CPP INVESTMENT BOARD

Annual Report 2006

CPP INVESTMENT BOARD ANNUAL REPORT 2006

Corporate Profile

The Canada Pension Plan Investment Board is a Crown corporation created by an Act of Parliament in December 1997. Its long-term goal is to contribute to the financial strength of the Canada Pension Plan by investing on behalf of 16 million CPP contributors and beneficiaries and by maximizing returns without undue risk of loss.

The CPP Investment Board invests the funds not needed by the CPP to pay current benefits. It is not expected to be required to contribute investment earnings to the CPP to help pay pensions until 2022. In order to build a diversified portfolio of CPP assets, the CPP Investment Board is currently investing cash flows in publicly traded stocks, private equities, real estate, inflation-linked bonds and infrastructure to balance the legacy government bond portfolio.

Our disclosure policy states that: *"Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf and how the investments are performing."*

By increasing the long-term value of funds available to the CPP, the CPP Investment Board will help the plan to keep its pension promise to Canadians.

With a mandate from the federal and provincial governments, the CPP Investment Board is accountable to Parliament and to the federal and provincial finance ministers who serve as the stewards of the CPP. Based in Toronto, the CPP Investment Board is governed and managed independently of the CPP and at arm's length from governments.

For more information on the CPP Investment Board, visit our website at www.cppib.ca.

FINANCIAL HIGHLIGHTS

CPP Fund

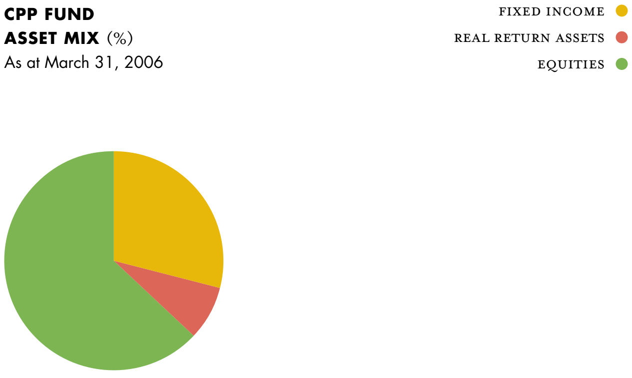
FINANCIAL OVERVIEW For the year ended March 31 ($ billions)	**2006**	2005
Assets	**$ 98.0**	$ 81.3
Net contributions	**3.6**	4.5
Investment income	**13.1**	6.3

INVESTMENT PERFORMANCE (%)	**2006**	2005
Annual	**15.5**	8.5
Five-year average rate of return	**8.6**	7.0

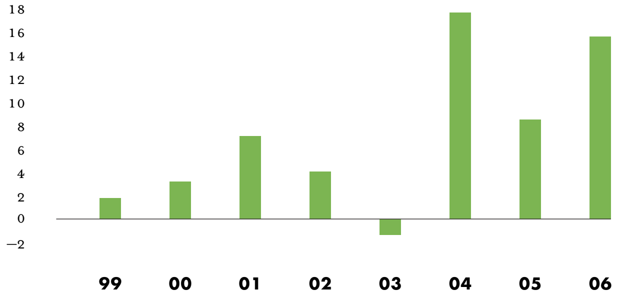
ASSETS	**2006 ($ billions)**	**2006 (% of total)**	2005 ($ billions)	2005 (% of total)
Public equities	**$ 57.3**	**58.5%**	$ 45.7	56.2%
Private equities	**4.4**	**4.5**	2.9	3.6
Bonds	**27.2**	**27.7**	28.6	35.3
Real estate	**4.2**[1]	**4.3**	0.8	1.0
Inflation-linked bonds	**4.0**	**4.0**	–	–
Infrastructure	**0.3**	**0.4**	0.2	0.2
Cash and money market securities	**0.6**	**0.6**	3.1	3.7
	$ 98.0	**100%**	$ 81.3	100%

[1] Net of mortgage debt on real estate properties.

CPP FUND
ASSET MIX (%)
As at March 31, 2006



CPP FUND
INVESTMENT RETURNS (%)
For the year ended March 31



THE NEAR-TERM ASSET-MIX TARGET
Fixed income assets include government bonds, cash and money market securities. Equities include public equities (which are publicly traded stocks) and private equities. Real return assets include inflation-linked bonds, infrastructure and real estate.

THREE-YEAR AVERAGE 13.8 PER CENT
Income earned on investments was 17.6 per cent in 2004, 8.5 per cent in 2005 and 15.5 per cent in 2006, for an average annual return of 13.8 per cent over three years.

Chair's Report

The growing focus on accountability finds the CPP Investment Board well grounded in two ways: first, a strong governance model that allows investment professionals to operate successfully in the private sector world of financial markets, subject to the oversight of an independent board and strong public sector accountability; and second, a strong internal accountability framework for the performance of the portfolio and for the development of the organization.

"Fiscal 2006 was a year of transformation in which the CPP Investment Board took major steps forward in setting our long-term strategic direction, in identifying and enhancing our capabilities and in defining successful performance – all in support of the effective management of the pension assets of 16 million Canadians."

GAIL COOK-BENNETT
CHAIRPERSON

Shareholders are demanding more information from the companies in which they invest. Taxpayers want greater disclosure and openness by governments and their agencies. And stakeholders, of all kinds, want to know that those charged with safeguarding their interests perform this task effectively and with appropriate accountability. The CPP Investment Board supports these developments.

In an environment characterized by greater emphasis on accountability, the CPP Investment Board is well positioned. Almost a decade ago, the federal and provincial finance ministers structured the CPP Investment Board with a strong governance framework that was tailored to our mission and provided both our organization and governments with the tools for effective accountability.

The CPP Investment Board governance model allows us to fulfill our mandate as a professional investment management organization, operating in the private sector world of financial markets, with high levels of accountability. Three types of broad accountability are addressed below, each of which was enhanced by developments that occurred this year:

- The CPP Investment Board's accountability as fiduciaries to ensure the strength, growth and development of the CPP fund
- The accountability of independent investment professionals to an independent board of qualified directors
- The accountability of the CPP Investment Board to the federal and provincial finance ministers who serve as stewards of the Canada Pension Plan

FIDUCIARY ACCOUNTABILITY

The principal way we are accountable as fiduciaries is through our numbers – that is, the returns on our investments after adjusting for the risk taken. The positive investment results of 2006 strengthen the CPP fund significantly. Moreover, the organization significantly advanced the CPP Investment Board's objective of diversifying the portfolio and reducing risk by completing several major transactions with a total value of more than $7 billion. These are noteworthy accomplishments in their own right but are also symbolic of the expected future evolution of the portfolio.

Fiscal 2006 was a year of transformation in which significant advances were made toward identifying the strategy, people and processes required to position the portfolio for the continued investment performance required to help sustain the CPP fund for the long term.

Management, ably led by David Denison in his first full year as president and chief executive officer, initiated a fundamental and detailed strategic review of the portfolio and the organization, with the board of directors participating at key stages. The planning process resulted in a comprehensive and shared view of how to grow the portfolio effectively over the next few years and build the capability to deliver results.

The review culminated in a framework designed to maximize the opportunities for future growth of the fund. It encompassed the full scope of portfolio and risk-management strategies, as well as an articulation of organizational goals and requirements. The strategy also responded to a change in the external landscape which involved the elimination of two regulatory constraints – the foreign property rule and a regulation affecting fixed income investments. Both changes allow management to position the portfolio better from both a return and a risk perspective.

The board and management made important decisions as a result of this review process, two of which have particular relevance for our accountability as fiduciaries.

The first was a simple but profound commitment to designing a portfolio to capture risk-adjusted returns in excess of passive market returns, and to measure that added value against a reference portfolio invested passively within traditional asset classes. This decision reflected the view that future passive returns from traditional asset classes may well be insufficient to meet the requirements of the fund and that talented management investing in a broader set of strategies could achieve higher returns.

The second significant decision involved a renewed commitment to managing the CPP fund by focusing on the total portfolio. Since to truly meet this objective requires substantial additional portfolio and organizational complexity, a detailed approach to effective management was agreed upon. Both these choices are discussed further in the remainder of this report.

2006 was also a year of building organizational strength with the additions of experienced and talented leaders for our Portfolio Design and Risk Management, Private Investments, Real Estate Investments and Human Resources departments. Equally important was the commitment to expansion of strategic partnerships with external investment managers, as an important way of adding to the investment talent working on our behalf.

While we will monitor and adjust the individual elements of the strategy over time as needed, we believe this framework will contribute to the CPP Investment Board's long-term performance and accountability.

MANAGEMENT ACCOUNTABILITY

Effective management accountability to a board of directors makes demands on both the board and management. Directors must be engaged and knowledgeable in order to provide effective oversight and make a substantive contribution. The board of directors has committed the time for continuous learning about the organization's developing investment strategies and risks associated with them. This education is provided by both internal and external experts.

Management accountability to the board of directors has been enhanced this year through the direction outlined in the strategic review process. The CPP Reference Portfolio, described in the Management's Discussion and Analysis section of this report, provides the potential for significant clarity to investment, performance evaluation and incentive compensation proposals and decisions. Clarity, in turn, enhances accountability.

The changes in management accountability that took place this year are possible because our original governance platform defined management's accountability solely to an independent board of directors with investment, financial and governance experience, rather than to a cabinet minister or other government officials. As intended, our investment professionals operate at arm's length from governments, which is critical to our ability to compete in the private sector. Combined with the board of directors' accountability to its stewards, as described later, a careful balance between independence and accountability is achieved.

Other decisions by our stewards were designed to ensure that focus and accountability reside at the level of the board of directors and are not diffused through less precise accountability frameworks. The board, rather than a cabinet minister, appoints, evaluates and has the power to dismiss the chief executive officer. The audit committee has the same powers and jurisdiction with regard to the external auditor. In short, the board was given the tools it required in order to be held accountable for the organization's performance – a fundamental principle underlying governance best practices.

Finally, the ministers decided that the board should be accountable to them in their capacity as stewards of the Canada Pension Plan, as described on the next page.

ACCOUNTABILITY TO OUR STEWARDS

The CPP Investment Board is accountable to its stewards. This past year, management participated in the federal/provincial Triennial Review of the Canada Pension Plan, appearing before the 10 stewards of the CPP last September. Against the background of the review of governance practices of Crown corporations by the Treasury Board, the federal Justice Department and the Gomery Inquiry, management was able to demonstrate that our governance model, policies and practices are equal to or stronger than a variety of proposals to strengthen Crown governance. This merely confirms the extraordinary foresight of the CPP reformers in designing the organization in 1997 and the work done by our board and management to build on this strong foundation.

While the Triennial Review is one of the most visible forms of accountability to the stewards, other forms include the quarterly reporting of results and the ability of the federal finance minister to call a special audit at any time and to commission a special examination by an external auditor every six years.

Accountability is facilitated by good disclosure. The CPP Investment Board chose to go further than our legislation requires and disclose substantive information to help Canadians understand where and how we invest the portfolio, the financial performance of the fund and how we manage the organization. We voluntarily disclose more than any other pension fund in Canada on our website, which currently contains over 1,200 pages of information.

Accountability is deeply ingrained in our legislation and our governance model and in the policies and practices of the board, officers and employees.

INTEGRITY AND CONDUCT

On behalf of the board of directors, I wish to thank Mr. Justice Ted Hughes Q.C. for acting as our external conduct review advisor. His direct experience in this field, familiarity with the public sector and stature in the legal community benefited us on a number of occasions even before he agreed to serve as our advisor. More recently, we welcomed the Honourable Frank Iacobucci, whose experience as a justice of the Supreme Court of Canada, a senior public servant and long-time legal scholar is an ideal fit for external conduct review advisor.

