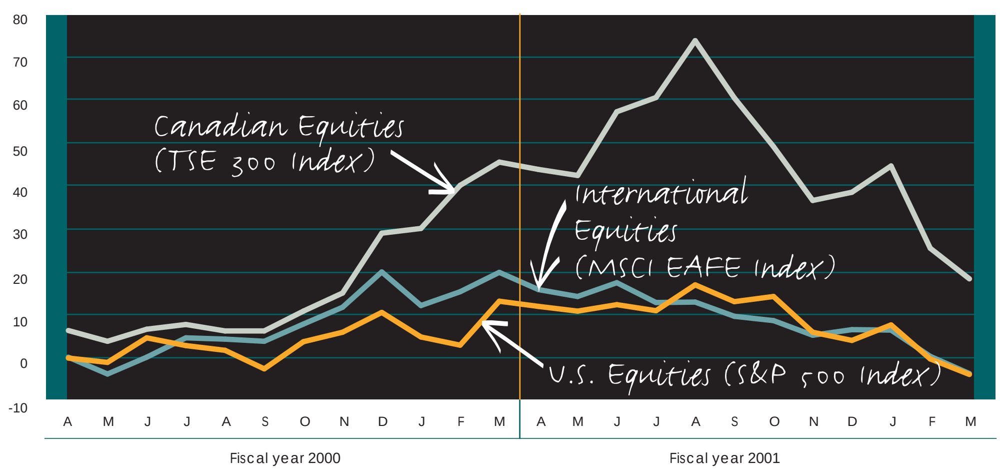
INVESTMENT PERFORMANCE

In fiscal 2001, we received $5.6 billion from the Canada Pension Plan and invested all of it in the shares of publicly traded companies. By year end, our portfolio was approximately 70 percent Canadian equities and 30 percent foreign equities.

MARKET OVERVIEW

The stock market correction that arrived mid-way through our fiscal year followed the excessive run-up in equity valuations, especially in technology stocks, during the 1990s. Many investors became "excessively exuberant" about companies involved in technological breakthroughs and new internet-based services that were beginning to re-shape and energize the global economy. Technology did in fact deliver impressive gains in productivity, especially in the United States, and accelerated economic growth. The trend to freer world trade and the convergence of corporations at the global level fed the euphoria and ever-rising equity valuations.

TWO YEAR PERFORMANCE OF MAJOR MARKETS
(% cumulative nominal return)



Stock markets corrected halfway through our most recent fiscal year.

The steepness and suddenness of the decline in equity values was not surprising after the strongest bull market in history. It also represented an opportunity for us to acquire equities at more reasonable prices. Market corrections are a natural behavioral pattern for equity markets. While they can be severe in the short term, they have limited negative impact over the long term for a large cash-positive investor putting funds into the market on a continuous basis.

CANADIAN EQUITY INVESTMENTS

During the first six months of fiscal 2001, our Canadian equities were restricted to passive investing. Since our inception, a federal regulation required us to substantially replicate the composition of one or more broad market indices for investing in Canadian equities. We selected the TSE 300 Index of the Toronto Stock Exchange as the most diversified Canadian market index available.

In August 2000, the regulation was relaxed as the result of our request to the federal and provincial finance ministers. We can presently invest actively up to 50 percent of the assets we allocate to Canadian equities.

Following the regulatory change we implemented a risk management initiative to reduce our exposure to the heavy concentration of Nortel Networks in the TSE 300. By year end, we had reduced our maximum concentration in Nortel to approximately 4 percent and avoided about $535 million in losses.

TOP 20 CANADIAN SECURITIES AS AT MARCH 31, 2001

Security name	Fair value ($ millions)
Nortel Networks Corporation	289.9
BCE Inc.	212.3
Royal Bank of Canada	211.7
The Toronto-Dominion Bank	180.4
Bombardier Inc., Class “B” SV	161.5
Bank of Montreal	151.4
The Bank of Nova Scotia	147.2
Manulife Financial Corporation	146.2
Canadian Imperial Bank of Commerce	138.3
Alcan Inc.	132.2
Canadian Pacific Limited	131.4

Security name	Fair value ($ millions)
Sun Life Financial Services of Canada Inc.	93.9
Canadian National Railway Company	83.0
Alberta Energy Company Ltd.	76.4
Petro-Canada	70.7
TransCanada PipeLines Limited	66.8
Suncor Energy Inc.	65.7
The Thomson Corporation	65.0
Barrick Gold Corporation	64.5
Talisman Energy Inc.	57.3

Canadian equity holdings are shares held directly and through mutual and pooled funds.

FOREIGN EQUITY INVESTMENTS

Outside Canada, our regulations permit us to invest actively or passively in any asset class. Our current policy is to invest in equity index funds that provide wide exposure to hundreds of companies in the United States, Europe and Asia.

