSX Composite Index.

SCALING UP OUR ACTIVE MANAGEMENT CAPABILITY.

In 2004, the CPP Investment Board initiated an active overlay program by selecting two external managers – Connor, Clark & Lunn Investment Management Ltd. and UBS Global Asset Management – and giving them global mandates equivalent to $500 million each. Barclays Global Investors Canada and Goldman Sachs Asset Management joined the program with similar mandates later that year. The four firms sell securities from our internal portfolio that they expect will under-perform and invest in securities they believe will show superior performance.

We selected these four firms following a rigorous selection process that was open to all national and international investment firms. The criteria included extensive expertise in Canadian and global equity markets, excellent risk-management practices and controls, clearly articulated investment processes and the ability to handle a large and growing investment mandate. All four managers combine research, portfolio management and risk-management capability with a demonstrated ability to add value. Their interests are aligned with ours because their compensation is primarily performance based; they receive a small base fee plus a percentage of the value they create.

We have significant internal operations systems and processes to accommodate active management. We monitor the program on a daily basis to ensure that it remains within prescribed risk limits. Our senior executives are accountable to the board for our market performance and for compliance and control. During the 2006 fiscal year, we will continue to evaluate and consider expansion of the active management program.

BUILDING ADDITIONAL STRENGTH.

Given their potential for enhanced returns over time, we plan to build on the significant investments already made in private equity as well as to expand the base we have established in real estate and infrastructure projects.

Private equity, including venture capital, suits our diversification strategy because it has the potential to deliver higher long-term risk-adjusted returns than public equities. Real estate is attractive because it offers a return premium over bonds and has a degree of correlation with inflation over time. Carefully selected infrastructure assets also provide some inflation protection and higher returns than bonds.

We plan to expand our investments in private equity, real estate and infrastructure. In time, and as quality investments become available, we anticipate investments of up to 10 per cent to any of these asset classes.

PRIVATE EQUITY.

Our preferred approach is to invest through a long-term limited partnership with a professional management firm, or general partner, that manages the private equity portfolio. We make a commitment to the general partner's fund that is gradually drawn down as investments are made.

Using this method, we have invested in a broad array of buyout and venture capital funds that provide partial ownership positions in a range of private companies, many of them in Canada. These companies are involved in a variety of businesses, from financial services, forest products and health care to engineering, high technology and various forms of manufacturing.

To date, we have committed $8.3 billion to external partners for private equity investments. These commitments involve 57 investments managed by 43 different private equity firms. At March 31, the amount drawn down on these commitments consisted of $3.2 billion invested in buyout and venture capital funds, and another $272 million in co-investments with general partners.

How we invest will undoubtedly evolve. Thus far, we have invested mainly in primary funds devoted to private equities. However, we also have a significant interest in secondary transactions because we think they can add materially to the growth of the CPP reserve fund.

CANADIAN VENTURE CAPITAL.

We are one of the largest venture capital investors in Canada, with commitments to this sector of $610 million as of March 31. Through these commitments we have provided financing to more than 80 developing companies in Canada. As is the case with other private equity holdings, our investments in venture capital are geographically diverse, although for the most part they are concentrated in early-stage companies in the technology sector. We also have some interests in later-stage firms.

REAL ESTATE AND INFRASTRUCTURE.

Investments to date in real return assets, which include real estate and infrastructure, have been small relative to the overall portfolio. Our Canadian real estate holdings include commercial, industrial and retail assets along with retirement homes. These assets are primarily in Ontario, Alberta and British Columbia. We also regard infrastructure as an attractive asset category and plan to expand our holdings, an example of which is electricity transmission in Alberta. In general, we are interested in infrastructure assets that provide relatively stable rates of return over long periods of time. Examples include local distribution networks for electricity, water and gas, and certain transportation assets such as toll roads, bridges and tunnels.

At March 31, our real estate portfolio had a market value of $780 million while infrastructure holdings were valued at $230 million. However, we are allocating significant amounts to these asset classes and will expand our holdings in these areas in coming years.

LONG-TERM DISCIPLINE.

Another important factor in our long-term investment portfolio strategy, one which makes us distinctive among public and private pension plans, is the time available before investment income is required to pay pension benefits. At the current contribution rate of 9.9 per cent, the CPP Investment Board will not have to provide investment income to help pay CPP benefits until approximately 2022.