On behalf of the board of directors, I wish to recognize David Denison and his management team for their outstanding work in formulating the strategic direction for the next five years and defining the organization and the accountabilities of the investment professionals required for effective implementation. I thank my fellow directors for their dedication to the work of the CPP Investment Board, which serves the 16 million Canadians contributing to and benefiting from the Canada Pension Plan.

Gail Cook-Bennett
Chairperson

KEY CORPORATE OBJECTIVES OF FISCAL 2006

We publish a statement in the annual report of our objectives for the past year and the extent to which they have been met. We also publish our objectives for the coming year and the foreseeable future. You will find the Corporate Objectives for Fiscal 2007 on page 32.

CPP FUND DIVERSIFICATION	**Further diversify the portfolio with increased focus on real return assets**
INVESTMENT CAPABILITIES	**Expand investment capabilities in key areas including trading, portfolio management, private markets, research and risk management**
TECHNOLOGY AND BUSINESS PROCESSES	**Define and begin implementation of the technology and business processes required to support expanding activities**
HUMAN RESOURCES	**Augment HR systems and processes**
CORPORATE STRATEGY	**Revisit corporate strategy in light of repeal of the foreign property rule**

Highlights

- Increased real return assets from 1.2 per cent of portfolio to 8.7 per cent
- Invested $3 billion in high-quality real estate and $4 billion in inflation-linked bonds
- Completed first infrastructure co-investment
- Increased global equity exposure while maintaining sizeable portfolio commitment to Canada

- Appointed vice-presidents for Portfolio Design and Risk Management, Private Investments and Real Estate Investments
- Developed the CPP Reference Portfolio
- Created internal team to invest alongside private equity partners
- Prepared to launch active internal management of U.S. equities
- Added 10 investment partners
- Created external mandates for global REITs and inflation-linked bonds
- Expanded active overlay program for passive public equity portfolio

- Developed integrated data repository
- Began implementing permanent IT structure and business processes keyed to organization's planning horizon and total portfolio approach

- Appointed the first vice-president, Human Resources
- Added 63 staff, many with international experience

- Transitioned public equity portfolio from complex structure no longer needed to meet foreign content constraints
- Reaffirmed use of global diversification and total portfolio approach to enhance returns and reduce risk
- Decided to base accountability on creating value above returns that would be achieved by the CPP Reference Portfolio

President's Message

Our accomplishments this year were focused on three themes: investing in a broader range of asset classes to further diversify the portfolio by risk/return attributes and by geography; enhancing the investment expertise and capability of the organization to support the management of an increasingly complex portfolio; and developing a clear longer term strategy and business plan designed to drive implementation.

"Canada's Chief Actuary estimates that the CPP fund will approximate $250 billion by 2016. With this growth trajectory in mind, we have designed a long-term strategy and a comprehensive business plan to build the expertise and capability, both internally and through strategic partnerships, to manage the CPP fund for the years and decades to come."

DAVID F. DENISON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

BUILDING A RECORD OF ACHIEVEMENT

At the outset of fiscal 2006, we established the following five key corporate objectives for the Canada Pension Plan Investment Board:

- to further diversify the CPP fund
- to expand our investment capabilities
- to define and implement new business processes and technology
- to augment our human resources systems
- to revise our corporate strategy

I am pleased to report that we made significant progress in each of these areas during the year.

With respect to diversification, our key investment goal was to increase significantly the proportion of assets within the portfolio that have inflation related attributes in light of the CPP's inflation-indexed liabilities. Accordingly, we established a near-term target allocation of 10 per cent for real return assets such as real estate, infrastructure investments and inflation-linked bonds to complement our 60 per cent allocation for equities and our 30 per cent target for fixed income. Over the course of fiscal 2006, we were successful in increasing our real return assets to $8.5 billion or 8.7 per cent of the overall portfolio from just $1 billion or 1.2 per cent at the beginning of the year.

We are particularly pleased with our acquisition of core Canadian real estate assets in the office and retail sectors during the year. Of particular note was our 50 per cent participation in the joint venture that purchased the $2 billion portfolio of Olympia & York (O&Y) office buildings, as well as our $1 billion partnership with Oxford Developments in a collection of core office towers in major cities across Canada. We invested $660 million to acquire an 80 per cent interest in two major retail malls in the province of Quebec. Outside of Canada, we made our first investments in European real estate through the LaSalle French Fund, which owns office and industrial properties in France, and the ING Britannica Fund, which focuses on retail properties in the United Kingdom.

We also acquired substantial holdings of inflation-linked bonds during fiscal 2006 that totalled $4.0 billion at year end. Until this year, Regulation 9 of the *Canada Pension Plan Investment Board Act* constrained our ability to invest in these and other marketable bonds by effectively limiting our bond holdings to non-marketable federal and provincial debt. We concluded successful negotiations with the federal and provincial finance departments in June 2005 that led to the elimination of Regulation 9 and provided additional flexibility to the provinces with respect to the terms of their existing bonds that we hold. This change enabled us to acquire the inflation-linked bonds previously mentioned and, importantly, allows us to invest in other categories of fixed income in the future.

In the public equities component of our portfolio, our diversification goal for 2006 was to increase the proportion of our international holdings. We believe that international investments help reduce concentration risk, enhance returns and avoid over-dependence of the CPP on the domestic economy. Accordingly, we invested new contributions from the CPP into international equity markets this past year, while beginning to reduce the proportion of our substantial holdings in Canadian public equities, which at year end totalled $28.5 billion or 29.1 per cent of the total portfolio.

Another aspect of our diversification objective for 2006 was to expand our private equity investments. Over the course of the year, we committed an additional $5.2 billion to funds with external investment management partners, bringing our total committed and drawn investment amounts to approximately $13.3 billion and $5.5 billion respectively. Canada represents 13 per cent of this total commitment, making us one of this country's largest private equity and venture capital investors.

The ultimate goal of these multiple aspects of portfolio diversification is to allow us to generate improved risk-adjusted returns for the CPP fund. Looking back to fiscal 2006, the fund grew by $16.7 billion to end the year at $98.0 billion. Within that growth, investment returns were $13.1 billion, representing a 15.5 per cent rate of return. This compares to the median performance for Canadian pension plans of 14.9 per cent during the same period.

Our second objective for fiscal 2006 was to expand our investment capabilities. To that end, we appointed three new investment vice-presidents this year who have brought us a wealth of Canadian and international experience:

- John Ilkiw now heads our Portfolio Design and Risk Management department; John has over 30 years of pension related work experience within Canada, the United Kingdom and the United States.
- Graeme Eadie heads our new Real Estate Investments department; Graeme has more than two decades of experience as a senior officer in the real estate, retail and manufacturing sectors.
- Mark Wiseman heads our Private Investments department; Mark previously led the private equity fund and co-investment program at one of Canada's largest public sector pension funds and previously worked in the United States and France.

These three are partnered with Don Raymond, vice-president of Public Market Investments, who joined the CPP Investment Board in 2001, following a number of years spent in the financial services industry both in Canada and the United States.

In addition to expanding our internal investment resources, we also expanded our relationships with top-tier private equity, real estate, infrastructure, venture capital and public equity managers around the world. We now have relationships with 62 external managers who complement our internal capabilities and assist us in achieving our investment diversification and performance goals.

We also extended our capabilities in other important aspects of our organization last year. Our third key objective was to define and begin implementation of the business processes and technology required to support our expanding investment and operational activities. To this end, our Finance and Operations area launched a comprehensive review of all our various processes and began implementing an enterprise technology architecture that will support the growing complexity of our investment activities in the years to come.

Investment management is largely a people business and the CPP Investment Board is a rapidly growing organization. We believe that our ability to attract, develop and retain high-calibre staff in a globally competitive marketplace is crucial to our success, and hence our fourth objective for 2006 was to augment our human resources systems. During the year we implemented a new incentive compensation plan that promotes accountability for investment and other results, revised our performance management system and successfully recruited 63 new colleagues, drawing from such diverse locations as the U.K., Australia, the U.S. and South Africa, as well as, of course, here in Canada. To bring increased focus to the critical role of managing our human capital, we appointed David Wexler as our first vice-president, Human Resources. David joined us from a Canadian software company with global operations and previously held senior positions with several large Canadian financial services organizations. Human resources will remain a key focus for us in fiscal 2007.

Our final key objective for 2006 was to revise our corporate strategy. The management team and board of directors examined a wide range of options for how we could organize ourselves and conduct our investment activities to manage the assets of the rapidly growing CPP fund. As a consequence of this review we made a number of decisions that will guide our activities over the next three to five years.

One of these decisions was the formulation of the CPP Reference Portfolio as the key benchmark for measuring the investment performance of the CPP Investment Board. Another was our commitment to manage the assets of the CPP fund within a total portfolio approach. This approach places risk/return decision-making at the portfolio level rather than in each asset class; it also leads us to assess the contribution of investments to the overall portfolio by their risk and return characteristics versus their traditional asset labels. Both of these important concepts are described in greater detail in the Management's Discussion and Analysis section of this report.

These and our other strategic management choices focus increased emphasis on performance and accountability for the CPP Investment Board. Shaping and nurturing this focus will continue to be one of our primary challenges in the years ahead as we strive to help improve the long-term sustainability of the Canada Pension Plan.

David F. Denison
President and Chief Executive Officer

Financial Review

This 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. Therefore, our investment activities may vary from those outlined in these forward-looking statements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following information provides analysis of the operations and financial position of the Canada Pension Plan Investment Board and should be read in conjunction with the Consolidated Financial Statements and accompanying notes for the year ending March 31, 2006. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Vision, Core Activity and Strategy

OVERVIEW

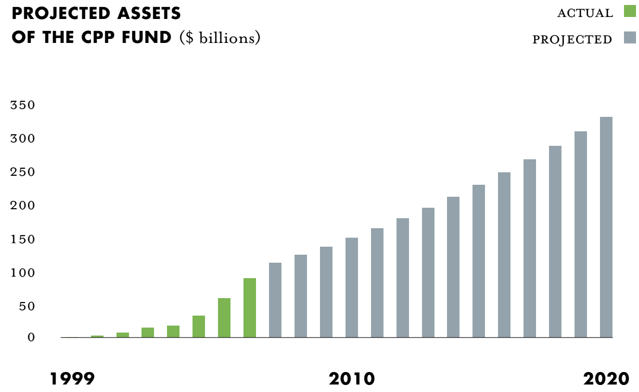
The Canada Pension Plan Investment Board is a Crown corporation operating independently of the Canada Pension Plan and at arm's length from governments. The CPP Investment Board was created in 1997 to invest the assets of the CPP.

We are an investment management organization with a legislated mandate 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 the ability of the Canada Pension Plan to meet its financial obligations on any business day."

As a fiduciary acting on behalf of 16 million contributors and beneficiaries, our investment objective is to help improve the sustainability of the CPP. We do this by designing a portfolio to address the CPP's projected liabilities and by investment activities that enhance risk-adjusted returns.

When the CPP Investment Board began investing in 1999, the CPP fund, which comprises the assets not needed to pay current benefits, held only non-marketable government bonds. To fulfill our mandate, we have spent the ensuing years diversifying the fund by directing incoming contributions primarily into public equity, private equity and real estate investments. By the end of fiscal 2005, the CPP fund had reached the asset allocation that is common among many large defined benefit pension plans: approximately 60 per cent in equities and 40 per cent in fixed income. Beginning in fiscal 2006, the near-term asset-mix target was refined to 60 per cent equity, 30 per cent fixed income and 10 per cent real return assets to improve its risk/return profile.

PROJECTED ASSETS OF THE CPP FUND ($ billions)



GROWTH TRAJECTORY
According to the Chief Actuary of Canada, the CPP fund is projected to grow to $246 billion within the next decade, placing it among the world's largest institutional investors.