We are required to adhere to the foreign property limit set by the federal government for pension funds and registered retirement savings plans. In February 2000, the government announced the limit would increase from 20 percent of assets (at cost) to 25 percent in calendar 2000 and 30 percent in calendar 2001.

We increased our portfolio's foreign content to the maximum permitted and ended fiscal 2001 with 70.1 percent of assets at cost invested in Canada and 29.9 percent in foreign securities, compared with 80.3 percent and 19.7 percent respectively a year earlier. On a market value basis, Canadian assets were 70.2 percent versus 81.7 percent a year earlier, and foreign assets were 29.8 percent compared with 18.3 percent in fiscal 2000.

Our policy of not hedging foreign currency generated additional gains as the Canadian dollar weakened during the year relative to the U.S. dollar. At year end, 15 percent of the total portfolio was invested in U.S. securities and 15 percent in international assets.

TOP 10 FOREIGN SECURITIES AS AT MARCH 31, 2001

($ in Canadian dollar equivalent)

Security name	Fair value ($ millions)	Country
General Electric Company	42.6	US
Microsoft Corporation	30.0	US
Exxon Mobil Corporation	29.0	US
Pfizer Inc.	26.5	US
BP Amoco PLC	25.6	UK
Vodafone Group PLC	24.2	UK
Citigroup INC	23.2	US
Wal-Mart Stores Inc.	23.2	US
GlaxoSmithKline PLC	22.3	UK
American International Group Inc.	19.3	US

Foreign equity holdings are shares held through pooled funds.

PERFORMANCE OBJECTIVES AND MEASUREMENTS

We believe that a variety of metrics over short, medium and long periods are necessary to provide a basis for making an informed judgment on performance. Currently, we compare our actual performance with:

- Our required return (discussed on page 10);
- The assumption of the Chief Actuary (page 10); and
- The total portfolio composite benchmark return, which aggregates various asset class indices according to their weight in our asset mix policy.

We calculate annual, medium and long-term rates of return for our total portfolio at least monthly, time weighted to conform with the standards of the Association for Investment Management and Research.

FISCAL 2001 RATES OF RETURN

In fiscal 2001, our total portfolio had a rate of return of minus 9.4 percent, compared with a positive 40.1 percent a year earlier. We have earned a 14.8 percent annualized return since making our first investment in March 1999. However, we incurred a net dollar loss over the period because the positive rate of return applied to a much smaller capital base in fiscal 2000 than the negative return impacted in fiscal 2001.

%	Fiscal year 2001	Fiscal year 2000	Annualized Since Inception
ACTUAL RESULTS			
Canadian equities	(7.7)	45.3	17.9
Foreign equities	(17.5)	16.6	0.7
Total portfolio	(9.4)	40.1	14.8
BENCHMARK RESULTS			
Canadian equities	(18.6)	45.5	10.9
Foreign equities	(18.2)	16.1	(0.4)
Total portfolio	(17.8)	39.3	9.1
Chief actuary's assumption	6.6	7.1	6.9
Long-term required return	7.9	8.9	8.5

FINANCIAL RESULTS

We received $5.6 billion in cash from the Canada Pension Plan in fiscal 2001 compared with $1.9 billion in the previous year.

The market value of investments at March 31, 2001 was $7.2 billion, of which $5 billion was invested in Canadian markets and the remainder in foreign markets. Our equity assets on March 31, 2001 represented almost 14 percent of the consolidated assets available to the Canada Pension Plan, including the plan's $42 billion (at estimated market value) fixed-income portfolio.

The net loss from operations was $852 million, compared with net income of $460 million in the prior year. Investment income consists of dividends, interest, distributions from pooled and mutual funds, and both realized and unrealized capital gains and losses. More than 90 percent of the fiscal 2001 loss occurred in our fourth quarter (January to March).

The fixed-income portfolio owned by the Canada Pension Plan earned an estimated $3.8 billion in fiscal 2001.

OPERATING EXPENSES

The CPP Investment Board incurred expenses of $6.7 million during the fiscal year, compared with $3.7 million in fiscal 2000. These expenses were approximately 11.7 basis points (or roughly 12 cents per $100 of invested assets) in fiscal 2001, compared with approximately 31.5 basis points in the prior year.

The dollar increase reflected the hiring of new staff as well as increased fees for external investment management, professional, consulting, and custodial services as our asset base and operations expanded. Investment management and administrative expenses will continue to rise in dollar terms as we increase our human resources and form partner-like relationships with external fund managers to implement a diversified investment strategy. These expenses will decline, however, as a percentage of assets. Our ongoing goal is to maximize net investment returns (i.e. after expenses) through organizational and operating efficiencies.