During this 17-year period, the Chief Actuary estimates that large amounts of excess CPP contributions (currently in the range of $4 billion to $5 billion annually and declining thereafter) will flow to the CPP Investment Board for investment. Beyond 2022, the Chief Actuary believes the percentage of investment income used to pay benefits will remain small compared to other pension funds and, by 2050, should amount to no more than 29 cents of each dollar earned. This means we have the advantage of time to seek higher long-term risk-adjusted returns on our investments.

FUNDING FOR A SUSTAINABLE CPP.

The investment activities of the CPP Investment Board are funded by CPP contribution monies over and above the amount required to pay current benefits. Since the CPP was reformed from a pay-as-you-go plan to a partially funded plan in 1997, excess contributions have been invested to build the CPP reserve fund.

The CPP itself is reviewed every three years by its stewards – the federal finance minister and the finance ministers of the nine participating provinces. This includes a review of CPP benefit levels and the contribution rate. At the last triennial review, completed in January 2003, the federal and provincial finance ministers concluded that the CPP is sound and sustainable for the long term. The next triennial review process is underway and a report is expected in January 2006.

USE OF DERIVATIVES.

Like other large institutional investors, we use derivatives to manage risk and enhance returns. These financial contracts, which derive their value from underlying assets such as stocks, fixed income securities or currencies, are well-established tools that enable us to manage the portfolio as efficiently as possible.

We have strict controls for derivatives and use them primarily to achieve market exposure by replicating direct investments in broad market indexes. For further detail, please see Note 2 to the Consolidated Financial Statements.

CASH MANAGEMENT SERVICES.

In addition to our investment activities, we provide ongoing cash management services to the CPP. This activity, which was assumed from the federal government in September 2004, consists of taking contribution monies required for upcoming benefit payments and investing them in short-term securities, ordinarily for a period of one month or less. At the end of this period, a portion of the funds is transferred back to the government to be used for CPP benefits and the remainder is invested by the CPP Investment Board. Under amendments to our founding legislation, these services have become a permanent responsibility of the CPP Investment Board.

MEASURING PERFORMANCE.

Long-term results are the crucial yardsticks in evaluating the CPP Investment Board's performance, given our fundamental goal of helping to sustain the CPP for future generations. A focus on the long term also makes sense because we have 17 years before investment income will be required to pay a portion of CPP benefits.

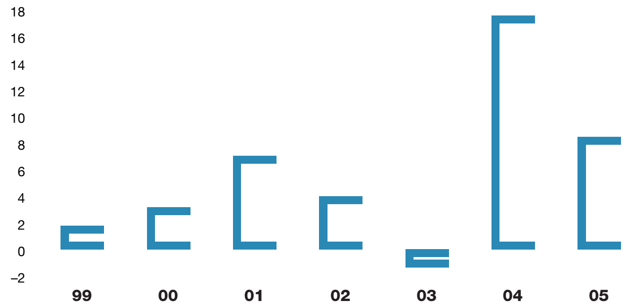
Because of the significant assets held in publicly traded equities, short-term results over a quarter or a year can vary considerably. For instance, a 2 per cent shift, either up or down, will result in more than a $1.6 billion change in the size of the assets in the reserve fund. Such an occurrence is neither unusual nor unexpected, and is well within our long-term risk parameters. Given this context, we measure our investment performance in several ways. An important reference point for portfolio design is the Chief Actuary's 4.1 per cent real (inflation-adjusted) rate of return considered necessary for CPP sustainability.

The average five-year real (inflation-adjusted) rate of return for the CPP reserve fund is 4.48 per cent.

Benchmarks are another set of important reference points. Benchmark returns for both public and private equities are based on relevant S&P/Citigroup benchmark returns and aggregated according to the benchmark weights specified in our investment policies. The benchmark for real estate and infrastructure is the Scotia Capital Real Return Bond Index. The benchmark return for nominal fixed income is based on the actual return for CPP bonds and Scotia Capital 91-day treasury bill returns for money market securities, aggregated according to the benchmark weights specified in our investment policies. For further detail, please see Note 6 to the Consolidated Financial Statements.

Measuring the performance of our active overlay program is straightforward. We compare the returns of the securities our external managers buy to the ones they have sold.

CPP RESERVE FUND INVESTMENT RETURNS (%)
Fiscal year ending March 31



SOCIAL INVESTING.

The CPP Investment Board acknowledges the concerns of some Canadians that CPP assets may be invested in companies with whose activities or policies they do not personally agree. As social investment advocates, they believe that we should use our investing power to influence non-investment outcomes.