We use a total portfolio approach as an overall principle for how we design the portfolio and how we make investment decisions. This approach focuses on the risk/return characteristics of investments rather than traditional asset labels. By seeking diversification by risk and return streams rather than asset classes, we believe we can better manage portfolio risk and achieve superior investment returns.

Based on projections by the Chief Actuary of Canada, CPP contributions are expected to exceed annual benefits paid until 2022, providing a 16-year period before a portion of the investment income is needed to help pay CPP benefits. During this period, the Chief Actuary estimates that large amounts of excess CPP contributions (currently $3.6 billion annually and declining thereafter) will flow to the CPP Investment Board for investment purposes. Thus, there is relative certainty about future asset growth from contributions.

STRATEGY

There are two dimensions to our strategy: an investment strategy for the CPP assets and a development strategy designed to support the CPP Investment Board's growth as an efficient, effective business organization. We provide an overview of the two dimensions here, and elaborate in later sections of this report.

Investment Strategy

During the past year, management refined the fund's asset mix and investment approach to increase risk-adjusted returns and to better match the portfolio's assets to the CPP's projected liabilities. The near-term asset-mix target established in fiscal 2006 is 60-30-10, with 60 per cent of the portfolio in public and private equity investments, 30 per cent in fixed income, consisting almost entirely of non-marketable government bonds, and 10 per cent in real return assets, consisting of inflation-linked bonds as well as real estate and infrastructure.

As we continue to evolve into a more mature investment fund, we are seeking new and expanded investment opportunities to capture returns available from the public and private markets. In the past year, for example, we substantially expanded our private real estate investments and made initial investments in publicly traded inflation-linked bonds.

We have also increasingly diversified the fund by geography. Investing in international markets supports our mission in three primary ways. First, Canada's stock market is small, representing only about 3 per cent of world market capitalization, and is heavily concentrated in a few sectors, such as resources and financial services. It offers few opportunities to invest in sectors such as technology, health care and consumer goods. Second, the flow of contributions into the CPP varies directly with the health of the Canadian economy. By reducing the fund's reliance on the Canadian economy, global diversification offers a source of returns for those times when the Canadian economy, and correspondingly CPP contributions, is in decline. Third, prudent investments in rapidly growing regions will enable the CPP Investment Board to harness the positive demographic growth and rising productivity of other regions of the world to create a flow of foreign income to help support pensions for Canadians. So, while maintaining a sizeable total investment in Canada, we are increasing the percentage of the fund's global investments.

"The CPP Reference Portfolio provides an understandable, demanding investment benchmark to evaluate the impact of our decision-making. In developing it, we focused on the nature of the CPP's liabilities and the risk/return preferences of the CPP stewards, not the asset-mix policies of other large pension plans. We expect it will remain unchanged over the current strategic plan, about five years."

JOHN H. ILKIW
VICE-PRESIDENT — PORTFOLIO DESIGN AND RISK MANAGEMENT

Over the next few years, we expect to base our investment strategy on four themes:

- **Pursue private investments in real estate and infrastructure to enhance returns and diversify the portfolio.** We will complement our real estate holdings, which are predominantly located in Canada, by seeking real estate opportunities globally. In addition, we will actively consider domestic and international infrastructure investments. Real estate and infrastructure have attractive inflation-related characteristics that can offer higher risk-adjusted returns than investments with contractual inflation protection such as real return bonds.
- **Continue our pursuit of private equity investments.** Our goal is to capture private investment returns that exceed the comparable public market opportunities.
- **Continue our pursuit of public market active management strategies.** We will continue to expand our external active management program. In addition, we will introduce an internal active management program with an initial focus on North American equities.
- **Expand our credit evaluation capabilities to invest in a wider range of investment categories.** These categories include government, corporate and high-yield bonds – both domestic and international – as well as emerging market investments in debt and equity.

Development Strategy

The CPP Investment Board experienced rapid growth in every respect during its first seven years of operation and most notably during the past 24 months. The emphasis has been on solidifying the foundation of our investment organization while prudently investing substantial inflows.

We are now focused on expanding our investment activities through the development of our internal capabilities and by fostering strategic partnerships with top-tier external investment managers. As a relatively new organization, we are focused on seeking and adopting current best practices available for every part of our business operation.

While continuing to build institutional strength over the past year, we also conducted a strategic review to better define the organization's mission. Through this review, we identified the comparative advantages we can build upon to maximize the probabilities of our success and adopted an implementation plan for the next three- to five-year period.

Commitment to the highest standards: We believe our mandate requires the CPP Investment Board to operate with the highest standards of integrity and ethical conduct. We have a distinct status as a Crown corporation that was intentionally designed to be independent of, though accountable to, participating governments. Our comprehensive governance and accountability framework includes a number of measures designed to preserve the public trust. But, as part of our commitment to ethical conduct, the CPP Investment Board has gone well beyond legislated requirements and industry norms in establishing and maintaining high standards of conduct and business practice.

One such measure is the CPP Investment Board's stringent code of conduct and conflict of interest procedures for directors, officers and employees. Our code obligates officers and employees to act as whistleblowers if they become aware of any suspected breaches. Any such report can be made confidentially to the chairperson, president, general counsel or an external conduct review advisor. The Honourable Frank Iacobucci, former justice of the Supreme Court of Canada, was appointed to the position of conduct review advisor on October 1, 2005. In this part-time role, Mr. Iacobucci counsels CPP Investment Board directors, employees and external partners who seek confidential guidance on ethical matters related to the board's code of conduct and conflict of interest procedures. The role of conduct review advisor was created in 2003.

We have also adopted comprehensive standards and policies to ensure we always act responsibly as a capital markets participant.

"We are a federal Crown corporation which is governed and managed independently of the CPP and at arm's length from governments. We are accountable to our federal and provincial stewards and at all times act in the best interests of CPP contributors and beneficiaries."

JOHN H. BUTLER
VICE-PRESIDENT — GENERAL COUNSEL AND CORPORATE SECRETARY

Commitment to accountability and disclosure: Accountability and disclosure are also hallmarks of our distinct governance model, carefully designed by the federal and provincial finance ministers to meet our specific investment mission.

As set out in our founding legislation, we report to Parliament through the finance minister, who tables our annual report in the House of Commons. Quarterly financial statements are filed with the federal and provincial finance ministers, who act as stewards of the Canada Pension Plan. Further, the chair and chief executive officer take questions and comments from individual Canadians and stakeholder groups at biennial public meetings in each of the nine provinces that participate in the CPP.

Our disclosure policy goes well beyond these legislated requirements. Indeed, we disclose more information, more often, than any other pension fund in Canada and, to our knowledge, in the world. For example, after each quarter we issue a news release summarizing the investment performance of the CPP fund during the preceding three months and provide quarter-end financial statements. These materials are posted on our website — www.cppib.ca — which maintains an archive dating back to 1999, when we first began investing. The website also contains a complete list of the fund's holdings and a list of our investment partners with links to their websites. As well, interested parties can access the legislation and regulations that govern our activities, by-laws, governance manual and policies, including the Investment Statement, that guide us in managing the CPP's assets. In addition, the website offers a page that solicits feedback and queries and provides a compilation of frequently asked questions.

DISCLOSURE

Disclosure Policy: Canadians have the right to know why, how and where we invest their CPP money, who makes the investment decisions, what assets are owned on their behalf and how the investments are performing.

Our website — www.cppib.ca — provides details of our

- public equity holdings
- private equity, infrastructure and real estate investments
- fixed income portfolio
- external partners
- proxy voting records
- organizational policies and guidelines — a total of about 300 pages
- speeches, news releases and reports
- public opinion surveys
- thumbnail biographies of all directors and senior staff
- annual reports
- quarterly reports

ACCOUNTABILITY

- Investment professionals are accountable to an independent board of directors
- The CPP Investment Board is accountable to the CPP stewards, who are the federal and provincial finance ministers
- We report to the federal minister of finance and to Parliament
- We report to 16 million Canadian contributors and beneficiaries
- Special examination is performed by an external audit firm every six years, as ordered by the federal minister of finance
- Regular annual audits are conducted by an external audit firm
- Special audits can be ordered by the federal finance minister at any time
- There are codes of conduct and conflict of interest procedures for directors and employees, plus a conduct review advisor
- Public meetings are held every two years in the nine participating provinces

Key Performance Drivers

The most powerful performance drivers are the effectiveness of our total portfolio approach to risk/return portfolio management, which affects investment performance, and the ability of the organization to attract and retain internal talent and use external strategic partners to implement our strategy. These issues are covered in more detail throughout this report. Other performance drivers include the knowledge, judgment and discipline of our investment professionals, their ability to work as a team, and their access to information and decision-making tools. While these drivers are common to investment management organizations, there are other drivers that are unique to us including the following:

Mandate: As distinct from some other public pension funds, our mandate has a single investment focus. As enshrined in legislation, our mandate is to help pay future CPP benefits on behalf of the 16 million contributors and beneficiaries. Our investment mission and fiduciary duty are, in part, to maximize returns without undue risk of loss. Our investment organization is accountable to an independent board of directors. The CPP Investment Board reports to Parliament and to the federal and provincial finance ministers, who serve as stewards of the CPP. We are, however, managed independently of the CPP and at arm's length from governments.

Time horizon: Our very long-term investment time horizon and no requirement to help pay benefits for 16 years create rare strategic advantages for the CPP fund. The Chief Actuary has projected that annual CPP contributions will cover benefits paid until 2022. At that time, the plan is expected to begin using a relatively small portion of annual investment income to help pay benefits.

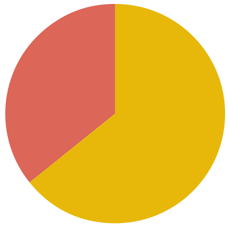
This relative certainty of ongoing positive inflows allows us to invest a higher proportion of the portfolio in areas such as real estate and infrastructure that require patient capital and which offer inflation-sensitive income streams that are a good match for the CPP's inflation-indexed liabilities. We can also invest a higher proportion of the portfolio in areas such as private equity and venture capital that typically require several years to generate returns. Also, substantial annual inflows allow us to make investments with new cash rather than having to sell existing investments to fund new opportunities.

Scale: According to the Chief Actuary of Canada, the CPP fund is projected to grow to $246 billion within the next decade, placing it among the world's largest institutional investors.

The size of the fund entails both advantages and constraints. One of the advantages is that we can commit sizable amounts to individual investment opportunities. We also have the ability to seek strategic partnerships with the world's leading investment management organizations. Moreover, we can cost-effectively commit resources to develop the internal capabilities and leading edge decision-making and risk-management tools that are required to manage a fund of this size and complexity over a long period. As for constraints, the size of the fund generally makes it impractical for us to pursue some investment opportunities that might otherwise be attractive but lack sufficient scale to make an appreciable contribution to our overall returns. As well, our significant investments in public markets can have the potential to affect markets through our trading activity. And, while sizeable monthly inflows from contributions provide new money for investment, they also entail deployment costs.

Focus on risk/return management: Our activities are focused on achieving, at a minimum, the projected return required to help sustain the CPP. Based on reasonable demographic and economic assumptions, the Chief Actuary has projected that the CPP's current benefits and contribution rate are sustainable for at least the next 75 years, the length of the Chief Actuary's study period. The sustainability of the CPP depends on various economic and demographic factors and assumptions. The assumptions are subject to review every three years when the Chief Actuary updates the plan's projection for review by the federal and provincial finance ministers, who serve as stewards of the CPP.

CPP FUND
GEOGRAPHIC DIVERSIFICATION (%)
As at March 31, 2006



Approximately $63 billion of the $98 billion CPP fund is invested in Canada.

Results

ASSET GROWTH

At March 31, the CPP fund[1] totalled $98 billion versus $81.3 billion at March 31, 2005. This growth consisted of $13.1 billion from investment income and $3.6 billion from CPP contributions not required to pay current benefits.

