

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. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements include certain amounts based on management's judgments and best estimates where deemed appropriate. Management is responsible for the integrity and reliability of the financial statements and the financial information contained within the annual report.

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 programs approved by the Audit Committee.

The Audit Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Committee 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 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

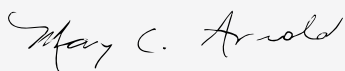


JANE NYMAN
Vice President – Finance and Operations

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, 2003, 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 8, 2003

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, 2003 and the consolidated statements of income/(loss) and accumulated net 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 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, 2003 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.

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, May 2, 2003

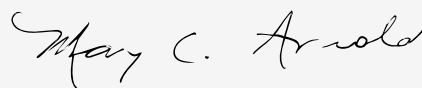
CONSOLIDATED BALANCE SHEET

<i>As at March 31, 2003 (\$000's)</i>	2003	2002
ASSETS		
Investments (Note 2)	\$ 17,861,767	\$ 14,289,378
Investment receivables (Note 2c)	40,624	—
Due from brokers	35,005	2,343
Premises and equipment	1,112	1,278
Other assets	980	79
TOTAL ASSETS	17,939,488	14,293,078
LIABILITIES		
Investment liabilities (Note 2)	449,757	—
Due to brokers	34,497	3,382
Accounts payable and accrued liabilities	4,490	4,730
TOTAL LIABILITIES	488,744	8,112
NET ASSETS	\$ 17,450,744	\$ 14,284,966
NET ASSETS, REPRESENTED BY		
Share capital (Note 4)	\$ —	\$ —
Accumulated net loss from operations	(4,238,916)	(86,626)
Accumulated Canada Pension Plan transfers	21,689,660	14,371,592
NET ASSETS	\$ 17,450,744	\$ 14,284,966

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 LOSS FROM OPERATIONS

<i>Year ended March 31, 2003 (\$000's)</i>	2003	2002
INVESTMENT INCOME/(LOSS) (Note 6)	\$ (4,139,424)	\$ 316,034
INVESTMENT AND ADMINISTRATIVE EXPENSES		
Salaries and benefits (Note 7a)	4,796	4,283
General operating expenses (Note 7b)	4,835	3,204
External investment management fees	1,809	2,951
Professional and consulting fees (Note 7c)	1,426	970
	12,866	11,408
NET INCOME/(LOSS) FROM OPERATIONS	(4,152,290)	304,626
ACCUMULATED NET LOSS FROM OPERATIONS, BEGINNING OF YEAR	(86,626)	(391,252)
ACCUMULATED NET LOSS FROM OPERATIONS, END OF YEAR	\$ (4,238,916)	\$ (86,626)

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

<i>Year ended March 31, 2003 (\$000's)</i>	2003	2002
NET ASSETS, BEGINNING OF YEAR	\$ 14,284,966	\$ 7,154,169
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 5)	7,318,068	6,826,171
Net income/(loss) from operations	(4,152,290)	304,626
INCREASE IN NET ASSETS FOR THE YEAR	3,165,778	7,130,797
NET ASSETS, END OF YEAR	\$ 17,450,744	\$ 14,284,966

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, 2003 (\$000's)	Fair Value	
	2003	2002
EQUITIES (Note 2)		
Canada		
Public markets	\$ 11,050,810	\$ 9,824,428
Private markets	260,609	144,207
	11,311,419	9,968,635
Non-Canada		
Public markets	4,245,184	3,832,505
Private markets	1,264,851	316,051
	5,510,035	4,148,556
TOTAL EQUITIES		
(Cost: \$20,335,762; 2002 – \$14,546,009)	16,821,454	14,117,191
REAL RETURN ASSETS (Note 2b)		
Public markets real estate	218,488	145,141
Private markets real estate	246,484	—
TOTAL REAL RETURN ASSETS		
(Cost: \$644,914; 2002 – \$144,442)	464,972	145,141
NOMINAL FIXED INCOME		
Money market securities ¹		
(Cost: \$575,377; 2002 – \$27,046)	575,341	27,046
TOTAL INVESTMENTS	17,861,767	14,289,378
INVESTMENT RECEIVABLES (Note 2c)		
Dividends receivable ²	40,272	—
Accrued interest	352	—
TOTAL INVESTMENT RECEIVABLES		
(Cost: \$40,716; 2002 – \$Nil)	40,624	—
INVESTMENT LIABILITIES		
Due to private equity partnerships (Note 2d)	(171,972)	—
Debt on real estate properties (Note 2b)	(152,000)	—
Credit facility (Note 3)	(125,000)	—
Derivative liabilities (Note 2a)	(785)	—
TOTAL INVESTMENT LIABILITIES		
(Cost: \$452,067; 2002 – \$Nil)	(449,757)	—
NET INVESTMENTS	\$ 17,452,634	\$ 14,289,378

¹ As described more fully in Note 2a, at March 31, 2003, \$250 million of money market securities, together with Canadian equity index swaps, provide additional exposure to Canadian public market equities.

