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, 2005, 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

Mary C. Arnold, FCA
Chair of the audit committee on behalf of the board of directors
May 11, 2005

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, 2005 and the consolidated statements of income and accumulated net income 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 consolidated 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, 2005 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, which were applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the CPP Investment Board and those of its subsidiaries 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 and the by-laws of the subsidiaries, as the case may be.

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.

Deloitte & Touche LLP

Chartered Accountants
Toronto, Ontario
April 29, 2005

CONSOLIDATED BALANCE SHEET//

As at March 31, 2005

($000s)	2005	2004
ASSETS		
Investments (Note 2)	**$ 58,422,332**	$ 32,991,204
Investment receivables (Note 2)	**579,373**	102,363
Due from brokers	**19,468**	13,917
Premises and equipment	**4,040**	974
Other assets	**3,359**	1,828
TOTAL ASSETS	**59,028,572**	33,110,286
LIABILITIES		
Investment liabilities (Note 2)	**279,430**	199,358
Due to brokers	**147,488**	108,722
Accounts payable and accrued liabilities	**21,875**	6,860
TOTAL LIABILITIES	**448,793**	314,940
NET ASSETS	**$ 58,579,779**	$ 32,795,346
NET ASSETS, REPRESENTED BY		
Share capital (Note 4)	**$ –**	$ –
Accumulated net income from operations	**7,952,988**	2,970,791
Accumulated Canada Pension Plan transfers (Note 5)	**50,626,791**	29,824,555
NET ASSETS	**$ 58,579,779**	$ 32,795,346

See accompanying Notes to the Consolidated Financial Statements

On behalf of the board of directors

Gail Cook-Bennett
Chairperson

Mary C. Arnold, FCA
Chair of the audit committee

CONSOLIDATED STATEMENT OF INCOME AND ACCUMULATED NET INCOME FROM OPERATIONS//

Year ended March 31, 2005

($000s)	2005	2004
INVESTMENT INCOME, NET OF EXTERNAL INVESTMENT-MANAGEMENT FEES (Note 6)	**$ 5,013,942**	$ 7,228,609
OPERATING EXPENSES		
General operating expenses (Note 7a)	**13,241**	7,746
Salaries and benefits (Note 7b)	**13,401**	7,287
Professional and consulting fees (Note 7c)	**5,103**	3,869
	31,745	18,902
NET INCOME FROM OPERATIONS	**4,982,197**	7,209,707
ACCUMULATED NET INCOME/(LOSS) FROM OPERATIONS, BEGINNING OF YEAR	**2,970,791**	(4,238,916)
ACCUMULATED NET INCOME FROM OPERATIONS, END OF YEAR	**$ 7,952,988**	$ 2,970,791

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS//

Year ended March 31, 2005

($000s)	2005	2004
NET ASSETS, BEGINNING OF YEAR	**$ 32,795,346**	$ 17,450,744
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 5)		
Transfers from the Canada Pension Plan	**27,471,196**	8,134,895
Transfers to the Canada Pension Plan	**(6,668,960)**	–
Net income from operations	**4,982,197**	7,209,707
INCREASE IN NET ASSETS FOR THE YEAR	**25,784,433**	15,344,602
NET ASSETS, END OF YEAR	**$ 58,579,779**	$ 32,795,346

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INVESTMENT PORTFOLIO//

As at March 31, 2005

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:

