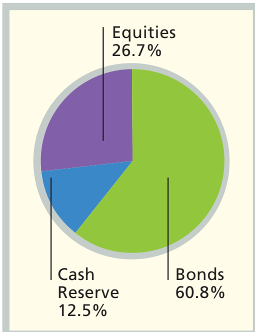
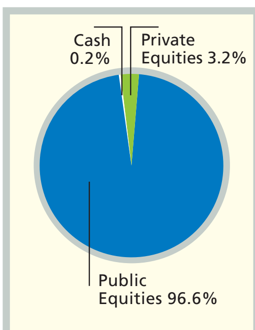
How the assets are performing

ASSETS AVAILABLE TO CPP
March 31, 2002



Most large Canadian public sector pension funds have 60 per cent or more of their assets invested in equities.

EQUITY ASSET MIX
March 31, 2002



Our first investments in private equities occurred in fiscal 2002. Cash is primarily held to finance private equity commitments.

In fiscal 2002 total assets available to the Canada Pension Plan grew by $4.5 billion to $53.6 billion. They consisted of:

- $39.3 billion in fixed-income securities held by the Canada Pension Plan and administered by the Department of Finance Canada in Ottawa; and
- $14.3 billion in equities managed by the CPP Investment Board in Toronto.

The combined assets earned $2.3 billion for the year ended March 31 2002 to produce an estimated 5.7 per cent rate of return. About one percentage point of the return reflected an increase in equities during the year from 14 per cent to 27 per cent of CPP assets, combined with higher fixed-income returns in the first half of the year (when equity returns were negative) and higher equity returns in the second half (when fixed-income returns were negative in the fourth quarter).

Fixed-income securities The $39.3 billion of fixed-income securities, consisting of $32.6 billion in government bonds and $6.7 billion in short-term government securities, compared with $42 billion a year earlier. The valuations are estimates by the CPP Investment Board. They reflect the fact that the bonds do not trade and provincial bonds can currently be renewed at maturity at each issuer's discretion for a further 20-year term. During the year, some bonds matured and the net proceeds were used to pay pensions or were transferred to the CPP Investment Board and invested in equities.

The fixed-income securities generated investment income of $2.0 billion in fiscal 2002, compared with $3.8 billion in the prior year. The investment income reflected current yields that did not change materially.

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The government bond portfolio is summarized under the Holdings and is updated quarterly.

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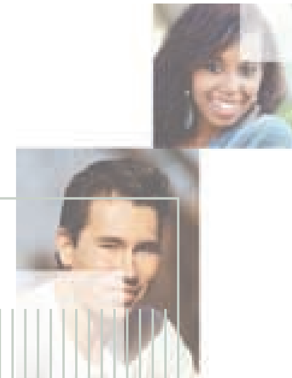

Equities The assets managed by the CPP Investment Board are invested in equities to balance the large fixed-income portfolio and because we believe equities will produce superior long-term returns for the risks incurred. The $14.3 billion in equity at year-end compared with $7.2 billion a year earlier. In fiscal 2002, we received $6.8 billion in CPP transfers, compared with $5.6 billion in fiscal 2001. We do not attempt to time the market and invest cash inflows as soon as they are received.

The equity portfolio earned $316 million in fiscal 2002 for a 3.4 per cent return, compared with an $845 million investment loss in fiscal 2001 for a negative 9.4 per cent return.

On a quarterly basis the portfolio was highly volatile. A modest gain in the first quarter was followed by a large loss in the second quarter that was erased by a strong gain in the third quarter as markets recovered after the events of September 11. In our fourth quarter we added a further modest gain.

