MANAGEMENT'S DISCUSSION AND ANALYSIS

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

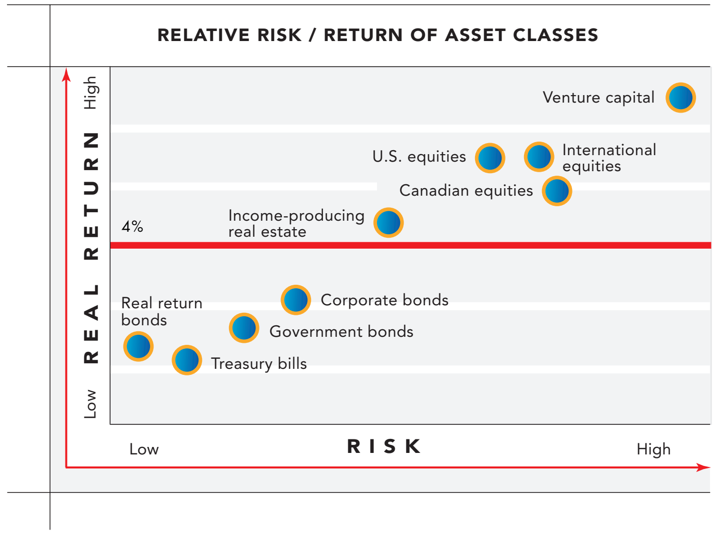
The CPP Investment Board invests cash not required by the Canada Pension Plan to pay current benefits. Our legislated mandate is to achieve a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan and its ability to meet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

The funding of the Canada Pension Plan is determined by the federal and provincial finance ministers, who meet every three years to review contribution rates, benefit levels, funding policy and other aspects of the plan. As of January 1, 2003, the combined contribution rate of Canadian workers and their employers was 9.9 percent of pensionable earnings (to a maximum of $39,900 for 2003).

The Chief Actuary for the Canada Pension Plan has estimated that the 9.9 percent contribution rate could be sustained for the foreseeable future if CPP assets earn a four percent annual real rate of return over the long term. (The real rate of return excludes inflation. If inflation averaged three percent per annum, the nominal rate of return required would be seven percent.) In the opinion of the Chief Actuary, a review panel of independent actuaries, and the finance ministers, the plan is financially sound until the year 2075.

Our investment challenge In seeking to maximize returns without undue risk of loss, our minimal goal is to achieve a four percent real rate of return. This can be a difficult target to match every year, based on an historical analysis of the investment performance of such standard assets as bonds and stocks.

When the CPP Investment Board became operational in October 1998, the Canada Pension Plan's only assets were government bonds and cash. As the accompanying chart shows, government bonds do not produce the level of real returns required by the Canada Pension Plan.



"DIVERSIFYING INTO A BROADER RANGE OF ASSETS WILL HELP MEET THE LONG-TERM RETURN TARGETS NEEDED TO SUSTAIN THE CPP, WHILE MANAGING OVERALL PORTFOLIO RISK."

VALTER VIOLA,
Vice President, Research and Risk Management

To achieve higher returns than bonds, we must acquire assets that have greater risk. Our most logical choice, at least initially, was publicly traded equities. History indicates that, over the long term and despite greater volatility including short-term periods of negative performance, equities should provide higher returns than bonds to compensate for the greater risk assumed. Other assets produce different expected returns in relation to risk. For example, private equities offer potentially higher returns than publicly traded equities to compensate for their lower liquidity. Real estate has a risk/return profile somewhere between government bonds and equities.

The diversification of CPP assets remains a continuing priority to spread portfolio risk among more asset classes and to ensure an asset mix that earns a real return that exceeds four percent.

The following table offers a snapshot of all CPP assets as of March 31, 2003. The assets are grouped according to those managed by the CPP Investment Board in Toronto and those administered on behalf of the Canada Pension Plan by the federal government in Ottawa. Starting in fiscal 2004, all CPP assets not held by the CPP Investment Board are expected to be transferred to it on a phased basis over three years. By fiscal 2007, all CPP assets, including cash, should be carried on our balance sheet.

Government Bonds The bond portfolio consists of provincial government bonds as well as some federal bonds. These securities are non-marketable and non-tradeable. Details of their maturities are posted on our web site. The provinces and territories have one opportunity to renew maturing bonds issued

TOTAL CPP ASSETS As at March 31, 2003	$ Billions	% of Total
Canada Pension Plan		
Government Bonds	31.0	55.8
Cash	7.1	12.8
Subtotal	38.1	68.6
CPP Investment Board		
Public Equities	15.6	28.0
Private Equities	1.5	2.7
Real Estate	0.3	0.6
Money Market Securities	0.1	0.1
Subtotal	17.5	31.4
Total Assets	55.6	100.0

prior to 1998 for a further 20 years at market rates. Should bonds not be renewed, the principal amount will be invested by the CPP Investment Board.

More than three-quarters of the bond portfolio matures within the next 10 years. If provinces choose to roll them over, the last of the bonds may not mature until 2033.

Public Equities Since inception, we have invested excess CPP funds in equities, principally publicly traded stocks, with the expectation of earning a long-term premium over bonds. According to the Chief Actuary's assumptions, on an annual basis, CPP contributions should exceed pension payments until 2021. This means that investment earnings are not expected to be required to help pay pensions for 18 years. We can, therefore, take advantage of poor markets to accumulate equities at current prices in the expectation of higher values in future decades.