($000s)	Fair Value 2005	Fair Value 2004
EQUITIES (Note 2)		
Canada		
Public markets	**$ 21,044,008**	$ 18,045,921
Private markets	**511,969**	281,602
	21,555,977	18,327,523
Non-Canada		
Public markets	**12,646,146**	7,552,200
Private markets	**2,393,996**	1,529,698
	15,040,142	9,081,898
TOTAL EQUITIES		
(Cost: 2005 – $32,140,629; 2004 – $25,034,281)	**36,596,119**	27,409,421
REAL RETURN ASSETS (Note 2c)		
Public market real estate	**384,000**	350,480
Private market real estate	**638,200**	431,848
Private market infrastructure	**230,125**	22,013
TOTAL REAL RETURN ASSETS		
(Cost: 2005 – $1,222,360; 2004 – $829,325)	**1,252,325**	804,341
NOMINAL FIXED INCOME		
Bonds (Note 2d)	**8,507,114**	–
Money market securities	**12,066,774**	4,777,442
TOTAL NOMINAL FIXED INCOME		
(Cost: 2005 – $20,613,699; 2004 – $4,783,899)	**20,573,888**	4,777,442
TOTAL INVESTMENTS	**58,422,332**	32,991,204
INVESTMENT RECEIVABLES		
Derivative receivables (Note 2a)	**240,168**	34,394
Dividends receivable	**85,536**	65,289
Accrued interest	**253,669**	2,680
TOTAL INVESTMENT RECEIVABLES		
(Cost: 2005 – $339,677; 2004 – $68,142)	**579,373**	102,363
INVESTMENT LIABILITIES		
Debt on real estate properties (Note 2c)	**(241,752)**	(170,797)
Derivative liabilities (Note 2a)	**(37,678)**	(28,561)
TOTAL INVESTMENT LIABILITIES		
(Cost: 2005 – $234,259; 2004 – $169,619)	**(279,430)**	(199,358)
NET INVESTMENTS	**$ 58,722,275**	$ 32,894,209

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INVESTMENT PORTFOLIO//

As at March 31, 2005

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:

	2005		2004	
($000s)	**Fair Value**	**(%)**	Fair Value	(%)
EQUITIES [1]				
Canada	**$ 27,668,469**	**47.1%**	$ 22,571,543	68.6%
Non-Canada	**20,882,401**	**35.6**	9,326,240	28.4
REAL RETURN ASSETS				
Real estate [2]	**780,448**	**1.3**	611,531	1.9
Infrastructure	**230,125**	**0.4**	22,013	0.1
NOMINAL FIXED INCOME				
Bonds [3]	**8,749,337**	**14.9**	–	–
Money market securities [4]	**411,495**	**0.7**	362,882	1.0
	$ 58,722,275	**100.0%**	$ 32,894,209	100.0%

[1] Includes derivative contracts and associated money market securities.

[2] Net of mortgage debt on real estate properties as described more fully in Note 2c.

[3] Includes accrued interest on bonds.

[4] Includes dividends receivable and accrued interest on money market securities.

See accompanying Notes to the Consolidated Financial Statements

ORGANIZATION.

The Canada Pension Plan Investment Board (the "CPP Investment Board") was established pursuant to the *Canada Pension Plan Investment Board Act* (the "Act"). The CPP Investment Board is responsible for assisting the Canada Pension Plan (the "CPP") in meeting its obligations to contributors and beneficiaries under the *Canada Pension Plan*. It is responsible for managing amounts that are transferred to it under Section 108.1 of the *Canada Pension Plan*, and its interest in any debt securities transferred to it (described in Note 2), in the best interests of the beneficiaries and contributors under that Act. The CPP Investment Board's assets 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 CPP and the ability of the CPP to meet its financial obligations on any given business day.

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, investment receivables and investment liabilities

Investments, investment receivables and investment liabilities are recorded on a trade date basis 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 is determined as follows:

(i) Quoted market prices for publicly traded equities and unit values for public equity 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 and infrastructure funds, 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 or funds in which the investments are made. These carrying values are determined by the external managers using accepted industry valuation methods. These methods include considerations such as 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 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 and infrastructure funds, unless there is an indication of permanent impairment of value.

(iii) The fair value of private market investments in real estate 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 unless there is an indication of permanent impairment of value. 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 and forward contracts is determined based on the market prices for underlying assets. Fair value for exchange-traded futures is based on quoted market prices.

(v) The fair value of bonds, all of which are non-marketable federal, provincial and territorial debt securities, is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, adjusted for the non-marketability and rollover provisions of the bonds.

(vi) 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 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 partnerships and trusts, 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 difference between the fair value and cost of the investments. The current year unrealized gains and losses represent the year-over-year change in this difference.

(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.