The legislated focus of the CPP Investment Board is to maximize investment returns without undue risk of loss in order to help sustain the future pensions of 16 million Canadians.

The CPP Investment Board believes that responsible corporate behaviour – in such matters as the environment, employee practices, stakeholder relations, human rights, respect for domestic and international laws and ethical conduct – generally contributes to enhanced long-term investment returns. Therefore, investment analysis, due diligence and monitoring of Canadian and foreign investments should take corporate behaviour into account.

As a result of these beliefs, we generally support corporate policies and practices and shareholder resolutions that result in the disclosure of information that could enable investors to evaluate whether a corporation's behaviour will enhance or hinder long-term investment returns. Our proxy voting record on recent shareholder resolutions dealing with socially responsible investing criteria was profiled in a report by the Social Investment Organization, entitled *Canadian Social Investment Review 2004*.

The CPP Investment Board is also in the process of developing the capability to assess the extent to which a number of factors, such as potential environmental liability, affect the value of investments. This will allow us to determine the extent to which these factors can be integrated into our investment process, all within our current fiduciary framework and investment mandate to help sustain the future pensions of 16 million Canadians.

PROXY VOTING GUIDELINES.

The CPP Investment Board has the right to vote on management and shareholder proposals that could affect the equity values of some 300 Canadian companies and another 1,400 foreign companies, principally in the United States and Western Europe. We believe that the thoughtful voting of our proxies can constructively influence corporate performance and have a positive impact on the value of the portfolio. In fiscal 2003, we developed a set of proxy voting guidelines. Collectively, they give the directors and officers of companies in which we own shares guidance on how the CPP Investment Board is likely to vote on issues put to the shareholders.

Our *Proxy Voting Principles and Guidelines* are revised annually to reflect our activity during each year's proxy voting season, regulatory developments and best practices in corporate governance. In fiscal 2005, for example, we added a section covering shareholder proposals under Owner Voting Rights and modified provisions covering executive compensation, particularly with regard to executive stock and option grants. Complete details of our proxy voting guidelines are available on our website, www.cppib.ca.

COMMUNICATING WITH STAKEHOLDERS.

Our disclosure policy goes well beyond the requirements of our founding legislation. We undertake a broad and comprehensive effort to inform our federal and provincial stewards and all Canadians about our investment objectives, policies and guidelines, conflict of interest guidelines, mandate, legislated responsibilities, activities and performance. This includes quarterly and annual reports of our financial performance, news releases concerning individual investments and key appointments and media webcasts.

As well, complete lists of our holdings and investment returns are updated each quarter and posted on our website, www.cppib.ca. We hold public meetings every two years in each of the nine provinces that participate in the CPP, meet with a wide range of stakeholder groups, participate in legislated examinations such as the special examination every six years and conduct regular public opinion research of Canadians on questions concerning the CPP Investment Board. Details of public meetings held in the fall of 2004 and the results of our research program are also posted on our website. In sum, we disclose more information, more often, than any other pension fund in Canada and, to our knowledge, anywhere in the world.

RESPONSIBLE ORGANIZATIONAL GROWTH.

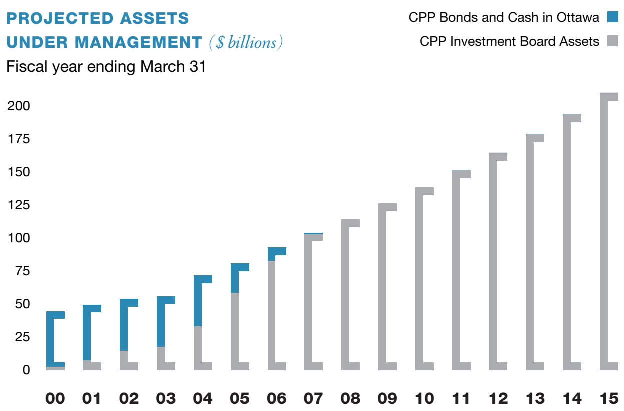
The growth in expenditures during fiscal 2005 was associated with building institutional strength in most areas of our operations to deal with the growth of assets and the increasing complexity of our portfolio.

In fiscal 2005, the CPP Investment Board continued to pursue organizational growth that maintains efficiency while incorporating the professional skills, technologies and management systems and processes that make us effective in fulfilling our mandate.

At March 31, the CPP Investment Board employed a full-time staff of 101 professionals and support staff compared with a total of 51 at the start of the year. The personnel costs of the organization have risen commensurately. In fiscal 2005, they amounted to $13.4 million compared with $7.3 million the year before.