Investment income and administrative expenses are discussed further in note 8 to the financial statements commencing on page 24.

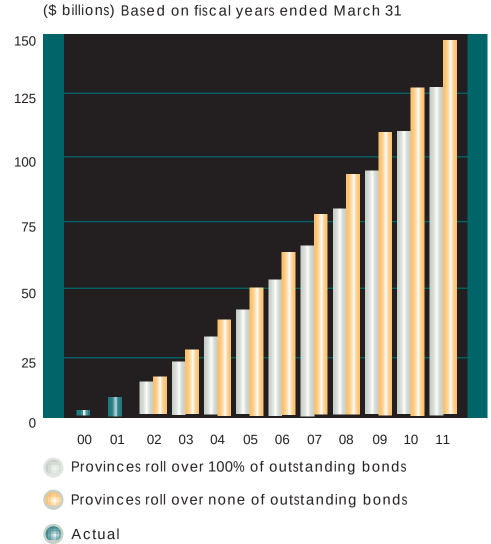
OUTLOOK

We expect our assets to grow steadily in the years ahead. During the next 10 years alone, the CPP Investment Board expects to receive $80 billion in cash from the Canada Pension Plan. The value of assets under our management is expected to exceed $130 billion by 2011.

Over the long term, we are confident that the total portfolio will produce returns that will meet or exceed those expected by the Chief Actuary and our long-term return target.

In looking to the future, we assume that public equity markets will remain volatile and that the level of returns during the next decade will be lower on an annualized basis than those achieved in the 1990s.

PROJECTED GROWTH IN ASSETS
($ billions) Based on fiscal years ended March 31



We also recognize that a faster pace of change, driven by technology and the integration of global capital markets, will demand innovation and flexibility to adapt to and take advantage of opportunities.

We expect to be managing assets worth more than $130 billion in 10 years.

GOVERNANCE

Governance practices by corporations and institutions continue to gain public prominence. Recent concerns include trading practices to influence the market price of securities, conflicts between the private interests of executives and their fiduciary obligations to others, selective disclosure of material information, executive compensation relative to corporate performance, and the effective management of financial, business and organizational risks.

To be effective, governance policies, procedures and practices must be part of a dynamic process involving regular review, clarification and enforcement.

OUR DISTINGUISHING FEATURES

Our governance is shaped by four features:

- we operate at arm's length from governments;
- we are solely an investment organization with no responsibility for administering the Canada Pension Plan;
- we focus on maximizing investment returns on the cash received from the Canada Pension Plan without undue risk of loss; and
- we report publicly through quarterly financial statements, an annual report, and public meetings in every participating province at least once every two years.

OUR RELATIONSHIP TO GOVERNMENTS

Independence from governments in making investment decisions is critical to our success and public confidence. We are a crown corporation created by federal legislation in 1997, and our investment and governance mandates are set out in the Canada Pension Plan Investment Board Act and related regulations.

The Canada Pension Plan is administered by the federal government. As joint stewards of the plan, the federal and provincial governments together set contribution rates, benefit levels and funding policy.

With respect to the CPP Investment Board, the federal and provincial finance ministers discuss changes to our legislation and regulations as part of their triennial review of the Canada Pension Plan. At their review in December 1999, they relaxed a restriction on our ability to invest in Canadian equities.

The federal finance minister, in consultation with the participating provinces, appoints our directors and is required to initiate a special examination of our financial and management control and information systems, and management practices, at least once every six years.

ARM'S LENGTH PROCESS FOR APPOINTING DIRECTORS

Good governance requires knowledgeable directors who understand their fiduciary duties, are not afraid to ask difficult questions, and are not beholden to those who nominate and appoint them.

Each government has one representative on a nominating committee of public officials and business leaders, with a private sector executive in the chair. The committee recommends candidates for appointment and re-appointment by the federal finance minister in consultation with provincial finance ministers. The founding directors were appointed in October 1998 and at that time our Chair was selected in consultation with the provinces and the directors.

Our legislation states that it is desirable to have sufficient directors with proven financial ability or work experience relevant to the goal of optimizing investment returns. As a result, the nominating committee recommended directors who predominantly have expertise in investment, business, economics and financial management.

EXPECTATIONS OF DIRECTORS

The directors are responsible for investment policies, standards and procedures, appointing an independent auditor, approving procedures to identify and resolve conflicts of interest, approving codes of conduct for directors, officers and employees, and monitoring and assessing management's performance. The board has a process for evaluating itself and is exploring the benefits and effectiveness of a peer-review process.

FOCUSING BOARD ACTIVITIES

Board work is assigned to committees, with recommendations referred to the full board for approval.