(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 the Queen 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 the Queen 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, INVESTMENT RECEIVABLES AND INVESTMENT LIABILITIES

The CPP Investment Board has established investment policies which set out the manner in which assets shall be invested. In determining its target asset weights, 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, 2005, these assets total approximately $20.1 billion at cost (March 31, 2004 – $33.0 billion) consisting of a bond portfolio of $17.3 billion and a cash operating reserve of $2.8 billion.

Legislation to amend the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* came into force on April 1, 2004. The amended legislation and an agreement dated as of April 1, 2004, between Her Majesty the Queen in right of Canada and the CPP Investment Board (the "Agreement") together provide for the transfer of certain specified CPP assets currently administered by the federal government to the CPP Investment Board beginning in the fiscal year ended March 31, 2005. These assets include a portfolio of non-marketable federal, provincial and territorial debt securities to be transferred to the CPP Investment Board in 36 equal installments over a period that began May 1, 2004 and ends on April 1, 2007 (see Note 2d). The assets also include a cash operating reserve to be transferred to the CPP Investment Board in 12 equal installments over a period that began in September 2004 and ends in August 2005. The remaining assets to be transferred consist of the bond portfolio and cash operating reserve referred to in the first paragraph of Note 2.

The Consolidated Statement of Investment Portfolio provides information on the investments and related receivables and liabilities held as at March 31, 2005.

(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.

The CPP Investment Board uses derivatives primarily to replicate the return of Canadian and Non-Canadian equities and to manage asset weights and currency exposure. The CPP Investment Board has equity swaps outstanding to exchange money market interest payments for equity returns. The CPP Investment Board also uses exchange-traded futures contracts and foreign exchange forwards to either buy or sell a specified equity index or currency at a specific price and date in the future. Futures are used to achieve the desired market exposure to equity markets, and foreign exchange forwards to manage currency exposure.

All derivative contracts have a term to maturity of one year or less. Notional amounts of derivative contracts are used to compute the cash flows and for determining the fair value of the contracts. Notional amounts are not recorded as assets or liabilities on the balance sheet.

The notional amounts and fair value of derivative contracts held as at March 31, 2005 are as follows:

	2005		2004	
($000s)	**Notional Amount**	**Fair Value**	Notional Amount	Fair Value
Equity swaps	**$ 5,918,228**	**$ 206,321**	$ 4,034,278	$ 9,288
Equity futures	**6,061,262**	**(6,190)**	448,249	(3,455)
Foreign exchange forwards	**2,093,348**	**2,359**	–	–
Total	**$ 14,072,838**	**$ 202,490**	$ 4,482,527	$ 5,833

(b) Private equity investments

Private equity investments are generally made by buying interests in limited partnerships with a typical term of 10 years. The private equity 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 per cent and 2 per cent of the total amount committed to the limited partnerships, and are included as part of the CPP Investment Board's cost of the investments. During the year ended March 31, 2005, management fees totalling $70 million (2004 – $64 million) were included in the capital advanced to the limited partnerships and recorded as part of the cost of the investment. 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 unrealized gains or losses in investment income (see Note 6a).

(c) Real return assets

As at March 31, 2005, investments total $780,448,000 in real estate investments (March 31, 2004 – $611,531,000) and $230,125,000 in private market infrastructure (March 31, 2004 – $22,013,000).

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, 2005, the subsidiary's share of these investments includes assets of $638,200,000 (March 31, 2004 – $431,848,000) and $241,752,000 of liabilities related to mortgage debt (March 31, 2004 – $170,797,000), with a weighted average fixed interest rate of 7.64 per cent and terms to maturity of two to 16 years.

The CPP Investment Board currently uses limited partnership arrangements to invest in infrastructure. The underlying investments of these limited partnerships represent equity ownerships in entities that invest in infrastructure assets which are expected to provide predictable cash flows. Management fees for infrastructure investments are treated similar to private equity management fees as discussed in Note 2b. During the year ended March 31, 2005, management fees included in the capital advanced to the limited partnerships were $1,777,000 (2004 – $214,000).