We also continued to invest in and build management processes and systems with accompanying technology. As a result, the total cost of running the organization in fiscal 2005 was $31.7 million compared with $18.9 million the year before. Expressed another way, total operating expenses (excluding external investment-management fees) in fiscal 2005 remained unchanged at seven cents per $100 of invested assets. For further details, please see Note 7 of the Consolidated Financial Statements. External investment-management fees are described in Note 6.

PROJECTED ASSETS UNDER MANAGEMENT *($ billions)*
Fiscal year ending March 31



We expect increased organizational costs as we build additional capability in fiscal 2006. As in fiscal 2005, this will be driven by the need to manage the growing assets of the CPP reserve fund. As well, enhancements to our technology and facilities will generate additional costs.

We have effective cost-management systems and practices in place to help ensure the CPP Investment Board continues to provide efficient management. As well, because investment-management expenses related to our active overlay program are performance based, additional costs in this area will be proportionately related to the value created by the program.

HOW WE MANAGE RISK.

Our primary mission is to manage the assets entrusted to us in the best interests of CPP contributors and beneficiaries. To ensure that we adhere to prudent policies, standards and practices, we have developed an enterprise-wide risk-management framework designed to communicate, monitor and report on the major risks that may affect the achievement of our business objectives and strategies. The seven major risk categories are:

INVESTMENT RISK. The principal risk is that the CPP reserve fund will not earn the minimum 4.1 per cent real return needed to sustain the CPP over the long term. We have developed an investment framework consisting of investment beliefs, risk limits and long-term return expectations that considers the amount of investment risk we should take to support our objective of contributing to CPP sustainability.

STRATEGIC RISK. If business strategies are not developed, executed or monitored effectively, we may not be able to achieve our mission. To manage this risk, we ensure that we have effective governance, organizational structure and leadership, and effective strategic and business planning processes.

FIDUCIARY RISK. Any organization must consider the possibility that fiduciary responsibilities may not be respected or appropriately executed. To manage this risk effectively, we must have a clear understanding of roles, responsibilities and authorities at each level of the organization. In addition, through our code of conduct and conflict of interest procedures for directors and employees, we ensure that values and behavioural expectations are well understood and integrated throughout the organization.

BUSINESS ENVIRONMENT RISK. This is the risk of not continuously anticipating, monitoring, understanding and responding to changes in the business environment. We keep abreast of social, cultural, economic and political changes that can affect our ability to achieve our mission.

LEGISLATIVE AND REGULATORY RISK. Actual or proposed changes to legislation and the risk of non-compliance with laws, rules, regulations, prescribed practices or ethical standards can undermine our ability to accomplish our mission. We have a compliance management system that tracks our legislative and regulatory obligations. It requires each department to acknowledge compliance with various requirements. The system is administered by our Law department, which reports to the audit committee each quarter.

OPERATIONAL RISK. The organization may suffer direct or indirect loss resulting from inadequate or failed internal processes, technology or human performance. To manage this risk, we have established appropriate controls for information processing, sufficient and appropriate reporting and safeguarding of assets, management of information technology and appropriate human resources systems and practices.

REPUTATION RISK. Internal or external factors could damage the organization's reputation, image or credibility. Our Communications and Stakeholder Relations department ensures that clearly understandable communications are provided to stakeholders and the general public.

The board of directors is responsible for ensuring that management has identified the principal risks of the business and has established appropriate policies and internal controls. In turn, management is responsible for recommending policies to the board for its consideration and approval, establishing internal controls and procedures to effectively manage the risks of the organization and providing reports to the board and its committees. Internal and external auditors, in the course of executing their audit plans, also provide input to management and the board on the effectiveness of the organization's risk-management practices.

We continuously review, assess and manage our risk-management concepts and other practices to ensure that risk is managed effectively. For example, the board of directors limits the maximum investment risk that management can assume. The board of directors likewise approves maximum allocations to various investment activities and asset classes. It also approves credit risk limits, while the president approves the amount of risk that can be taken relative to passive benchmarks (active risk). We also manage cash liquidity risk. Management presents to the board a quarterly report on our compliance with all risk limits, other constraints and the effectiveness of our risk-management controls.

A statement of the CPP Investment Board's investment policies, standards and procedures can be found on our website under the category, "Our Policies," in the document, "Investment Statement."

PERFORMANCE REVIEW.