² At March 31, 2002, the CPP Investment Board held units of pooled and mutual funds and did not receive dividends directly in respect of these investments.

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, 2003 (\$000's)	2003		2002	
	Fair Value	(%)	Fair Value ⁵	(%)
EQUITIES				
Canada ¹	\$ 11,560,652	66.2%	\$ 9,968,635	69.8%
Non-Canada ²	5,510,035	31.6%	4,148,556	29.0%
REAL RETURN ASSETS				
Real estate ³	312,972	1.8%	145,141	1.0%
NOMINAL FIXED INCOME				
Money market securities ⁴	68,975	0.4%	27,046	0.2%
	\$ 17,452,634	100.0%	\$ 14,289,378	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.

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.

⁵ For the year ended March 31, 2002, there were no derivative contracts or investment liabilities or receivables and therefore no allocations were required.

See accompanying Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2003

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

Investments 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 for investments is determined as follows:

- (i) Quoted market prices for publicly traded equities and unit values for pooled 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, 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 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, unless there is an indication of permanent impairment of value.

- (iii) The fair value of private market investments in income producing 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 discounted cash flows and market prices for underlying assets with similar characteristics.
- (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 or transfer 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 mutual and pooled funds, 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 year-over-year change in the difference between fair value and cost of investments.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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.

2. INVESTMENTS

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, 2003, these assets totalled approximately \$33.7 billion at cost (2002 – \$35.0 billion) and consisted 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, 2003.

(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.

As at March 31, 2003, the CPP Investment Board had equity swap contracts outstanding to exchange money market interest payments for the return on a Canadian equity index. The contracts had a notional amount of \$250 million and a term to maturity of one year. Notional amounts are used to compute the cash flows and for determining the fair value of the contracts. Notional amounts of derivative contracts are not recorded as assets or liabilities on the balance sheet.

The fair value of derivative contracts is \$(785,000) at March 31, 2003 (2002 – \$Nil) and is recorded as a liability on the balance sheet. Consistent with the investment policies,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

the swap contracts are fully covered by cash and cash equivalents. The economic impact on the total investment asset mix is to increase Canadian public market equities exposure by 1.4%, with a corresponding decrease in money market securities exposure.

(B) REAL RETURN ASSETS

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, 2003, the CPP Investment Board's share of these investments include \$246,484,000 of assets primarily related to properties (2002 – \$Nil) and \$152,000,000 of liabilities related to short-term mortgage debt (2002 – \$Nil), which will be replaced with permanent financing within one year of the initial financing date.

(C) INVESTMENT RECEIVABLES

Investment receivables include dividends receivable on public market equities of \$40,272,000 (2002 – \$Nil) and accrued interest of \$352,000 (2002 – \$Nil) on term deposits.

(D) DUE TO PRIVATE EQUITY PARTNERSHIPS

Amounts due to partnerships represent the second installment owing to a limited partnership relating to the purchase by the partnership during the year of a portfolio of private equity investments.

(E) MANAGEMENT FEES

Private equity investments are generally made by taking interests in limited partnerships with a typical term of 10 years. The 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 1.5% and 2.0% of the total amount committed to the limited partnerships, and are included as part of the CPP Investment Board's cost of the investments. As discussed more fully in Note 1b, the carrying values of these investments are reviewed at least annually and any resulting adjustments are reflected as gains or losses. During the year ended March 31, 2003, management fees totalling \$47 million (2002 – \$9 million) were included in the capital advanced to the limited partnerships.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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, 2003, the CPP Investment Board paid total brokerage commissions of \$6 million (2002 – \$4 million).

(G) FOREIGN CURRENCY RISK

The CPP Investment Board is exposed to currency risk through holdings of Non-Canadian investments and investment receivables. Investments are not hedged against changes in foreign exchange rates. The underlying currency exposures as at March 31, 2003 are as follows:

(\$000's)	2003		2002	
	Fair Value	% of Total	Fair Value	% of Total
Currency				
United States Dollar	\$ 3,091,739	56%	\$ 2,163,954	52%
Euro	1,020,149	19%	697,552	17%
British Pound Sterling	577,369	10%	542,765	13%
Japanese Yen	448,268	8%	388,170	9%
Swiss Franc	166,886	3%	156,826	4%
Other	237,265	4%	199,996	5%
	\$ 5,541,676	100%	\$ 4,149,263	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.