ASSET MIX

At March 31, the CPP fund had made good progress toward the near-term asset-mix target of 60-30-10 created at the beginning of fiscal 2006. Equities totalled $61.7 billion or 63 per cent of the fund. This consisted of publicly traded stocks valued at $57.3 billion or 58.5 per cent of the total fund plus private equity valued at $4.4 billion or 4.5 per cent of the total fund. Fixed income comprised of government bonds and money market securities totalled $27.8 billion or 28.3 per cent of the fund. Real return assets represented $8.5 billion or 8.7 per cent of the fund. This consisted of real estate valued at $4.2 billion or 4.3 per cent of the fund, inflation-linked bonds valued at $4 billion or 4 per cent of the fund and infrastructure investments valued at $350 million or 0.4 per cent of the fund.

INVESTMENT RETURNS BY ASSET CLASS
For the year ended March 31, 2006

	Rate of Return (%)
Equities	22.6
Fixed income	4.3
Real return assets	12.9
Overall rate of return	15.5

INVESTMENT RESULTS

The CPP fund generated income of $13.1 billion during fiscal 2006. This compares with $6.3 billion for fiscal 2005. The rate of return for this year was 15.5 per cent, compared with 8.5 per cent last year.

Equity markets performed exceptionally well in fiscal 2006, accounting for approximately 85 per cent of the fund's gains. Canadian public equity markets were strong in all sectors, especially the energy and financial services sectors, and as a result our Canadian equity holdings generated an overall rate of return of 29.9 per cent.

[1] The CPP fund refers to assets not needed to pay current CPP benefits and contains assets managed by the CPP Investment Board and government bonds not yet transferred to us from the Department of Finance Canada. We take both components into account when making investment decisions. The following commentary reflects this, but the consolidated financial statements that form the latter half of this annual report deal exclusively with the 90.4 per cent of CPP assets managed directly by the CPP Investment Board. When the transfer of government bonds to us is completed in April 2007, the entire CPP fund will be managed directly by the CPP Investment Board.

PERFORMANCE MEASUREMENT

On April 1, 2006, we introduced a performance measurement framework called the CPP Reference Portfolio. This is a notional portfolio comprised of 40 per cent global equities, 25 per cent Canadian equities, 25 per cent fixed income and 10 per cent real return bonds. The CPP Reference Portfolio is designed to reflect the liabilities specific to the CPP. Furthermore, it reflects the systematic risk assumptions incorporated in the 1997 CPP reforms and the CPP's 9.9 per cent contribution rate.

The CPP Reference Portfolio provides the board of directors, management and CPP stakeholders with an understandable, low-cost and demanding investment benchmark to evaluate the impact that CPP Investment Board investment and organizational decision-making has on the performance of the CPP fund. It is benchmarked against broad market indices maintained by organizations such as S&P/Citigroup and Scotia Capital.

A significant adjustment of the public market equities portfolio was initiated in the second quarter of fiscal 2006 to align the portfolio with the new composite benchmark. Prior to this, standard indices were less effective indicators against which to judge the CPP Investment Board's fund performance. At that time, we had a customized benchmark with 51 benchmark returns for the portfolio. The customization was necessary to meet our investment mandate within constraints imposed by the foreign property rule and by Regulation 9 of the *Canada Pension Plan Investment Board Act*. The foreign property rule limited the foreign content of the CPP Investment Board portfolio to 30 per cent of its book value. The removal of those constraints enabled us to adopt a more straightforward and efficient benchmark comprised of just four categories, each of which can be measured against an accepted market index. Aligning the portfolio with this new benchmark required substantial effort during the year.

The 15.5 per cent return for fiscal 2006 compares to the 14.9 per cent median return for Canadian pension plans.[2]

"This was a year of realignment for our public equity portfolio as the repeal of the foreign property rule enabled us to move to a much simpler structure. Realigning a portfolio of this size without notable market impact was akin to navigating a super tanker through a busy harbour. Now, we look forward to building our internal active management capabilities."

DONALD M. RAYMOND
VICE-PRESIDENT — PUBLIC MARKET INVESTMENTS

EQUITIES

Equities generated income of $11.2 billion, representing a return of 22.6 per cent for fiscal 2006. This compares with $4.6 billion and 11.5 per cent for the prior year.

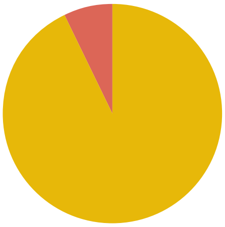
Public Equity

At March 31, public equities totalled $57.3 billion versus $45.7 billion at the end of fiscal 2005. They earned a rate of return of 23 per cent compared with 11.2 per cent for the previous year.

Most of the public equity portfolio is held in a passive portfolio that largely replicates major indexes and is not actively traded. As explained above, the public equity portfolio was realigned during 2006 to replicate market capitalization indices widely used in the investment industry. This realignment was possible because of the removal of investment constraints discussed earlier. Realigning the $57.3 billion public equity portfolio with minimal market impact was a significant undertaking.

[2] According to a survey by RBC Dexia Investor Services, the median performance for Canadian pension plans is 14.9 per cent for the 12 months ending March 31, 2006.

EQUITIES (%)
As at March 31, 2006



Equities generated income of $11.2 billion, representing a return of 22.6 per cent. Public equities make up 58.5 per cent of the CPP fund while private equities make up 4.5 per cent.

Canadian public equities account for more than $28.5 billion, or 29.1 per cent of the fund. As part of our global diversification and risk-management program, we reduced the number of shares of Canadian public equities in order to increase public equity exposure elsewhere. Given strong equity markets in Canada, the dollar value of this portion of the portfolio is little changed. We are also maintaining our sizeable amount of total Canadian investments by purchasing Canadian assets in other segments of the portfolio.

Our active overlay program has now run for two fiscal years and we are pleased with the results to date. This program places a layer of active selection over our passive portfolio of more than 2,600 public companies. Four external investment managers – Barclays Global Investors Canada, Connor, Clark & Lunn Investment Management Ltd., Goldman Sachs Asset Management and UBS Global Asset Management – sell securities that they expect to underperform and invest in securities from which they expect superior performance. Their compensation is primarily performance based; they receive a small base fee plus a percentage of the value they create. Collectively, they delivered $90.1 million in added value for the year and $153 million since inception of the program. During fiscal 2006 we increased three of the four mandates. As part of our partnership approach to help build capability, we are benefiting from the expertise of these partners as we develop our own internal active management capabilities.

Private Equity

At March 31, private equity investments totalled $4.4 billion versus $2.9 billion at the end of fiscal 2005. They earned an internal rate of return of 18.2 per cent compared with 19.1 per cent for fiscal 2005.

We are now experiencing significant growth in distributions[3] as earlier fund investments advance along the typical seven- to 10-year investment life cycle for private equity.

Approximately $13.3 billion has been committed to private equity funds since we entered this market in 2001. The past year saw new commitments of $5.2 billion to private equity funds, which reflected both the Private Investments team's rapid expansion and a market environment where many top-tier fund managers were raising additional capital. Of particular note is the commitment of $400 million to the Canadian private equity and venture capital market through the creation of a new Canadian fund of funds program. This program provides the CPP Investment Board with access to smaller Canadian buyout funds and Canadian venture capital funds.

The private equity fund portfolio now consists of investments in 77 funds with 50 managers and is invested in a wide range of industries, primarily in North America and Western Europe.

Also of note is the recent establishment of a separate team dedicated to making principal[4] investments beside our private equity fund managers. In fiscal 2006, we made a total of seven principal investments totalling $227 million. We expect to expand our principal investment activities substantially in fiscal 2007 and beyond.

Private Investments 2006 Highlights

- Committed $5.2 billion to private equity fund managers
- Completed $598 million in principal investments and secondaries alongside our fund partners
- Received $1.2 billion in distributions from our fund investments
- Hired a permanent vice-president, two directors, and 11 other investment professionals
- Created Funds and Secondaries, Principal Investing and Infrastructure sub-groups within the Private Investments department

[3] Distributions refers to all cash proceeds related to income and permanent returns of capital received as a result of private investment activities.

[4] Principal investing refers to making investments directly into privately held companies.

FIXED INCOME

At March 31, the nominal fixed income allocation of the CPP fund consisted almost entirely of government bonds. We will start the development of an active management capability for fixed income in fiscal 2007.

The government bond portfolio holds non-marketable federal, provincial and territorial debt. These bonds are carried at market value. The total value at March 31 was $27.2 billion. Their geographic and maturity distribution are shown on the CPP Investment Board website.

Until recently, each jurisdiction had one opportunity to renew its maturing debt for 20 years. The agreement governing this was amended during fiscal 2006 so that each government can elect to replace a maturing bond with redeemable debt ranging in term from five years to 30 years. Replacement debt with a term of less than 30 years can be renewed for successive terms to the maximum of 30 years.

The fixed income segment of the CPP fund contributed $1.3 billion during the past year, posting a return of 4.3 per cent. As these bonds are not marketable, we estimated their value at $27.2 billion at March 31. The bond portfolio was valued at $28.6 billion at the same point the year before.

REAL RETURN ASSETS

Fiscal 2006 was a year of further diversification of the CPP fund, with substantial sums deployed in real return assets. In total, real return assets generated $530 million, representing a return of 12.9 per cent for fiscal 2006.

Real return assets are attractive investments because their returns tend to be a good match for the CPP's inflation-linked liabilities.

"Our greatest challenge this year was the volume of transactions we did; about three times more than we assumed. The market recognized that we are able to do major acquisitions and we benefited from working with strong partners. Also, our first public market transaction – the purchase of Olympia & York – was a big step forward in establishing credibility."

GRAEME EADIE
VICE-PRESIDENT — REAL ESTATE INVESTMENTS

Inflation-Linked Bonds

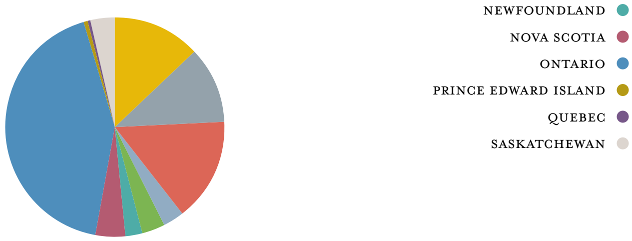
After the lifting of constraints imposed by Regulation 9, we established a position in Canadian real return bonds and later added treasury inflation-protected securities (TIPS) issued by the United States government.

Real Estate

The CPP Investment Board has thus far invested a total of $4 billion in the real estate sector, not including a relatively small index-based weighting of real estate investment trusts (REITs) in our public equities portfolio.

This was a banner year for the recently formed real estate department, with acquisitions totalling nearly $3 billion. Our first major acquisition, for $1 billion, occurred in June when we purchased a 50 per cent ownership interest in a portfolio of 11 quality office buildings located in Vancouver, Calgary, Edmonton, Toronto, Ottawa and Montreal. This interest was acquired from Oxford Properties Group, which remains the operating partner. In November, we were the lead investor in a joint venture that acquired a 50 per cent interest in $2 billion of O&Y's portfolio of office buildings. This investment gave us

FIXED INCOME (GOVERNMENT BONDS) (%)
As at March 31, 2006



As these government bonds are not marketable, we estimate their value to be $27.2 billion, which accounts for 27.7 per cent of the CPP fund.

partial ownership of First Canadian Place in Toronto – Canada's tallest office building – and 23 other quality office buildings in six major Canadian markets. A subsidiary of Brookfield Properties Corporation is the operating partner and holds a 25 per cent interest. In December we acquired 80 per cent of two major shopping centres in Quebec: Galeries de la Capitale in Quebec City and Carrefour de l'Estrie in Sherbrooke. Our investment in these two properties is $660 million. These were purchased with Westerkirk Capital as co-investor and Osmington Inc. as co-investor and operating partner. CPP Investment Board and Osmington own an additional six shopping centres. Oxford, Brookfield, Osmington and Westerkirk are strong real estate operators and our association with them exemplifies the CPP Investment Board's commitment to investing through strategic partnerships.