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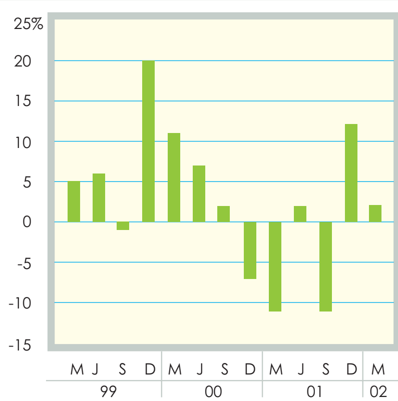
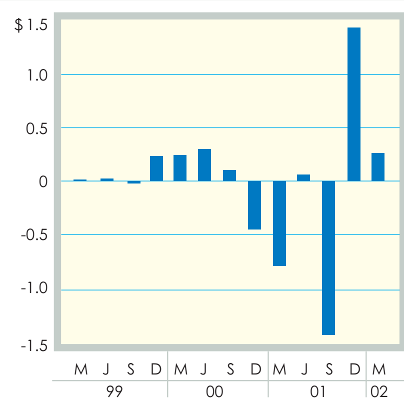
The most recent equity investments owned by the CPP Investment Board are listed under Holdings.

QUARTERLY PERCENTAGE GAINS AND LOSSES



QUARTERLY DOLLAR GAINS AND LOSSES ($billions)



As assets grow, gains and losses will eventually widen to a few billion dollars in some three-month periods. We are confident that equities will produce positive returns over the long term to compensate for this volatility.

Canadian equities We invested 70 per cent of new cash in Canadian equities. Following regulatory changes over the past two years, we can invest actively and passively in Canadian equities. Previously, we

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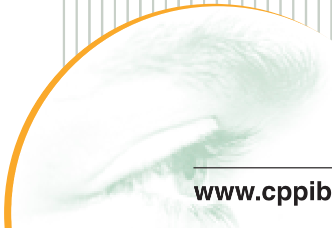
could only invest passively. In fiscal 2001 we used this new authority to reduce exposure to Nortel Networks at a time it represented about one-third of the market capitalization of the S&P/TSE composite index. This avoided $535 million in losses that year as the value of Nortel shares collapsed. The benefit of the reduced exposure carried into fiscal 2002, saving approximately $121 million.

By the third quarter of fiscal 2002, we reverted to index investing as Nortel no longer dominated the index and was only three per cent of the capitalization by year end. Late in the year, we began to accumulate positions in selected real estate securities as a method of increasing our exposure to real estate assets, with approximately $145 million invested by March 31, 2002.

Non-Canadian equities Outside Canada, where we can also invest actively and passively, we continued to invest in equity index funds that provide wide exposure to companies in the United States, Europe and Asia. We are required to adhere to the foreign property limit of investing no more than 30 per cent of total assets at cost outside Canada. At our year end, 15.6 per cent of our total portfolio at cost was invested in U.S. securities and 13.5 per cent outside North America.

Private equities In June 2001 we initiated an active program of investing in Canadian, U.S. and European private equities through external managers. It will take several years to achieve our target of investing 10 per cent of total assets in private equity and up to 12 years for the initial investments to realize their expected returns. Private equity was 3.2 per cent of the total portfolio at year end.

Performance versus benchmarks The performance of Canadian and non-Canadian equities are measured against customized benchmarks that blend the returns for stock indexes for public equities and internal targets for private equities. As can be seen in the table on the next page, we have done better than the markets in which we invest. Our Canadian equity portfolio outperformed the benchmark in 2001 and 2002, primarily because of our decision to reduce our holdings of Nortel, starting in September, 2000. Our foreign equity portfolio beat its benchmark in 2001 and 2002 primarily because of favourable timing in investing



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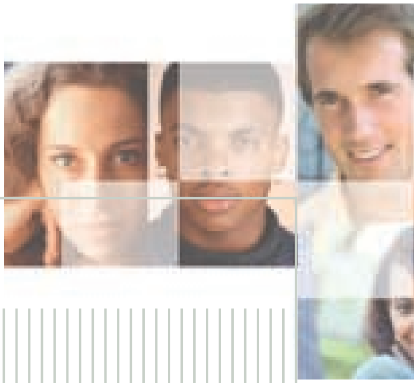
The performance of all assets available to the Canada Pension Plan are summarized quarterly at Results.



large sums of cash during market declines. The total portfolio return of 3.4 per cent in fiscal 2002 was 100 basis points (or one percentage point) above the benchmark that aggregates the performance of Canadian and non-Canadian equity markets.