The CPP Investment Board takes all the assets and liabilities of the CPP into consideration in making investment decisions, but only those assets we actually manage are included in our financial statements. (The market value and rates of return for CPP bond and cash assets are estimates by the CPP Investment Board.)

RATES OF RETURN//

	Actual	Benchmark
CPP reserve fund	8.5%	8.0%
Nominal fixed income	4.6	4.6
Real return assets	11.8	10.7
Equities [1]	11.5	10.8

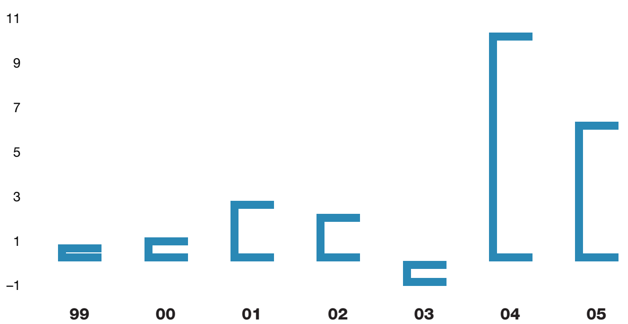
[1] Includes public, private, Canadian and international equities.

ASSET GROWTH.

In fiscal 2005, total assets available to the CPP reserve fund grew by $10.8 billion to $81.3 billion. The growth consisted of $4.5 billion in CPP contributions not required to pay current benefits and $6.3 billion in investment income.

Since 1999, the CPP reserve fund has grown by $37.1 billion, of which approximately 39 per cent or $14.6 billion was from excess contributions and the remainder, or $22.5 billion, is from investment income on the total fund.

CPP RESERVE FUND INVESTMENT INCOME *($ billions)*
Fiscal year ending March 31



FIXED INCOME SECURITIES.

At March 31, cash and bonds totalled $31.7 billion, compared with $37.9 billion a year ago. The three-year transfer of bonds from the federal Department of Finance to the CPP Investment Board will be complete on April 1, 2007. The one-year transfer of the cash operating reserve will finish in August 2005.

OVERALL PERFORMANCE.

The results of the past year reflect the current composition and stage of development of the portfolio and the fact that we are still only partway through our diversification program. The rate of return on the CPP reserve fund was 8.5 per cent, outperforming the composite benchmark of 8 per cent.

The CPP reserve fund earned $6.3 billion in fiscal 2005 compared with a gain of $10.3 billion the year before. The rate of return was 8.5 per cent compared with 17.6 per cent in fiscal 2004.

The rate of return on fixed income assets was 4.6 per cent, compared with 8.7 per cent in fiscal 2004. The fixed income assets, consisting of bonds and cash, generated income of $1.6 billion compared with $3.1 billion the year before. This reflects the more stable interest rate environment that prevailed during fiscal 2005 versus the declining rate environment of the previous year.

Global equity markets continued to perform well, but not at the high levels of the previous year. Consequently, equities, which includes public and private equities in Canada and internationally, produced income of $4.6 billion for an 11.5 per cent rate of return compared with $7.1 billion and a 31.8 per cent rate of return in fiscal 2004.

The rate of return on our real return assets, which includes real estate and infrastructure, was 11.8 per cent. However, we had relatively few real return assets, an investment class that generally performed strongly last year.

Over the past five years the CPP reserve fund has earned a real (inflation-adjusted) rate of return of 4.48 per cent compared to the 4.1 per cent real rate of return required to sustain the CPP over the long term. This is due mainly to strong equity returns during the last two years.

LIQUIDITY AND CAPITAL RESOURCES.

CPP contributions exceeded the amount required to pay benefits in fiscal 2005 by approximately $4.5 billion compared with $4.6 billion in fiscal 2004. Monthly short-term cash flows to the CPP Investment Board averaged $1 billion during fiscal 2005. A portion of these funds was invested in highly liquid short-term investments and then returned each month to the CPP in line with our cash management obligations.

INVESTMENT OUTLOOK.

Over the past year, Canadian equity markets have performed modestly, with equity prices higher than a year ago. Interest rates remain near historically low levels, limiting fixed income returns. We believe the Bank of Canada will continue to manage Canadian inflation while Canada's relatively strong fiscal position will continue to moderate Canadian interest rates, a view consistent with the historic performance of these institutions over the last decade.

We believe that equities will outperform fixed income investments over the long term. As a result, we will continue our strategy to invest in global equity sectors.

In addition, we believe real return assets will outperform inflation over the long run and so we will continue to seek opportunities to increase the real return positions within our portfolio through public and private investments.