With approximately three-quarters of our real estate portfolio having been acquired this year, it is too early to report a meaningful rate of return for this segment.

Canadian properties represent 72 per cent of the real estate portfolio and are listed on page 28. The United States represents 18 per cent and consists of an indirect interest in Trizec Properties REIT through our 34.2 per cent ownership of Trizec Canada. Trizec Properties REIT is one of the largest American commercial landlords, with 50 office buildings in seven major metropolitan areas. The balance of the investments is in real estate funds focused on Canada, France and the United Kingdom. We expect to increase our presence in international markets in the future.

We recently hired ING Clarion Real Estate Securities, LP for a global active REIT mandate. REITs offer an expeditious, cost-effective way to obtain international diversification in a sector that is inherently local. In addition to creating an array of inflation-sensitive income streams, we expect to generate gains from the development of REITs in European and Asian markets where the vehicle is relatively new.

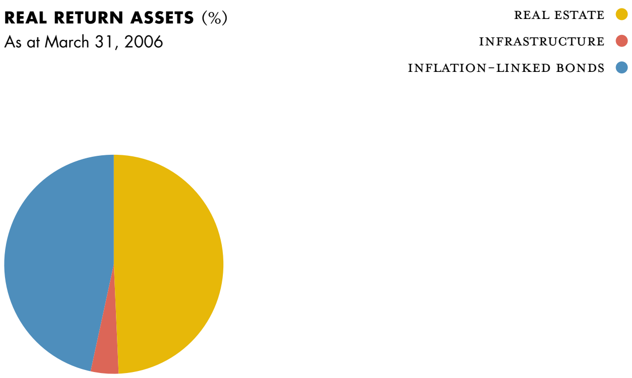
Infrastructure

Infrastructure is an emerging investment area for the CPP Investment Board. Currently, investments total $350 million and constitute 0.4 per cent of the CPP fund; these holdings are too new for us to report a meaningful rate of return.

The CPP Investment Board looks forward to substantially expanding our infrastructure investments in coming years. We have a comparative advantage in meeting infrastructure's need for large, long-term capital commitments. The regulated or contractual long-term income streams of infrastructure investments tend to track inflation and, therefore, are a good match for the CPP's future liabilities.

Our strategy has been to move at a measured pace in infrastructure, investing first as a fund participant and then alongside the fund manager. We completed our first infrastructure co-investment this year, acquiring partial ownership of the Wales and West natural gas distribution network that serves Wales and southwest England.

REAL RETURN ASSETS (%)
As at March 31, 2006



Further diversifying the CPP fund by investing in inflation-linked bonds, infrastructure and real estate means we increased our real return assets to $8.5 billion or 8.7 per cent of the fund, from just $1 billion or 1.2 per cent at the beginning of the year.

Investment Outlook

Although equity markets remained strong and interest rates and inflation continued to be stable through fiscal 2006, more moderate economic growth and further uncertainty is expected in fiscal 2007. The major near-term risk is that the large U.S. current account deficit may cause further deterioration of the U.S. dollar against Canada's currency. Longer term, it is possible that an unchecked U.S. deficit will push up interest rates and dampen growth, limiting returns from equity markets in the process.

Considering these assessments, we think it prudent to assume that equity returns will be modest in the near term. However, we continue to believe that publicly traded equities will outperform fixed income investments over the long term. Consequently, we will maintain a strong weighting to public equities within our portfolio.

Given that we do not require liquidity in the near term, we can afford to be a patient long-term investor realizing superior risk-adjusted returns. We will continue to seek opportunities to invest in real return assets at different stages of the economic cycle. As stated before, we think such assets are attractive because they tend to move with inflation.

Proxy Voting

As a shareholder in 600 Canadian and 2,000 foreign publicly traded companies, the CPP Investment Board has the right to vote on management and shareholder proposals. Proxy voting is one component of the corporate governance process, enabling shareholders to express their view on a variety of issues. We believe that the thoughtful voting of our proxies can constructively influence corporate performance and have a positive impact on the value of the portfolio.

Our proxy voting principles and guidelines were developed in 2003 for two purposes: to give directors and officers of the companies in which we invest guidance on how we are likely to vote on shareholder issues, and to communicate our views on other important business issues.

Our proxy voting principles and guidelines are designed to respond to specific shareholder issues on a company-by-company basis, and are not meant to be a set of rigid rules. We recognize that there are often shades of grey that even the most well-thought-out guidelines cannot anticipate. The proxy voting principles and guidelines are revised annually to reflect our activity during each year's proxy voting season, regulatory developments and best practices in corporate governance.

This year we voted at 1,841 meetings and the number of proxy votes cast was 30,488. A complete list of how we voted our proxies and details of our proxy voting guidelines are available on our website.

Policy on Responsible Investing

The CPP Investment Board is a long-term investor, consistent with the long-term needs of the Canada Pension Plan. As an owner, we are committed to encouraging companies to adopt policies and practices that enhance long-term corporate financial performance.

In October 2005, the board of directors adopted the Policy on Responsible Investing (PRI). This new policy, the successor to the Social Investing Policy, was the result of more than a year of research and study into how institutional investors in Europe, the U.S. and Canada were dealing with responsible investing issues.

The most salient feature of the policy is recognition that responsible corporate behaviour with respect to environmental, social and governance (ESG) factors can generally have a positive influence on long-term financial performance. As a long-term investor, we look at these issues only as they relate to risk/return criteria.

As a result of the policy, we are committed to building an engagement capability to encourage the disclosure of, and improvement on, performance on ESG factors in the companies in which the CPP fund invests. Engagement with investee companies will, over time, encompass a wide range of activities including proxy voting, joining other investors in coalitions to pursue specific issues and direct communication with companies in which the fund invests. The CPP Investment Board has also committed to help fund research on the long-term materiality of ESG factors as they relate to investment returns and risk. As we better understand the nature of these factors, we will begin integrating them into our investment process, as appropriate.

Consistent with the CPP Investment Board's belief that constraints decrease returns and/or increase risk over time, we do not screen stocks. Engagement is a proven strategy for long-term institutional investors, especially those with primarily passive public equity portfolios such as the CPP fund. Moreover, we believe engagement is consistent with our mandate and highly complementary to our investment objective to maximize investment returns without undue risk.

"Our investment decisions have an impact on the future pensions of 16 million Canadians. As a result, our disclosure practices give Canadians a comprehensive view of how the CPP fund is managed and where it is invested. We disclose more information, more often than any other pension plan in Canada and, to our knowledge, any pension plan in the world."

IAN M.C. DALE
VICE-PRESIDENT — COMMUNICATIONS AND STAKEHOLDER RELATIONS

Our commitment to build an engagement capability builds on our proxy voting record, which to date has focused primarily on governance issues. During the past 12 months, we voted on almost 10,000 proxy resolutions. We belong to the Canadian Coalition for Good Governance and the International Corporate Governance Network, and continue to join other coalitions in which like-minded investors pursue common initiatives.

In 2006, the CPP Investment Board joined the Carbon Disclosure Project, a group of 211 institutional investors managing US $31 trillion in assets. This initiative was formed to encourage almost 2,400 public companies to disclose how they are managing climate risk issues that may be affecting their business.

We also became the first Canadian participant in the Enhanced Analytics Initiative, composed primarily of European institutional investors managing $1 trillion. This was designed to provide incentives to sell-side brokerages to expand their traditional research capabilities to encompass ESG factors.

And in April 2006, we became one of two Canadian institutional investors to join the UN-sponsored Principles of Responsible Investment. These principles were developed by a task force of 20 large institutional investors from around the world, including the CPP Investment Board. Signatories to these principles collectively manage US $2 trillion. Our work on this task force also influenced the formulation of the CPP Investment Board's Policy on Responsible Investing, introduced last fall.

We will continue to seek opportunities to improve long-term financial performance as we build our capability to engage with the 2,600 public companies in which we invest.

Capabilities

Initially, the CPP Investment Board operated with a small staff of investment professionals who outsourced investment management implementation. As assets grew, the initial investment in index funds gave way to the creation of an internally managed passive portfolio that now holds shares in more than 2,600 companies. Gradually, the portfolio was further diversified into private equity and then real estate, infrastructure and inflation-linked bonds. We have also introduced more active investment approaches aimed at improving the fund's risk/return profile. Growth in assets and the complexity of our investment activities have required us to strengthen and deepen both our internal capabilities and our strategic long-term relationships with external managers. The CPP Investment Board is transforming itself into a more sophisticated investment management organization that will be capable of investing in any asset class anywhere in the world.

INTERNAL CAPABILITIES

During fiscal 2006, the CPP Investment Board continued to build the institutional strength of the organization by enhancing the professional skills, technology, management systems and processes that are required for us to effectively fulfill our mandate. We are building internal capabilities that

- are critical to the successful implementation of our strategy
- reduce costs through economies of scale
- provide experience and information that benefit our strategy execution
- allow us to consistently exploit comparative advantages

Recognizing that complex, sophisticated investing requires specialized capabilities, we have four investment departments that drive implementation:

Portfolio Design and Risk Management[5]: This department sets the risk/return parameters for the entire portfolio and develops risk/return profiles implemented by the various investment departments. It will manage our enhanced focus on the total portfolio approach and, going forward, balance risk/return decisions at the total portfolio level and across asset classes. In conjunction with our other investment departments, it will also help identify emerging asset classes or investment opportunities to increase returns by investing in more markets, making better asset-mix decisions and more active investments. Over the past year this department developed the CPP Reference Portfolio, which is central to our new accountability framework and improves our ability to measure the value added by our investing activities.

This department is currently developing, with encouragement from the Chief Actuary of Canada, a modelling system that will enable us to better measure the interaction between various portfolio designs and various economic and demographic scenarios that drive the asset/liability characteristics of the CPP. Phase one of this three-phase project was completed this year. Phase two will be developed in fiscal 2007.

[5] Previously known as "Research and Risk Management."

Public Market Investments: This department implements, as efficiently as possible, investment strategies related to any publicly traded security including equities and fixed income. Within the total portfolio approach, public market investments offer a rebalancing mechanism that enables the portfolio to accommodate investments in less liquid assets by making offsetting changes to public market investments. The intent is to maintain a consistent risk/return profile at the total portfolio level. Public Market Investments is currently comprised of two groups: Capital Markets and Portfolio Management.

The Capital Markets group is responsible for trading, short-term value-added strategies and short-term liquidity management. During fiscal 2006 it handled our first forays into global real estate investment trusts and global inflation-linked bonds. It is also building research capabilities focused on trading cost measurement, management and minimization. The group is developing capabilities such as algorithmic trading so we can transact electronically with exchanges and use technology to optimize trading. It is also focused on short-horizon risk measurement and value-added strategies, normally the domain of broker-dealers.

The Portfolio Management group is responsible for traditional value-added management. It oversees external managers and this past year launched a multi-year effort to build internal active management capability combining the best of quantitative and fundamental approaches.

Private Investments: This department is responsible for all of the CPP Investment Board's private investing activity, with the exception of private real estate. The main focus is currently on private equity and infrastructure, though we will continue to expand the scope of our private investment activities over time.

"Our portfolio has done well to date. The biggest challenge now is the state of the private investments markets. They've become very competitive as the supply of new capital has outpaced high-quality opportunities. So we are being prudent. Over the new year, we look forward to building our capabilities as a principal investor and to increasing our infrastructure holdings."