%	Fiscal 2002		Fiscal 2001		Fiscal 2000		Since Inception[3]	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark	Annualized	Benchmark
Canadian equities	5.9	4.8	(7.7)	(18.6)	45.3	45.5	13.8	8.9
Non-Canadian equities	(2.3)	(2.8)	(17.5)	(18.2)	16.6	16.1	(0.3)	(1.2)
Total Portfolio	3.4	2.4	(9.4)	(17.8)	40.1	39.3	10.9	6.9
Actuarial assumption[1]*		5.5		7.1		6.4		6.3
Our long-term target[2]*		6.7		8.4		8.2		7.8

1 Based on the Chief Actuary's real return assumptions for equities, including inflation
2 The CPP Investment Board's long-term risk-adjusted target, also including inflation
3 Returns are annualized since March, 1999
* Prior year's numbers have been restated to reflect inflation using a two-month lag consistent with how returns on Government of Canada real-return bonds are calculated.

Equities Since Inception We have earned a 10.9 per cent annualized return since March 1999. Our returns have varied from a positive 40.1 per cent on assets of $2.4 billion in fiscal 2000 to minus 9.4 per cent on assets of $7.2 billion in fiscal 2001 and a positive 3.4 per cent on assets of $14.3 billion in fiscal 2002.

Despite the 10.9 per cent return on the first dollar invested, we incurred a cumulative investment loss of $65 million from March 1 1999 to March 31 2002. The loss reflected positive returns when assets were much smaller and negative returns on a larger asset base, primarily created by large CPP cash inflows.

Investment Outlook Between 1952 and 2001, equity investments produced returns that exceeded those on Government of Canada bonds by 3.0 per cent in Canada and 5.8 per cent in the United States. We expect equity returns will be below these levels over the next several years and will revert to historical levels over the long term. We are implementing our investment strategy accordingly.

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Our most recent financial statements are published under Quarterly Reports.

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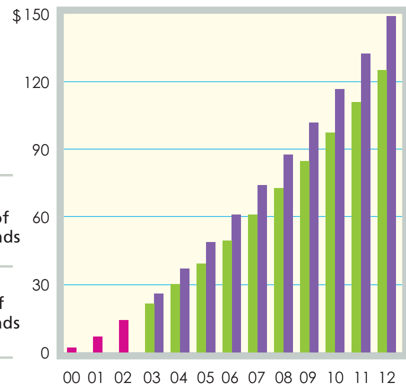
TEN-YEAR PROJECTED GROWTH IN ASSETS
($ billions)

- Provinces roll over 100% of outstanding bonds
- Provinces roll over none of outstanding bonds
- Actual



The rate of growth in CPP Investment Board assets is affected by how much of the existing CPP bond portfolio is transferred to us each year.

Our assets will grow rapidly in the next 10 years with a large and steady influx of new cash. Being "cash rich" means we can take advantage of favorable buying opportunities. In the search for higher returns, we are developing value-added active management strategies for both public and private equity investing.

Operating expenses The CPP Investment Board incurred expenses of $11.4 million during the fiscal year, compared with $6.7 million in fiscal 2001. The 2002 expenses were 9 basis points, or 9 cents per $100 of invested assets, compared with 12 basis points, or 12 cents per $100 of invested assets, in the prior year.

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Decisions and developments that could affect future performance are posted under What's New as soon as possible.

The increased expenses reflected the hiring of new staff, expanded operations, the move to new premises, investment in infrastructure and increased fees for external investment management, as a result of the higher asset base.

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 investment managers to implement a diversified investment strategy. We plan to introduce incentive-based compensation for outside managers. This should produce higher net investment returns (i.e. after expenses) and consequently higher fees.

Investment and administrative expenses are discussed further in the financial statements on pages 26 to 28.