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, 2003, the total amount drawn on the credit facility was \$125,000,000 (2002 – \$Nil). Consistent with the investment policies, the credit facility will be repaid within 45 days of draw date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 funds not required by the CPP to pay current benefits. 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 \$7,318,068,000 (2002 - \$6,826,171,000) was transferred to the CPP Investment Board.

6. INVESTMENT INCOME/(LOSS)

(A) INVESTMENT INCOME/(LOSS)

Investment income/(loss) consists of the following, after giving effect to derivative contracts and investment receivables and liabilities. During the current year, the CPP Investment Board sold units held in index pooled and mutual funds and purchased the individual securities underlying the funds. The sale of these units resulted in realized gains or losses representing the difference between the market price of the securities and the cost of the index pooled fund units.

(\$000's)	2003	2002
Net gain/(loss) ¹		
Canada	\$ (2,688,743)	\$ 405,763
Non-Canada ²	(1,747,865)	(111,867)
	(4,436,608)	293,896
Dividend income		
Canada	218,388	12,153
Non-Canada	69,767	—
	288,155	12,153
Other income ³	9,029	9,985
Total investment income/(loss)	\$ (4,139,424)	\$ 316,034

¹ Includes unrealized losses of \$3,264,646 (2002 – unrealized gains of \$459,247), realized losses of \$1,532,754 (2002 – realized losses of \$378,669), and distributions of capital gains and dividends from public equity pooled and mutual funds of \$360,792 (2002 – \$213,318).

² Includes foreign exchange losses of \$244,697,000 (2002 – foreign exchange gains of \$43,259,000).

³ Includes private market real estate operating income of \$786,508 (2002 - \$Nil), which is net of debt interest of \$3,013,847 (2002 – \$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(B) INVESTMENT PERFORMANCE

Portfolio returns and benchmark returns are as follows:

	2003		2002	
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns
Canadian equity investments	(17.3)%	(17.5)%	5.9%	4.7%
Non-Canadian equity investments	(27.6)%	(28.0)%	(2.3)%	(2.8)%
Real return assets	(50.7)%	9.2%	2.6%	1.1%
Total	(21.1)%	(20.3)%	3.4%	2.4%

The CPP Investment Board uses a variety of metrics over the short, medium and long term to evaluate investment performance. Benchmark returns are based upon the S&P/TSX Composite for Canadian equity investments, a combination of the S&P 500 and the MSCI EAFE for Non-Canadian 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. INVESTMENT AND ADMINISTRATIVE EXPENSES

(A) EXECUTIVE COMPENSATION

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Compensation earned by the five most highly compensated executive officers of the CPP Investment Board during fiscal 2003 amounted to \$1,684,254 (2002 – \$1,752,580) and consisted of the following:

Name	Year	Salary	Annual Bonus ²	Long-Term Bonus ²	Benefits ³
John A. MacNaughton	2003	\$ 400,000	\$ 90,000	\$24,875	\$ 55,944
<i>President and Chief Executive Officer</i>	2002	\$ 363,650	\$ 181,825	\$ 31,526	\$ 52,419
Mark Weisdorf	2003	\$ 215,000	\$ 80,500	\$ —	\$ 30,452
<i>Vice President – Private Market Investments</i>	2002	\$ 185,000	\$ 148,000	\$ —	\$ 25,191
Donald Raymond ¹	2003	\$ 185,000	\$ 74,000	\$ —	\$ 24,278
<i>Vice President – Public Market Investments</i>	2002	\$ 106,019	\$ 84,815	\$ —	\$ 8,564
Valter Viola	2003	\$ 180,600	\$ 69,500	\$ —	\$ 21,266
<i>Vice President – Research and Risk Management</i>	2002	\$ 170,000	\$ 132,940	\$ —	\$ 19,043
Jane Nyman	2003	\$ 170,000	\$ 41,000	\$ 4,039	\$ 17,800
<i>Vice President – Finance and Operations</i>	2002	\$ 160,000	\$ 62,880	\$ 5,120	\$ 15,588

¹ Commenced employment on September 4, 2001.