(d) Bonds

The transfer to the CPP Investment Board of the CPP portfolio of non-marketable federal, provincial and territorial debt securities began on May 1, 2004. Interests in debt securities of $8,804,035,000 based on fair market value at the time of transfer have been transferred during the year ended March 31, 2005.

The non-marketable debt securities issued by the provinces and territories prior to 1998 contain a rollover provision which will permit these issuers, at their option, to roll over the bonds for a further 20-year term at a rate based on capital markets borrowing rates existing at the time of rollover. The non-marketable debt securities are also redeemable at the option of the issuers for redemption amounts calculated in accordance with Section 110 of the *Canada Pension Plan*.

The bonds have an average effective yield of 5.0 per cent. The terms to maturity of the bonds as at March 31, 2005, not including any rollover options, are as follows:

	Term to Maturity				
($000s)	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total
Government of Canada bonds	$ 75,959	$ 903,616	$ 182,345	$ –	$ 1,161,920
Provincial and territorial bonds	636,778	2,294,547	1,982,094	2,431,775	7,345,194
Total	$ 712,737	$ 3,198,163	$ 2,164,439	$ 2,431,775	$ 8,507,114

(e) Investment receivables

As at March 31, 2005, investment receivables include dividends receivable of $85,536,000 (March 31, 2004 – $65,289,000) on public market equities, accrued interest of $11,446,000 (March 31, 2004 – $2,680,000) on money market securities, and accrued interest of $242,223,000 (March 31, 2004 – $Nil) on bonds.

(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, 2005, the CPP Investment Board paid total brokerage commissions of $11 million (2004 – $14 million).

(g) Securities lending

The CPP Investment Board participates in a securities lending program to enhance portfolio returns. Credit risk associated with the securities lending program is mitigated by requiring the borrower to provide daily collateral in the form of readily marketable investments of greater market value than the securities loaned, as specified in the investment policies. As at March 31, 2005, the CPP Investment Board's investments include loaned securities with an estimated fair value of $1.4 billion (March 31, 2004 – $721 million). The fair value of collateral received in respect of these loans is $1.5 billion (March 31, 2004 – $758 million).

(h) Investment risk

Investments, investment receivables and investment liabilities may be exposed to one or more of the following risks:

CURRENCY RISK. The CPP Investment Board is exposed to currency risk through holdings of investments, investment receivables and investment liabilities in various currencies. The net underlying currency exposures, after allocating foreign currency derivatives, as at March 31, 2005 are as follows:

($000s)	**2005**		2004	
Currency	**Net Exposure**	**% of Total**	Net Exposure	% of Total
Canadian Dollar	**$ 42,339,392**	**72%**	$ 23,279,463	71%
United States Dollar	**7,803,982**	**13**	5,598,723	17
Euro	**3,464,286**	**6**	1,557,313	5
British Pound Sterling	**2,086,085**	**3**	932,450	3
Japanese Yen	**1,256,102**	**2**	697,546	2
Australian Dollar	**461,705**	**1**	136,968	–
Swiss Franc	**339,894**	**1**	349,330	1
Other	**970,829**	**2**	342,416	1
	$ 58,722,275	**100%**	$ 32,894,209	100%

INTEREST RATE RISK. Interest rate risk refers to the effect on the fair value of investments and liabilities due to fluctuations of interest rates. The fair value of the CPP Investment Board's bonds and mortgage debt is affected directly by changes in interest rates.

MARKET RISK. Market risk is the risk that the value of an investment will be adversely affected by changes in market prices, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. The CPP Investment Board mitigates market risk through diversification of its investment portfolio, based on asset and risk limits established in the investment policies.

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 as specified in the investment policies.

LIQUIDITY RISK. The CPP Investment Board is exposed to liquidity risk through its responsibility for providing cash management services to the CPP, as described in Note 5. The CPP Investment Board mitigates liquidity risk through its unsecured credit facilities (see Note 3).

3. CREDIT FACILITIES

The CPP Investment Board maintains $1.6 billion of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2005, the total amount drawn on the credit facilities is $Nil (March 31, 2004 – $Nil).

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 the Queen in right of Canada.