MARK D. WISEMAN
VICE-PRESIDENT — PRIVATE INVESTMENTS

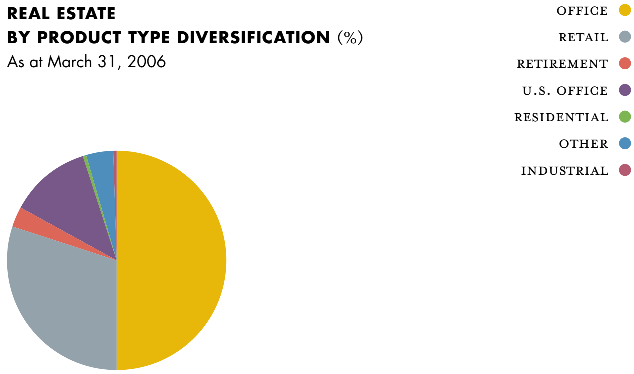
Our goal in making private investments is to find opportunities that will outperform the comparable passive public alternatives. Historically, as we built the program, we focused on making private equity investments through external fund managers. A multi-year transformation was launched in the latter part of fiscal 2006 that will expand our capabilities and allow us to invest in private equity both through external funds and as a principal investor. In addition, we continue to develop our capabilities as a global investor in infrastructure. The Private Investments department is comprised of three groups: Funds and Secondaries, Principal Investing and Infrastructure.

The Funds and Secondaries group is responsible for identifying the best performing private equity managers around the world and committing capital to them. While we are intent on developing our skills as a principal investor, the large amounts of capital that we have to deploy will continue to require us to partner with top-tier external managers. We also continue to be an active participant as a buyer in the secondary market. The secondary market is a relatively narrow segment in which institutions sell limited partnership interests to one another on a privately negotiated basis. Since 2001, we have invested approximately $1 billion in this market. (Since inception, our internal rate of return (IRR) on these investments has been approximately 34.6 per cent.)

Principal Investing is a new group that invests directly in companies instead of through externally managed funds. We typically invest alongside fund managers with whom we have already established relationships. Last year, this group closed co-investment transactions in Europe and the U.S. with a total value of $227 million. As we build capability and expertise, we will increase our activities as both a co-investor in and co-sponsor of private equity transactions.

The Infrastructure group was formally created in August 2005 and is responsible for developing our capabilities as a global investor in infrastructure, acquiring ownership interests in long-lived assets with monopolistic characteristics such as toll roads, airports, electrical transmission networks and water distribution systems. At present, we participate in two infrastructure funds and have one principal investment.

REAL ESTATE
BY PRODUCT TYPE DIVERSIFICATION (%)
As at March 31, 2006



The CPP fund has $4 billion invested in the real estate sector, not including a relatively small index-based weighting of real estate investment trusts (REITs).

Real Estate: This department – spun off in June 2005 from Private Investments – invests in assets through joint ventures and real estate funds. Real estate holdings offer income streams that typically rise with inflation and thus tend to match CPP's indexed liabilities. These holdings also help cushion the total portfolio against business cycle volatility. The department expected to invest about $1 billion in properties during the fiscal year and actually made acquisitions totalling almost $3 billion. These investments are discussed in the Results section, which begins on page 18. The relatively small real estate team will see considerable expansion in fiscal 2007 as it monitors the sizeable portfolio already owned while making new investments.

REAL ESTATE HOLDINGS

Property	City	Province	Total GLA[1] (sq. ft.)	Ownership Interest (%)
OFFICE PROPERTIES				
840 - 7th Avenue SW	Calgary	AB	260,000	50
Altalink Place	Calgary	AB	77,000	50
Altius Centre	Calgary	AB	306,000	50
Canterra Tower	Calgary	AB	819,000	50
Franklin Atrium	Calgary	AB	145,000	50
Franklin Building	Calgary	AB	51,000	50
Gulf Canada Square	Calgary	AB	1,122,000	50
McFarlane Tower	Calgary	AB	237,000	50
Mount Royal Place	Calgary	AB	56,000	50
Bell Tower	Edmonton	AB	473,000	50
Canadian Western Bank Place	Edmonton	AB	410,000	50
Edmonton City Centre (Office)	Edmonton	AB	998,000	50
Enbridge Tower	Edmonton	AB	187,000	50
Guinness Tower	Vancouver	BC	255,000	50
Marine Building	Vancouver	BC	171,000	50
Oceanic Plaza	Vancouver	BC	344,000	50
175 Hargrave Street	Winnipeg	MB	72,000	50
330 St. Mary Avenue	Winnipeg	MB	150,000	50
Acres House	Niagara Falls	ON	149,000	50
2200 Walkley	Ottawa	ON	54,000	50
2204 Walkley	Ottawa	ON	104,000	50
Constitution Square	Ottawa	ON	712,000	50
Jean Edmonds Towers	Ottawa	ON	646,000	50
Place de Ville I	Ottawa	ON	593,000	50
Place de Ville II	Ottawa	ON	673,000	50
18 King Street E	Toronto	ON	234,000	50
2 St. Clair Avenue W	Toronto	ON	239,000	50
40 St. Clair Avenue W	Toronto	ON	127,000	50
First Canadian Place	Toronto	ON	2,663,000	25
Maritime Life Tower	Toronto	ON	471,000	50
One Financial Place	Toronto	ON	654,000	50
Royal Bank Plaza	Toronto	ON	1,483,000	50
Waterpark Place	Toronto	ON	802,000	50
Yonge / Richmond Centre	Toronto	ON	304,000	50
Tour KPMG	Montreal	PQ	508,000	50
TOTAL OFFICE			16,549,000	
RETAIL PROPERTIES				
Edmonton City Centre (Retail)	Edmonton	AB	810,000	50
Pine Centre Mall	Prince George	BC	460,000	80
Cornwall Square	Cornwall	ON	250,000	80
Centre Mall	Hamilton	ON	419,000	80
White Oaks Mall	London	ON	637,000	80
Eastgate Square	Stoney Creek	ON	532,000	80
New Sudbury Centre	Sudbury	ON	533,000	80
Intercity Shopping Centre	Thunder Bay	ON	425,000	80
Promenades Cathedrale	Montreal	PQ	137,000	50
Les Galeries de la Capitale	Quebec City	PQ	1,468,000	80
Carrefour de l'Estrie	Sherbrooke	PQ	1,110,000	80
TOTAL RETAIL			6,781,000	
PORTFOLIO TOTAL			23,330,000	

[1] Gross leasing area.

EXTERNAL CAPABILITIES

The second major part of our program to build institutional strength is through aligned relationships with select external partners.

External partners continue to be a critical part of how we invest, create value and operate the organization. Page 33 lists our investment partners in fiscal 2006 – 10 more than in the previous year.

Partnering enables us to enter markets faster, at lower cost and with more diversification than we could currently achieve on our own. Through strategic partners we efficiently access different asset classes, primarily in private equity, venture capital, real estate and infrastructure, and to a certain extent in public market investments. We also acquire access to top-performing investment managers and to specialized investment expertise in local real estate markets and specific global markets.

During the past year, management adopted a structured approach to establishing and maintaining relationships. This policy stipulates that the CPP Investment Board will

- ensure there is proper alignment between the CPP Investment Board and how the partner will deliver value
- focus on the broader, long-term relationship
- select partners with whom we are willing to jointly experiment in developing new opportunities

Running an Effective, Efficient Business Operation

The total cost of running the CPP Investment Board (excluding external investment management fees) in fiscal 2006 was $54 million compared with $32 million for the prior year. Expressed another way, total operating expenses were 7.1 cents per $100 of invested assets compared with 7 cents in fiscal 2005. For further details, please see Note 7 of the Consolidated Financial Statements. External investment management fees are described in Note 6a.

"We want the CPP Investment Board to be the employer of choice for the world's most talented investment professionals. People are attracted by the ability to grow their skills, do great things and believe they're making a difference in the world. Our size, scope, ethical commitment and impact on the future of 16 million Canadians provide a very compelling story that enables us to attract excellent talent."

DAVID WEXLER
VICE-PRESIDENT – HUMAN RESOURCES

HUMAN CAPITAL

Investment management is largely a people business and the CPP Investment Board is a rapidly growing organization. So, our ability to attract, develop and retain high-calibre staff is critical to our success.

Accordingly, we placed priority this year on augmenting our human resources capabilities. The creation of the position of vice-president, Human Resources is an indicator of the strategic importance that we place on attracting and retaining the right kinds of individuals. In all, the CPP Investment Board hired 63 people this past year.

Within the CPP Investment Board, we emphasize team and overall organizational success. While we have gone outside to recruit the experienced individuals we need to lead this relatively early stage of our strategy execution, we consider the CPP Investment Board a career organization that will look internally for future talent steeped in our approach and values. We stress that this is a growing organization that offers a wide scope of career advancement opportunities for those committed to achieving high expectations and meeting the highest standards of professional integrity.

BUSINESS SYSTEMS

Processes and procedures frame the structure required by every well-run business. The Finance and Operations department is responsible for reporting and control functions, compliance monitoring, performance and risk measurement and monitoring, business process and technology. During fiscal 2006, this group launched a comprehensive review of business processes and supporting technologies for implementation in fiscal 2007 and beyond.

Information is the foundation of investment decision-making and critical to virtually every part of the CPP Investment Board. Fiscal 2006 saw the development of an integrated data repository for use by the entire organization. We also began work on creating a permanent information technology infrastructure to complement our existing outsourced capabilities.

Risk Management

The cornerstone of a successful investment strategy is effective risk management. We are required to adhere to investment policies, standards and procedures that a prudent person would exercise in dealing with the property of others.

Our enterprise-wide approach to risk management involves the board of directors, management and external partners.

The CPP Investment Board develops risk-management policies, procedures, guidelines and other internal controls for application by our professionals and external investment managers and other expert service providers. Our staff monitors compliance by external managers. The board approves all investment and risk-management policies and holds management accountable for complying with them.

Risk management is further supported by our code of conduct and conflict of interest procedures, defined roles and responsibilities, individual and collective performance accountability processes and timely disclosure and communication.

There are two facets to our risk profile. First, risk is an inherent part of investing and our legislated mandate explicitly directs us to manage risk as we deploy the CPP's assets. Second, there is an array of organizational risks that we face as a business operation.

Below are our seven major risk categories:

Investment risk: We are responsible for prudently and cost-effectively earning capital market returns at a risk level that is consistent with the systematic risk assumptions reflected in the 1997 CPP reforms. Within this risk framework we will pursue performance-enhancing investment strategies that can be reasonably expected to increase the fund's long-term risk-adjusted returns.

Our risk/return accountability framework, which includes the new CPP Reference Portfolio, provides an effective, robust and dynamic tool for monitoring and managing investment risk. It also ensures accountability for the return and risk of different levels of decision-making.

We seek to control the overall level of systematic risk by broadly diversifying the portfolio across asset classes and geographies that have non-correlated investment characteristics. As we do this, particularly in asset classes such as real estate, private equity and infrastructure, we look through their traditional labels to assess the underlying risk of the individual investments.

Strategic risk: If business strategies are not developed, executed or monitored effectively, we may not be able to achieve our mission. To manage this risk, we work to have effective governance, organizational structure and leadership, and effective strategic and business planning processes. Those processes were subject to an extensive review over the past fiscal year.

Fiduciary risk: Any organization must consider the possibility that fiduciary responsibilities may not be respected or appropriately executed. To manage this risk effectively, we must have a clear understanding of roles, responsibilities and authorities at each level of the organization. In addition, through our code of conduct and conflict of interest procedures for directors and employees, we ensure that values and behavioural expectations are well understood and integrated throughout the organization.

Business environment risk: This is the risk of not continuously anticipating, monitoring, understanding and responding to changes in the business environment. To manage this risk we stay abreast of social, cultural, economic and political changes that can affect our ability to achieve our mission.