² 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 \$305,946 for payment in 2004, \$539,653 for payment in 2005, and \$501,000 for payment in 2006. These amounts are adjusted annually by the total portfolio return. The payment of long-term bonus is subject to executive officers meeting certain conditions of employment.

³ 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.

(B) GENERAL OPERATING EXPENSES

General operating expenses consist of the following:

(\$000's)	2003	2002
Office rent, supplies and equipment	\$ 1,537	\$ 1,314
Custodial fees	876	213
Communication expenses	673	572
Technology, data and analytical services	625	160
Travel and accommodation	421	272
Directors' remuneration	373	325
Other operating expenses	330	348
	\$ 4,835	\$ 3,204

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Directors' remuneration includes an annual retainer for each director of \$14,000 (2002 – \$12,000), board and committee meeting fees of \$1,000 per meeting (2002 – \$900), plus an additional annual retainer of \$3,250 for each committee chair (2002 – \$3,000). 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. Commencing April 1, 2002 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 2003, the Chair received a total of \$96,000 (2002 - \$62,900).

In fiscal 2003, the Board of Directors held 8 board and investment committee meetings (2002 – 10) and 15 other committee meetings (2002 – 17).

(C) PROFESSIONAL AND CONSULTING FEES

Professional and consulting fees consist of the following:

(\$000's)	2003	2002
Professional accounting and external audit ¹	\$ 550	\$ 270
Legal	467	261
Consulting ²	409	439
	\$ 1,426	\$ 970

¹ Includes audit fees of \$370,000 (2002 - \$172,000) and other audit-related fees of \$180,000 (2002 - \$98,000).

² Includes non-audit-related fees of \$Nil (2002 – \$40,022) that were paid to the external auditors of the CPP Investment Board.

8. COMMITMENTS

The CPP Investment Board has committed to enter into private equity and real estate investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at March 31, 2003, these outstanding commitments totalled \$3.9 billion (2002 – \$2.0 billion).

9. LEGISLATIVE AMENDMENT

Legislation to amend the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* was passed by Parliament on April 3, 2003, and is now subject to provincial approval. The provisions of the amending legislation contemplate a transfer of the CPP assets currently managed by the federal government. If the legislative change is approved by the provinces, these assets will be transferred to the CPP Investment Board over a period of three years. The CPP assets consist of a bond portfolio and a cash operating balance and as at March 31, 2003 totalled approximately \$33.7 billion at cost.

GOVERNANCE PRACTICES OF BOARD OF DIRECTORS

Board Committees

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; identify principal risks and implement appropriate systems to manage them; 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.

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 market 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. The Audit Committee regularly meets with both external and internal auditors without management present. Responsibility for enterprise-wide risk management is shared with the board and other committees.

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.

GOVERNANCE PRACTICES OF BOARD OF DIRECTORS

Our Governance

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 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 and procedures 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(b) 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(a) 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. No special audit has been ordered. It is expected that a date for the first special examination will be set within the next year.

GOVERNANCE PRACTICES OF BOARD OF DIRECTORS

Our Policies

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 require directors with financial and investment expertise and to engage employees with financial expertise. Procedures have been established to manage and where possible eliminate such conflicts. These procedures 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 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 and 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 2003

The board held eight meetings in fiscal 2003. 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 by virtue of the date of his or her appointment to the board or the particular board committee. Richard Thomson completed his final term as a director during the year and Germaine Gibara and Ronald Smith joined the board just prior to year end.

	Board & Investment Committee	Audit Committee	Governance Committee	HR & Compensation Committee
Mary Arnold	8/8	5/5		
Gail Cook-Bennett	8/8	5/5*	5/5	3/3
Germaine Gibara	1/1		1/1	
Gilbert Gill	8/8	5/5		
Jacob Levi	7/8	5/5	2/2	1/1
Helen Meyer	8/8	5/5		4/4
Dale Parker	8/8		5/5	
Joseph Regan	8/8	5/5		4/4
Helen Sinclair	8/8		5/5	1/1
Ronald Smith	1/1	0/1		
Richard Thomson	5/8			4/4
David Walker	8/8		3/3	4/4

* The Chairperson is not a member of the audit committee but attends its meetings.

CORPORATE INFORMATION

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

Officers

John A. MacNaughton

President and

Chief Executive Officer

Jane Beatty

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

Mark A. Weisdorf

Vice President -

Private Market Investments

Governance Committee

Dale G. Parker (*Chair*)

Gail Cook-Bennett

Germaine Gibara

Helen Sinclair

David Walker

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