5. CANADA PENSION PLAN TRANSFERS

Pursuant to Section 108.1 and the Agreement dated as of April 1, 2004, referred to in Note 2 above, amounts not required to meet specified obligations of the CPP are transferred to the CPP Investment Board. The funds originate from 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. As discussed in Note 2, beginning in fiscal 2005, CPP transfers include an interest in the bond portfolio administered by the federal government and a portion of the CPP's cash operating reserve. In September 2004, the CPP Investment Board assumed responsibility for providing cash management services to the CPP, including the periodic return, on at least a monthly basis, of funds required to meet expenses and benefits. In accordance with the Agreement dated as of April 1, 2004, the 12 monthly payments to the CPP Investment Board of the cash operating reserve will be used to reduce the cash returned to the CPP for expenses and benefits as noted above.

During the year ended March 31, 2005, the total of $27,471,196,000 transferred to the CPP Investment Board includes bonds of $8,804,035,000 based on fair market value at the time of transfer, and cash of $18,667,161,000. During the same period, a total of $6,668,960,000 (net of the cash operating reserve entitlement of $3,804,459,000) was returned to the CPP to meet the liquidity requirements of the CPP.

As at March 31, 2005, accumulated transfers of $50,626,791,000 (March 31, 2004 – $29,824,555,000) from the CPP include transfers from the CPP of $57,295,751,000 (March 31, 2004 – $29,824,555,000), net of transfers to the CPP of $6,668,960,000 (March 31, 2004 – $Nil).

6. INVESTMENT INCOME, NET OF EXTERNAL INVESTMENT-MANAGEMENT FEES

(a) Investment income, net of external investment-management fees

Investment income is reported net of external investment-management fees. Investment-management fees in respect of public market investments are expensed as incurred. These fees include an incentive portion that fluctuates with investment performance. Investment-management fees for private market real estate investments are deducted by the asset manager before the CPP Investment Board receives its share of net operating income from the properties. For a discussion of private equity and infrastructure management fees, see Notes 2b and 2c.

Investment income by asset class, net of external investment-management fees and after giving effect to derivative contracts and investment receivables and liabilities, is as follows:

($000s)	2005	2004
EQUITIES [1]		
Canada		
Public markets	$ 3,826,851	$ 5,376,659
Private markets [2]	70,072	(13,595)
	3,896,923	5,363,064
Non-Canada		
Public markets	398,232	1,546,533
Private markets [2]	311,296	174,302
	709,528	1,720,835
Less: Public market external investment-management fees	(16,263)	(753)
	4,590,188	7,083,146
REAL RETURN ASSETS		
Public market real estate [3]	53,192	151,961
Private market real estate [4]	48,121	30,693
Less: External investment-management fees	(4,504)	(4,385)
	43,617	26,308
Private market infrastructure	(2,131)	–
	94,678	178,269
NOMINAL FIXED INCOME		
Money market securities [5]	9,769	(32,806)
Bonds	319,307	–
INVESTMENT INCOME, NET OF EXTERNAL INVESTMENT-MANAGEMENT FEES [6]	$ 5,013,942	$ 7,228,609

[1] Includes unrealized gains of $2,140,838,000 (2004 – unrealized gains of $5,908,112,000), realized gains net of external investment-management fees of $1,732,206,000 (2004 – realized gains net of external investment-management fees of $690,622,000), and dividends of $717,144,000 (2004 – $484,412,000).

[2] As described more fully in Note 2b, the carrying values of private equity investments are reviewed at least annually and any resulting adjustments are reflected as unrealized gains or losses in investment income.

[3] Includes unrealized gains of $29,894,000 (2004 – unrealized gains of $131,995,000), realized gains of $3,675,000 (2004 – realized losses of $4,000) and dividends of $19,623,000 (2004 – $19,970,000).

[4] Includes private market real estate operating income of $37,076,000 (2004 – $20,795,000), which is net of debt interest of $22,751,000 (2004 – $17,260,000), and unrealized gains of $11,045,000 (2004 – unrealized gains of $9,898,000). Realized gains were $Nil (2004 – $Nil).