The Investment Committee consists of the full board because investing is the organization's raison d'être. In fiscal 2001, the committee reviewed and approved management's strategy to diversify risk and enhance returns by moving from passive to active investing. The committee duties include approving total portfolio investment policies and approving the engagement of external fund managers and asset custodians.

In fiscal 2001, the Audit Committee reviewed with management an enterprise-wide risk management framework that identified risks, established policies and procedures to mitigate them, and clarified the responsibilities of board committees and management for risk management. The Audit Committee also reviewed financial reporting and internal control policies and practices.

As we continue to hire senior staff, we will be recruiting successful individuals who may also have an important part of their net worth invested in capital markets. This raises challenges for our Human Resources and Compensation Committee in devising a competitive compensation policy to attract the best talents. It also raises challenges for our Governance Committee in dealing with real and potential conflicts between the personal investments of employees and their fiduciary duty to the CPP Investment Board. We believe the policies we have in place will serve us for the foreseeable future.

The Human Resources and Compensation Committee also completed an evaluation of the President and Chief Executive Officer's performance, and continues to monitor succession planning and organizational structure.

The Governance Committee's additional duties include recommending changes in our governance policy, guidelines, procedures and practices; making recommendations on the board's effectiveness; and monitoring the application of the code of conduct and conflict of interest guidelines for directors.

STRIVING FOR BEST GOVERNANCE PRACTICES

We measure our policies and procedures against our legislation and regulations and external guidelines.

Legislative and regulatory requirements are included in a system of internal controls that is reviewed annually by the external auditors.

We comply with the governance guidelines of the Toronto Stock Exchange for public companies, with the exception of the requirement for a board nominating committee as this is the responsibility of the committee appointed by the finance ministers.

We also comply with the governance principles developed by a task force of the Association of Canadian Pension Management, the Pension Investment Association of Canada, and Office of the Superintendent of Financial Institutions, with the exception of the qualifications for plan administrators as we have no plan administration duties.

SETTING HIGH STANDARDS OF CONDUCT

Directors, officers and employees acknowledge annually in writing our codes of conduct that are designed to create a corporate culture of trust, honesty and integrity. The codes deal with such matters as relations with suppliers, personal investments, the acceptance of gifts, the use and disclosure of information, representation on organizations and associations and confidentiality of third-party proprietary information.

MANAGING CONFLICTS OF INTEREST

We maintain strict conflict of interest procedures for directors, officers and employees to resolve potential conflicts between their private and business interests and the interests of the CPP Investment Board.

Officers and employees file quarterly with our external auditor a statement of the investments they hold and a report on transactions. During restricted trading periods, before making a trade, they notify our compliance officer to determine whether the securities in question are on our restricted list of securities. The pre-clearance requirement applies to securities in which officers and employees have a beneficial interest or over which they exercise direction or control. In certain cases they are not allowed to buy or sell securities on the restricted list.

Officers and employees disclose the identity of their investment agents, companies of which they are a director or employee, and trusts of which they are a trustee.

Directors complete and submit an annual disclosure of interest report for review by the Governance Committee and must notify the Chair before accepting a directorship or any position of authority in an entity that might benefit from, or be in conflict with, the CPP Investment Board.

BOARD OF DIRECTORS

CHAIRPERSON
GAIL COOK-BENNETT
Ontario
Economist; Former university professor and business executive.

MARY C. ARNOLD
Alberta
Chartered accountant; Senior member of Arnold Consulting Group Ltd.

DALE G. PARKER
British Columbia
Corporate director; Former president and CEO of Workers' Compensation Board of British Columbia.

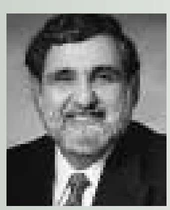
GILBERT GILL
Newfoundland
Chartered Accountant; Former Deputy Minister of Finance for the Government of Newfoundland and Labrador.

M. JOSEPH REGAN
Ontario
Retired; Former Senior Executive Vice-President of the Royal Bank of Canada.

MONIQUE LEROUX
Quebec
Financial executive; Senior Executive Vice-President and Chief Operating Officer of Quebecor Inc.

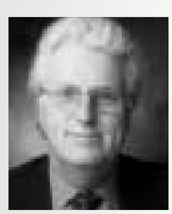
HELEN SINCLAIR
Ontario
Financial executive; Founder and Chief Executive Officer of BankWorks Trading Inc.

JACOB LEVI
British Columbia
Actuary; Partner in Eckler Partners, actuarial consultants.



RICHARD M. THOMSON
Ontario
Retired; Former Chairman and CEO of the Toronto Dominion Bank.

HELEN M. MEYER
Ontario
Financial executive; President of Meyer Corporate Valuation Limited.



DAVID WALKER
Manitoba
President of West-Can Consultants Ltd.; Former Member of Parliament.