Legislative and regulatory risk: Actual or proposed changes to legislation and the risk of non-compliance with laws, rules, regulations, prescribed practices or ethical standards can undermine our ability to accomplish our mission. We have a compliance management system that tracks our legislative and regulatory obligations. It requires key individuals to acknowledge compliance with various requirements. The system is administered by our Law department, which reports to the audit committee each quarter.

Operational risk: The organization may suffer direct or indirect loss resulting from inadequate or failed internal processes, technology or human performance. To manage this risk, we have established appropriate controls for information processing, sufficient and appropriate reporting and safeguarding of assets, management of information technology and appropriate human resources systems and practices.

Further, we are constantly assessing how we can institutionalize elements of our investment capabilities and processes in order to perpetuate them and how to avoid undue dependence on individuals or idiosyncratic investment methodologies, and still maintain the necessary agility and entrepreneurship essential to a successful investment organization.

Reputation risk: Internal or external factors could damage the organization's reputation, image or credibility. Our Communications and Stakeholder Relations department ensures that clearly understandable communications are provided to stakeholders and the general public.

The board of directors is responsible for ensuring that management has identified the principal risks of the business and has established appropriate policies and internal controls. In turn, management is responsible for recommending policies to the board for its consideration and approval, establishing internal controls and procedures to effectively manage the risks of the organization and providing reports to the board and its committees. Internal auditors, in the course of executing their audit plans, also provide input to management and the board on the effectiveness of the organization's risk-management practices.

We continuously review, assess and manage our risk-management concepts and other practices to ensure that risk is managed effectively. For example, the board of directors limits the maximum investment risk that management can assume. The board of directors likewise approves maximum allocations to various investment activities and asset classes. It also approves credit risk limits, while the president approves the amount of risk that can be taken relative to passive benchmarks (active risk). We also manage cash liquidity risk. Management presents to the board a quarterly report on our compliance with all risk limits, other constraints and the effectiveness of our risk-management controls.

We are a fiduciary acting on behalf of 16 million Canadians who expect us to operate at the highest standard of integrity. One way we manage this element of reputation risk is by adopting very rigorous codes of conduct and conflict of interest procedures that we believe help us meet that expectation in our business practices and the more rigorous standard of perception.

"Our big challenge is keeping up with the huge growth of this organization. The performance drivers haven't changed; it's how we execute them. Planning this year was focused more on the three- to five-year timeframe. We're now building business processes and information technology for the future, not just the present."

JANE NYMAN
VICE-PRESIDENT — FINANCE AND OPERATIONS

Corporate Objectives for Fiscal 2007

For fiscal 2007, we are proposing four key objectives for the CPP Investment Board:

1. Continue to diversify the portfolio by asset class, risk/return characteristics and geography with a particular focus on increasing international investments
2. Fully operationalize the total portfolio approach to portfolio management and create value-added returns above the CPP Reference Portfolio benchmark
3. Begin our internal active management program for public equities and expand our principal investing activities in private equities, infrastructure and real estate
4. Extend the implementation of the technology and business process architecture that was defined in fiscal 2006

Accounting Policies

All of our investments are stated at fair value. Quoted market prices are used for publicly traded stocks, which are priced daily by the market.

In the case of private equity, infrastructure and real estate investments, where quoted market prices are not available, fair value is determined quarterly using accepted industry valuation methods. Bonds transferred from the CPP are non-marketable and are valued using discounted cash flows based on current market yields of instruments with similar characteristics and then adjusted for the non-marketability and rollover provisions of the bonds. As a result, valuations for these investments are based on estimates and are inherently uncertain.

Our significant accounting policies are described in Note 1 of the Consolidated Financial Statements.

INVESTMENT PARTNERS

INFRASTRUCTURE

Macquarie Bank Limited

PRIVATE INVESTMENTS

Advent International

AlpInvest Partners

Apax Europe

Apollo Management, LP

Ares Management LLC

Birch Hill Equity Partners Inc.

Bridgepoint Capital Limited

Brookfield Asset Management

CAI Capital Management Co.

Candover

Celtic House Venture Partners

Clairvest Group Inc.

Coller Capital

CSFB Private Equity

CVC European Equity IV (CDE)

Edgestone Capital Partners

Goldberg Lindsay & Co. LLC

Heartland Industrial Partners

Hellman & Friedman V, LLC

JP Morgan Partners

Kensington Capital Partners Limited

KKR Associates Millennium LP

Lehman Brothers Private Equity

Lexington Partners

Lone Star Management Co. V, Ltd.

Matlin Patterson Global Advisors, LLC

MDS Capital Corp

MidOcean Associates, SPC

MPM Capital

Onex Corporation

PAI Partners

Partners Group Management Limited

Paul Capital Partners

Performance Equity Management, LLC

Perseis Partners Inc.

Schroders Ventures Life Sciences

Silver Lake Technology Associates II, LLC

Skypoint Capital Corporation

Standard Life

TD Capital Private Equity Investors

Terra Firma Capital Partners

Texas Pacific Group

The Blackstone Group

The Carlyle Group

Thomas Weisel Partners LLC

Ventures West Management Inc.

VSS Fund Management LLC

Welsh, Carson, Anderson & Stowe X

PUBLIC MARKET

Barclays Global Investors Canada

Connor, Clark & Lunn Investment Management Ltd.

Enterprise Capital

Goldman Sachs Asset Management

ING Clarion Real Estate Securities, LP

UBS Global Asset Management

REAL ESTATE

Brookfield Properties

ING Real Estate Investment Management

LaSalle Investment Management Inc.

Osmington Inc.

Oxford Properties

Retirement Residences Real Estate Investment Trust

RioCan Real Estate Investment Trust

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. Management is responsible for the integrity and reliability of the consolidated financial statements and the financial information contained within the annual report.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include certain amounts based on management's judgments and best estimates where deemed appropriate. The significant accounting policies used are disclosed in note 1 to the consolidated financial statements. The financial information presented throughout the annual report is consistent with the consolidated financial statements.

The CPP Investment Board develops and maintains systems of internal control and supporting procedures. The systems of internal control are designed to provide reasonable assurance that assets are safeguarded; that transactions are properly recorded, 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; and that there are no material misstatements in the consolidated financial statements or the financial information contained within the annual report.

The internal control framework includes a strong corporate governance structure, an enterprise-wide risk management framework that identifies, monitors and reports on key risks facing the organization, code of conduct and conflict of interest procedures, and other policies and guidelines that guide decision-making. The controls also include the establishment of an organization 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. The systems of internal control are further supported by a compliance management system to monitor the CPP Investment Board's compliance with legislation and policies and by internal and external auditors who review and evaluate internal controls in accordance with their respective annual audit plans approved by the audit committee.

The audit committee assists the board of directors in discharging its responsibility to approve the annual consolidated financial statements. The audit committee, consisting of five independent directors, meets regularly with 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 audit 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.

David F. Denison	Jane Nyman
President and Chief Executive Officer	*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, 2006, were in accordance with the *Canada Pension Plan Investment Board Act* and the CPP Investment Board's Investment Statement and Investment Policies.

Mary. C. Ritchie

Mary C. Ritchie, FCA
Chair of the audit committee on behalf of the board of directors
May 10, 2006

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, 2006 and the consolidated statements of net 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, 2006 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 consolidated 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
May 3, 2006

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

As at March 31, 2006 ($ millions)		2006		2005
ASSETS				
Investments (note 2)	$	**89,781**	$	59,002
Amounts receivable from pending trades		**255**		20
Premises and equipment		**6**		4
Other assets		**6**		3
TOTAL ASSETS		**90,048**		59,029
LIABILITIES				
Investment liabilities (note 2)		**775**		280
Amounts payable from pending trades		**703**		148
Accounts payable and accrued liabilities		**38**		21
TOTAL LIABILITIES		**1,516**		449
NET ASSETS	$	**88,532**	$	58,580
NET ASSETS, REPRESENTED BY				
Share capital (note 4)	$	**–**	$	–
Accumulated net income from operations		**20,092**		7,953
Accumulated net transfers from the Canada Pension Plan (note 5)		**68,440**		50,627
NET ASSETS	$	**88,532**	$	58,580

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the board of directors

Gail Cook-Bennett
Chairperson

Mary C. Ritchie, FCA
Chair of the audit committee

Consolidated Statement of Net Income and Accumulated Net Income from Operations

For the year ended March 31, 2006 ($ millions)		2006		2005
INVESTMENT INCOME, NET OF EXTERNAL INVESTMENT MANAGEMENT FEES (note 6)	**$**	**12,193**	$	5,014
OPERATING EXPENSES				
Salaries and benefits (note 7a)		**26**		14
General operating expenses (note 7b)		**21**		13
Professional and consulting fees (note 7c)		**7**		5
		54		32
NET INCOME FROM OPERATIONS		**12,139**		4,982
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF YEAR		**7,953**		2,971
ACCUMULATED NET INCOME FROM OPERATIONS, END OF YEAR	**$**	**20,092**	$	7,953

Consolidated Statement of Changes in Net Assets

For the year ended March 31, 2006 ($ millions)		2006		2005
NET ASSETS, BEGINNING OF YEAR	**$**	**58,580**	$	32,795
CHANGES IN NET ASSETS				
Canada Pension Plan transfers (note 5)				
Transfers from the Canada Pension Plan		**34,499**		27,472
Transfers to the Canada Pension Plan		**(16,686)**		(6,669)
Net income from operations		**12,139**		4,982
INCREASE IN NET ASSETS FOR THE YEAR		**29,952**		25,785
NET ASSETS, END OF YEAR	**$**	**88,532**	$	58,580

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Investment Portfolio

The CPP Investment Board's investments, before allocating derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

As at March 31, 2006 ($ millions)	Fair Value 2006	Fair Value 2005
EQUITIES (note 2)		
Canada		
Public markets	$ 20,003	$ 21,044
Private markets	628	512
	20,631	21,556
Non-Canada		
Public markets	27,743	12,646
Private markets	3,822	2,394
	31,565	15,040
TOTAL EQUITIES[1]	52,196	36,596
REAL RETURN ASSETS (note 2c)		
Public markets real estate	1,178	384
Private markets real estate	3,676	638
Inflation-linked bonds	3,837	–
Private markets infrastructure	350	230
TOTAL REAL RETURN ASSETS[2]	9,041	1,252
NOMINAL FIXED INCOME		
Bonds (note 2d)	17,288	8,507
Money market securities	10,356	12,067
TOTAL NOMINAL FIXED INCOME[3]	27,644	20,574
INVESTMENT RECEIVABLES		
Accrued interest	513	254
Derivative receivables (note 2a)	259	240
Dividends receivable	128	86
TOTAL INVESTMENT RECEIVABLES[4]	900	580
TOTAL INVESTMENTS	$ 89,781	$ 59,002
INVESTMENT LIABILITIES		
Debt on real estate properties (note 2c)	(664)	(242)
Derivative liabilities (note 2a)	(111)	(38)
TOTAL INVESTMENT LIABILITIES[5]	(775)	(280)
NET INVESTMENTS	$ 89,006	$ 58,722

Cost of investments is as follows:

[1] Equities: 2006 – $43,994; 2005 – $32,141.

[2] Real return assets: 2006 – $8,635; 2005 – $1,222.

[3] Nominal fixed income: 2006 – $28,199; 2005 – $20,614.

[4] Investment receivables: 2006 – $641; 2005 – $340.

[5] Investment liabilities: 2006 – $666; 2005 – $234.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Investment Portfolio

The CPP Investment Board's investments, after allocating derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

	2006		2005	
As at March 31, 2006 ($ millions)	**Fair Value**	**(%)**	Fair Value	(%)
EQUITIES[1]				
Canada	**$ 29,138**	**32.8%**	$ 27,669	47.1%
Non-Canada	**32,568**	**36.6**	20,882	35.6
REAL RETURN ASSETS				
Real estate[2]	**4,190**	**4.7**	780	1.3
Inflation-linked bonds[1,3]	**3,959**	**4.4**	–	–
Infrastructure	**350**	**0.4**	230	0.4
NOMINAL FIXED INCOME				
Bonds[3]	**17,752**	**19.9**	8,749	14.9
Money market securities[4]	**1,049**	**1.2**	412	0.7
NET INVESTMENTS	**$ 89,006**	**100%**	$ 58,722	100%

[1] Includes derivative receivables and liabilities 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.
[4] Includes dividends receivable and accrued interest.