[5] Includes realized gains of $9,866,000 (2004 – realized losses of $32,955,000) and unrealized losses of $97,000 (2004 – unrealized gains of $149,000).

[6] Includes foreign exchange losses of $867,385,000 (2004 – foreign exchange losses of $392,607,000).

(b) Investment performance

Portfolio returns and benchmark returns are as follows:

	2005		2004	
	Portfolio Returns	**Benchmark Returns**	Portfolio Returns	Benchmark Returns
Canadian equity investments	**16.2%**	**16.0%**	34.3%	37.0%
Non-Canadian equity investments	**4.9**	**3.1**	24.5	29.5
Real return assets	**11.8**	**10.7**	50.5	15.3
Nominal fixed income [1]	**5.2**	**5.9**	–	–
Total portfolio	**10.7**	**9.9**	31.7	34.4

[1] Target weights and associated benchmark returns were established in 2005.

The benchmark returns for both public and private equities are based on relevant S&P/Citigroup benchmark returns. 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. These benchmarks are aggregated according to the benchmark weights specified in the investment policies. The benchmark for real estate and infrastructure is the Scotia Capital Real Return Bond Index.

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 CFA Institute (formerly the Association for Investment Management and Research).

7. OPERATING EXPENSES

(a) General operating expenses

General operating expenses consist of the following:

($000s)	2005	2004
Office rent, supplies and equipment	**$ 4,099**	$ 2,158
Custodial fees	**3,515**	1,973
Data, analytical and operational services	**2,430**	1,319
Communications expenses	**944**	813
Travel and accommodation	**583**	477
Directors' remuneration	**548**	426
Internal audit	**405**	292
Other operating expenses	**717**	288
	$ 13,241	$ 7,746

Directors' remuneration includes an annual retainer for each director of $20,000 (increased from $14,000 effective December 1, 2004), board and committee meeting fees of $1,000 per meeting (2004 – $1,000), plus an annual retainer of $7,500 for each committee chair (increased from $3,250 effective December 1, 2004). Separate fees are not paid for investment committee meetings when they are held on the same day as board meetings, which is the custom. The chair of the board of directors receives $95,000 in annual compensation (increased from $85,000 effective December 1, 2004) but is not eligible to receive annual or committee chair retainers or meeting fees unless the fees relate to public meetings. In fiscal 2005, the chair received a total of $93,000 (2004 – $85,000).

In fiscal 2005, the board of directors held 12 board and investment committee meetings (2004 – 9) and 30 other committee meetings (2004 – 22).

(b) *Executive compensation*

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

Compensation earned by the five most highly compensated executive officers of the CPP Investment Board during fiscal 2005 amounted to $3,897,227 (2004 – $2,391,044) and consisted of the following:

Name [1]	Year	Salary	Annual Bonus [2]	Long-Term Bonus [1,2]	Benefits and Other Compensation [3,4]	Total
John A. MacNaughton [5]	**2005**	**$ 336,775**	**$ 329,907**	**$ 959,251**	**$ 104,436**	**$ 1,730,369**
President and Chief Executive Officer	2004	$ 415,000	$ 250,000	$ 188,027	$ 71,288	$ 924,315
Donald M. Raymond	**2005**	**$ 275,000**	**$ 285,000**	**$ 119,302**	**$ 37,354**	**$ 716,656**
Vice-President – Public Market Investments	2004	$ 205,000	$ 131,200	$ –	$ 25,843	$ 362,043
Valter Viola	**2005**	**$ 205,000**	**$ 167,895**	**$ 191,300**	**$ 25,902**	**$ 590,097**
Vice-President – Research and Risk Management	2004	$ 195,000	$ 113,880	$ 100,320	$ 27,236	$ 436,436
John Butler [6]	**2005**	**$ 245,000**	**$ 163,235**	**$ –**	**$ 26,308**	**$ 434,543**
Vice-President – General Counsel and Corporate Secretary	2004	$ 100,923	$ 75,000	$ –	$ 7,367	$ 183,290
Jane Nyman	**2005**	**$ 205,000**	**$ 146,575**	**$ 54,309**	**$ 19,678**	**$ 425,562**
Vice-President – Finance and Operations	2004	$ 185,000	$ 60,125	$ 22,842	$ 16,877	$ 284,844

[1] David F. Denison joined the CPP Investment Board as President and Chief Executive Officer on January 17, 2005. Total compensation earned during fiscal 2005 by Mr. Denison amounted to $182,650, which consisted of salary of $93,462, annual bonus of $82,500 and benefits of $6,688.