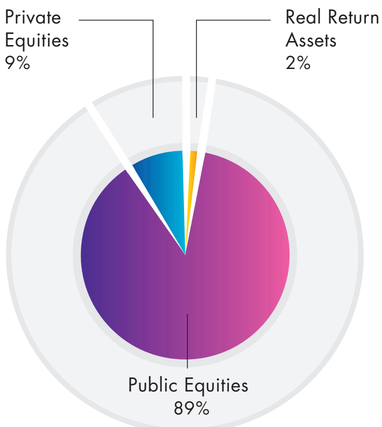
The other reason we invest in public equities is to diversify total CPP assets. Stocks and bonds tend not to move in the same direction in the same magnitude at the same time, thereby reducing portfolio risk and somewhat stabilizing returns.

Until fiscal 2003, our investment in public equities was primarily in index funds managed by outside specialists. These index funds are designed to replicate the stocks included in the S&P/TSX Composite Index in Canada, the S&P 500 Index in the United States, and the MSCI EAFE Index of stocks for Europe, Australasia and the Far East. In total, the indexes contain approximately 1,700 stocks.

"WHILE BEING A LARGE INVESTOR CREATES SOME CHALLENGES, IT ALSO CREATES SIGNIFICANT OPPORTUNITIES – ECONOMIES OF SCALE TO NAME THE MOST OBVIOUS."

DONALD M. RAYMOND,
Vice President, Public Market Investments

CPP INVESTMENT BOARD ASSETS
Fiscal year ending March 31, 2003



In fiscal 2003, we brought the management of these passive portfolios in-house to reduce costs and to facilitate the future implementation of our active program on a global basis. We then took our first steps to customize the passive portfolio. For example, when the TSE 300 Composite Index in Canada was replaced by the S&P/TSX Composite Index, we retained ownership of companies deleted from the new index. At year end, our passive portfolio contained 85 small-cap companies not included in the new S&P/TSX index. We believe these smaller companies will do well over the long term. We also reduced our weighting in financial services stocks below their representation in the S&P/TSX index. This risk management initiative reduced the concentration in the financial services sector of the portfolio, much as we did two years ago when we reduced our Nortel Networks position when it dominated the Canadian market.

As a result of these modifications, we expect the performance of our public equity portfolio to start experiencing greater variances to widely recognized broad market benchmarks, such as the S&P/TSX index.

We retained transition managers to help us invest large amounts of capital received from the Canada Pension Plan while attempting to minimize market disruption and cost. These initiatives were the prelude to a different passive investing approach that will emerge in fiscal 2004.

Private Equities While private equities are a small component of total CPP assets, they can contribute exceptional returns over the long term for the extra risk involved. However, these specialized investments need time to deliver full value. Our ultimate goal is to invest as much as 10 percent of CPP assets in private equities, subject to the availability of opportunities with acceptable risk/return profiles.

We made our first commitments to private equity in July 2001. Our approach involves selecting investment specialists, known as general partners, who are experienced in developing and managing portfolios of private companies. Usually they focus on specific industries and deploy a range of management techniques, including strategic advice, operating expertise, financial restructuring, and initiating mergers and acquisitions. We commit funds with like-minded investors under a limited partnership agreement, and the general partner draws down the funds as suitable investments are identified.

By the end of fiscal 2003, we had committed $5.1 billion to private equity, including $1.1 billion in Canada. These funds were pledged to 34 pooled funds managed by 29 general partners in Canada, the U.S., the United Kingdom and Europe. Of these commitments, $1.5 billion had actually been invested. The remaining commitments will be drawn down over the next few years.

Our largest transaction in fiscal 2003 was the acquisition with other institutional investors of a private equity portfolio from Deutsche Bank. The portfolio has equity interests in more than 80 late-stage private companies in Europe and the U.S. It is being managed through a new limited partnership established by the former senior managers of Deutsche Bank's private equity arm. Our commitment was just over $400 million.

"Private equity investing requires patience to maximize value because higher returns are typically not generated until seven or eight years after capital is invested."

MARK A. WEISDORF,
Vice President, Private Market Investments

Real Estate and Infrastructure Assets The final component of our asset diversification strategy to date is real estate. Coupled with infrastructure assets, they may comprise as much as five percent of total CPP assets in the future. Real estate and infrastructure assets tend to be inflation sensitive and at least partially hedge the inflation exposure of CPP benefits to changes in the Consumer Price Index.

We initiated our exposure to real estate through investments in publicly traded securities, including those of Trizec Canada where we acquired approximately 30 percent of the company. The year-end real estate portfolio included shares in three publicly traded real estate companies.

In January 2003, we committed up to $300 million to two real estate investment firms for future asset acquisitions. Our strategy is to co-own properties with value-added growth potential over normal real estate cycles of five to ten years. One of our partners completed our first co-owned direct investment, for a total purchase price of $300 million, in five Canadian regional shopping centres. Over time, we will develop a diversified portfolio of industrial, office, retail and multi-family residential properties that generate rental income and appreciate in value through restructuring and refinancing, new lease arrangements, changes in property use, redevelopment and renovation, and changes in tenant mix.

While we examined a number of infrastructure opportunities during fiscal 2003, none of them met our investment criteria.