OUR CORPORATE GOALS.

Although our investment focus is long term, we set annual investment and operating objectives. We are required by the regulations attached to our legislation to publish a statement in the annual report of our objectives for the past year and the extent to which they have been met. We are also required to publish our objectives for the coming year and the foreseeable future.

For fiscal 2005, we identified four corporate objectives:

1. *Strengthening our human resources systems and practices and completing our recruitment program.*

During the year, we implemented a web-based human resources information system and provided training in orientation and basic human resources processes as well as training in change management. The hiring process was streamlined and recruiting was taken in-house, resulting in lower recruitment costs.

Our planned recruitment program was completed with the hiring of eight departmental directors who provide day-to-day operational management support to the vice-presidents.

2. *Present three-to-five-year departmental strategies to the board of directors.*

Initial five-year strategies for key departments were presented to the board of directors. With the appointment of the new president and CEO, however, these approaches will be further refined.

3. *Evolve our information technology infrastructure to support research, trading and information and document management.*

Plans were completed for our multi-year data integration project, one of the organization's major information technology initiatives. When complete, this project will centralize information requirements for trading, research and reporting. This data repository will form the core of our information technology architecture. Additionally, we established an intranet to aid the organization in information management.

4. *Expand our suite of performance metrics to assess our success in meeting the objectives of the operational plan.*

Planning commenced on a number of the ways we could further our methods of measuring internal performance relative to the organization's strategic objectives. This work will be ongoing as the organization's strategy evolves.

OBJECTIVES FOR FISCAL 2006.

For fiscal 2006, we are proposing five key goals for the corporation:

1. *Further diversify the CPP reserve portfolio, with a specific focus on increasing holdings of real return assets including real estate, inflation-linked bonds and infrastructure.*

2. *Expand our investment capabilities in key areas including trading, portfolio management, private markets, research and risk management.*

3. *Building on last year's progress, define and begin implementation of the technology and business processes required to support our expanding investment and operational activities.*

4. *Enhance organizational effectiveness by augmenting our human resources systems and processes to effectively manage the increased size and complexity of the organization.*

5. *Revisit our corporate strategy in light of the announced repeal of the foreign property rule.*

ACCOUNTING POLICIES.

All our investments are stated at fair value. Quoted market prices are used for publicly traded stocks, which are priced daily by the market. In the case of private market investments, where quoted market prices are not available, fair value is determined annually based on values determined by external managers using accepted industry valuation methods. Bonds transferred from the CPP are non-marketable and are valued using discounted cash flows based on current market yields of instruments with similar characteristics and then adjusted for the non-marketability and rollover provisions of the bonds. As a result, valuations for these investments are based on estimates and are inherently uncertain.

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements.

INVESTMENT PARTNERS//

As at March 31, 2005

GENERAL PARTNERS.

Advent International
AlpInvest Partners
Apax Europe VI GP
Apollo Management, L.P.
Ares Management LLC
Borealis Capital Corporation
Brascan Asset Management
Bridgepoint Capital Limited
CAI Capital Management Co.
Candover
Celtic House Venture Partners
Clairvest Group Inc.
Coller Capital
CSFB Private Equity
Edgestone Capital Partners
GM Asset Management
Goldberg, Lindsay & Co. LLC
Heartland Industrial Partners
Hellman & Friedman V, LLC
JP Morgan Partners
Kensington Capital Partners Limited
KKR Associates Millennium L.P.
Lehman Brothers Private Equity
Lexington Partners
Lone Star Management Co. V, Ltd.
Matlin Patterson Global Advisors, LLC
MDS Capital Corp.
MidOcean Associates, SPC.
MPM Capital
Onex Corporation
PAI Partners
Partners Group Management Limited
Paul Capital Partners
SchrodersVentures Life Sciences
Silver Lake Technology Associates II, L.L.C.
Skypoint Capital Corporation
Terra Firma Capital Partners
Texas Pacific Group
The Blackstone Group
The Carlyle Group
Thomas Weisel Partners LLC
Ventures West Management Inc.
VSS Fund Management LLC

INFRASTRUCTURE.

Macquarie Bank Limited

REAL ESTATE.

LaSalle Investment Management
Osmington Inc.
Retirement Residences REIT
RioCan REIT

GLOBAL ACTIVE OVERLAY MANAGERS.

Barclays Global Investors Canada
Connor, Clark & Lunn Investment Management Ltd.
Goldman Sachs Asset Management
UBS Global Asset