[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 $380,620 for payment in 2006, $445,799 for payment in 2007, and $529,720 for payment in 2008. These amounts are adjusted annually by the total portfolio return. The payment of the long-term bonus is subject to executive officers meeting certain conditions of employment.

Total long-term bonuses awarded but not yet paid, by officer and by year, are as follows:

	2006	2007	2008	Total
Donald M. Raymond	$ 162,602	$ 181,597	$ 190,000	$ 534,199
Valter Viola	160,415	157,624	90,405	408,444
Jane Nyman	57,603	51,213	78,925	187,741
John Butler	–	55,365	87,890	143,255
David F. Denison	–	–	82,500	82,500
	$ 380,620	$ 445,799	$ 529,720	$ 1,356,139

[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. Under the defined contribution registered pension plan, executive officers contribute 3 per cent of annual eligible earnings and the CPP Investment Board contributes 6 per cent to the maximum allowed under the *Income Tax Act (Canada)*. Eligible earnings include salary and taxable benefits plus annual bonus to a maximum of 50 per cent of total salary and taxable benefits. The CPP Investment Board's contributions vest with the employee after two years of continuous service. Under the defined contribution supplementary pension plan, which is unfunded, executive officers earn contribution credits equal to 9 per cent of their eligible earnings in excess of the maximum eligible earnings under the registered pension plan. Contributions vest with the employee after five years of continuous service. This total unfunded liability as at March 31, 2005 is $143,150 (2004 – $250,604).

[4] Other compensation relates to $41,274 of vacation payout for Mr. MacNaughton paid in fiscal 2005.

[5] Retired from the CPP Investment Board in January 2005. As described in footnote 2, bonuses are awarded on an annual basis and consist of an annual amount and a long-term component with deferred payment terms. Bonuses paid to Mr. MacNaughton in the current year include the annual component for the portion of fiscal 2005 prior to his retirement and the long-term component reflecting amounts awarded in the current and previous three years, all of which vested and was payable upon retirement.

[6] Commenced employment on October 6, 2003.

(c) *Professional and consulting fees*

Professional and consulting fees consist of the following:

($000s)		2005		2004
Consulting [1]	**$**	**2,429**	$	1,723
Legal		**1,772**		964
External audit and tax services [2]		**902**		1,182
	$	**5,103**	$	3,869

[1] Includes fees for non-audit services of $26,000 (2004 – $27,000) that were paid to the external auditors of the CPP Investment Board.

[2] Includes fees for audit services of $657,000 (2004 – $557,000), fees for non-audit services of $104,000 (2004 – $101,000) and fees of $141,000 (2004 – $488,000) for the special examination carried out by the external auditors pursuant to the *Canada Pension Plan Investment Board Act*.

8. COMMITMENTS

The CPP Investment Board has committed to enter into investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at March 31, 2005, the remaining commitments total $5.4 billion (March 31, 2004 – $3.9 billion).

As at March 31, 2005, the organization has made lease commitments of $20 million (March 31, 2004 – $21 million) over the next nine years.

9. GUARANTEES AND INDEMNIFICATIONS

The CPP Investment Board provides guarantees to its officers, directors and various counterparties as part of its standard indemnification agreements. Under these agreements, the CPP Investment Board may be required to compensate these parties for costs incurred as a result of various contingencies such as changes in laws and regulations and litigation claims. The contingent nature of the indemnification agreements prevents the CPP Investment Board from making a reasonable estimate of the maximum potential payments the CPP Investment Board could be required to make. To date, the CPP Investment Board has not received any claims nor made any payments for such indemnifications.