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2006

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 a federal Crown corporation, all of the shares of which are owned by Her Majesty the Queen in right of Canada. 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 bonds transferred to it (described in note 2), in the best interests of the beneficiaries and contributors. 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 consolidated financial statements provide information on the net assets managed by the CPP Investment Board as at March 31, 2006. They exclude certain assets held by the CPP but which will ultimately be transferred to the CPP Investment Board by April 2007. The remaining CPP holdings yet to be transferred to the CPP Investment Board consist of a portfolio of non-marketable federal, provincial and territorial bonds of $9.4 billion at fair market value (March 31, 2005 – $22.7 billion) and are discussed in note 2. These consolidated financial statements do not include the pension liabilities of the CPP.

The CPP Investment Board has a fiscal year end of March 31.

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the requirements of the Act and the accompanying regulations.

These financial statements present the consolidated financial position and results of operations of the CPP Investment Board, its wholly-owned subsidiaries, variable interest entities where the CPP Investment Board is the primary beneficiary and the proportionate share of the fair value of assets, liabilities and operations of privately held real estate investments in joint ventures.

Intercompany transactions and balances have been eliminated in preparing these consolidated financial statements.

Certain comparative figures have been reclassified to conform with the current year financial statement 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 an estimate of the amount of 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. In the case where quoted market prices are not reliable, such as those for securities that are not sufficiently liquid to be used as a basis for fair value, fair value is determined using accepted industry valuation methods.

(ii) In the case of private equity and infrastructure investments, where quoted market prices are not available, fair value is determined based on carrying values and other relevant information reported by external managers of the investments. 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 would suggest a significant change 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 and infrastructure investments unless there is evidence of a significant change in value.

(iii) The fair value of private markets real estate investments is determined using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. Debt on real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics. 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 real estate investments unless there is evidence of a significant change in value.

(iv) Fair value for over-the-counter derivatives such as swaps and forward contracts is determined based on the quoted market prices for underlying assets. Fair value for exchange-traded futures is based on quoted market prices.

(v) Quoted market prices are used to represent the fair value for inflation-linked bonds.

(vi) Quoted market prices are used to represent the fair value for public markets real estate.

(vii) Fair value for non-marketable federal, provincial and territorial bonds 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.

(viii) 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 from investments, unrealized gains and losses on investments held at the end of the year, dividend income (recognized on ex-dividend date), interest income and net operating income from private markets 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 at the end of the year. 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 from the CPP are recorded as received.

(f) Income Taxes

The CPP Investment Board and its subsidiaries are exempt from Part I tax under paragraphs 149(1)(d) and 149(1)(d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board and its subsidiaries are owned by Her Majesty the Queen in right of Canada or by a corporation whose shares are owned by Her Majesty the Queen in right of Canada, respectively.

(g) Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported values of assets and liabilities as at the date of the financial statements and income and expenses during the reporting period. Significant estimates and judgments are required principally in determining the reported estimated fair values of investments since these determinations include estimates of expected future cash flows, rates of return and the impact of future events. Actual results could differ from those estimates.

(h) Variable Interest Entities

Effective this fiscal year, the CPP Investment Board prospectively adopted Accounting Guideline 15 ("AcG-15"), Consolidation of Variable Interest Entities, issued by the Canadian Institute of Chartered Accountants. Variable interest entities ("VIEs") are entities that do not have sufficient equity at risk to finance their activities without subordinated financial support, or their equity investors lack the characteristics of a controlling financial interest. The primary beneficiary is required to consolidate its interest in the VIE and is defined as the party that will absorb the majority (as defined as greater than 50%) of expected losses of the entity, receive a majority of its expected residual returns, or both. Note disclosure is required if the party holds a significant variable interest which is defined as the party that will absorb a portion (as defined as 30%–49%) of expected losses of the entity, receive a portion of its expected residual returns, or both.

VIEs in which the CPP Investment Board is the primary beneficiary or in which it has a significant variable interest are primarily limited partnerships for private market investments and certain investments in real estate. The CPP Investment Board's net investment in these entities totals $1,729 million and is included in the Statement of Investment Portfolio. In addition, the CPP Investment Board has $928 million in unfunded contractual commitments (included in note 8) in respect of those VIEs.

2. Investments and Investment Liabilities

The CPP Investment Board has established investment policies which set out the manner in which assets shall be invested. In setting the policies, the CPP Investment Board takes into consideration certain specified CPP assets which are held outside of the CPP Investment Board and which are in the process of being transferred to the CPP Investment Board as set out in the following paragraph.

The *Canada Pension Plan*, the Act and an administrative agreement 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. These assets, totalling $9.4 billion at fair market value as at March 31, 2006, consist of a portfolio of non-marketable federal, provincial and territorial bonds to be transferred to the CPP Investment Board in 36 installments over a period that began May 1, 2004 and ends on April 1, 2007 (see note 2d). The assets also included a cash operating reserve which was transferred to the CPP Investment Board in 12 equal installments over a period that began in September 2004 and ended in August 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 to replicate the returns of Canadian equities, Non-Canadian equities and Non-Canadian inflation-linked bonds, and to manage asset weights and currency exposure. The CPP Investment Board has swaps outstanding to exchange money market interest payments for equity and inflation-linked bond payments. The CPP Investment Board also uses exchange-traded futures contracts and foreign exchange forwards to either increase or reduce exposure to underlying equity market or currency movements.

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 at March 31 are as follows:

	2006		2005	
($ millions)	**Notional Amount**	**Fair Value**	Notional Amount	Fair Value
Equity swaps	**$ 8,874**	**$ 169**	$ 5,918	$ 206
Equity futures	**1,047**	**(2)**	6,061	(6)
Foreign exchange forwards	**6,184**	**(14)**	2,094	2
Inflation-linked bond swaps	**126**	**(5)**	–	–
Total	**$ 16,231**	**$ 148**	$ 14,073	$ 202

(b) Private Equity Investments

Private equity investments are generally made through ownership in limited partnership arrangements with a typical term of 10 years. The private equity 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% and 2% 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, 2006, management fees of $87 million (2005 – $70 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 quarterly and any resulting adjustments are reflected as unrealized gains or losses in investment income (see note 6a).

(c) Real Return Assets

The CPP Investment Board obtains exposure to real estate through investments in publicly traded securities and privately held real estate. Private markets real estate investments are held by a wholly-owned subsidiary and are managed on behalf of the CPP Investment Board by external advisors and managers through co-ownership arrangements. As at March 31, 2006, the subsidiary's share of these investments includes assets of $3,676 million (March 31, 2005 – $638 million) and $664 million of liabilities related to mortgage debt (March 31, 2005 – $242 million), with a weighted average fixed interest rate of 6.94% and terms to maturity of one to 21 years.

Included in the private markets real estate are investments in joint ventures. The CPP Investment Board's proportionate share of the fair value of assets and liabilities in joint ventures at March 31, 2006 is $3,312 million (March 31, 2005 – $481 million) and $664 million (March 31, 2005 – $242 million), respectively. The proportionate share of the revenues and expenses in joint ventures for the year ended March 31, 2006 is included in investment income (see note 6a) and totals $273 million (March 31, 2005 – $63 million) and $183 million (March 31, 2005 – $44 million), respectively.

Infrastructure investments are generally made directly or through limited partnership arrangements. The investments represent ownerships in entities that invest in infrastructure assets. Management fees for limited partnership infrastructure investments are treated similarly to private equity management fees as discussed in note 2b. During the year ended March 31, 2006, management fees included in the capital advanced to the limited partnerships were $5.4 million (March 31, 2005 – $1.8 million).

Inflation-linked bonds provide for an average effective yield of 4.8% and the terms to maturity are as follows:

	Terms to Maturity				
($ millions)	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total
Inflation-linked bonds	$ –	$ 429	$ 623	$ 2,785	$ 3,837

(d) Bonds

The transfer to the CPP Investment Board of the CPP portfolio of non-marketable federal, provincial and territorial bonds began on May 1, 2004. Bonds of $9.2 billion based on fair market value at the time of transfer were transferred during the year ended March 31, 2006.

The non-marketable bonds issued by the provinces and territories and purchased by the CPP prior to 1998 contained 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 bonds are also redeemable at the option of the issuers for redemption amounts calculated in accordance with Section 110 of the *Canada Pension Plan*.

Effective June 2005, the Agreement was amended to permit the CPP Investment Board to purchase replacement bonds directly from a province or territory upon the maturity of the non-marketable bonds issued by the provinces and territories prior to 1998, subject to the relevant province or territory having entered into an agreement with the CPP Investment Board. The maximum term of such securities is 30 years including rollover periods. The issuer may elect to have the CPP Investment Board purchase a replacement debt security or securities in a total principal amount not exceeding the principal amount of the maturing security for a term of not less than five years and not greater than 30 years. Such replacement bonds contain rollover provisions which will permit the issuer, at its option, to roll over the debt security for successive terms of not less than five years and subject in all cases to the maximum 30 years outside maturity date. The replacement bonds are also redeemable at the option of the provinces or territories prior to maturity. Agreements between the CPP Investment Board and the relevant provinces or territories were effective commencing July 1, 2005.

The bonds held by the CPP Investment Board, as of March 31, 2006, have an average effective yield of 5.0% (March 31, 2005 – 5.0%). The terms to maturity of the bonds, not including any rollover options, are as follows:

	Terms to Maturity				
($ millions)	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total
Government of Canada bonds	$ 877	$ 1,244	$ 21	$ –	$ 2,142
Provincial and territorial bonds	935	4,836	2,774	6,601	15,146
Total	$ 1,812	$ 6,080	$ 2,795	$ 6,601	$ 17,288

(e) 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 added to losses as a cost of disposition. During the year ended March 31, 2006, the CPP Investment Board paid total brokerage commissions of $28 million (2005 – $11 million).

(f) 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 at March 31, 2006, the CPP Investment Board's investments include securities loaned with an estimated fair value of $1,847 million (March 31, 2005 – $1,423 million). The fair value of collateral received in respect of the securities loaned is $1,942 million (March 31, 2005 – $1,496 million).

(g) 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. Fluctuations in the relative value of the Canadian dollar against foreign currencies can result in a positive or negative effect on the fair value of investments. The net underlying currency exposures, after allocating foreign currency derivatives, are as follows:

($ millions)	**2006**		2005	
Currency	**Net Exposure**	**% of Total**	Net Exposure	% of Total
Canadian Dollar	**$ 55,911**	**63%**	$ 42,339	72%
United States Dollar	**17,353**	**19**	7,804	13
Euro	**5,900**	**7**	3,464	6
Japanese Yen	**3,370**	**4**	1,256	2
British Pound Sterling	**3,269**	**4**	2,086	3
Swiss Franc	**1,090**	**1**	340	1
Australian Dollar	**895**	**1**	462	1
Other	**1,218**	**1**	971	2
Total	**$ 89,006**	**100%**	$ 58,722	100%

Interest rate risk: Interest rate risk refers to the effect on the fair value of investments and investment liabilities due to fluctuations in interest rates. The fair value of the CPP Investment Board's bonds and debt on real estate investments is directly affected 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 manages market risk by investing across a wide spectrum of asset classes and investment strategies to earn a diversified risk premium at the total fund, based on asset mix 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 $1.5 billion (March 31, 2005 – $1.6 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2006, the total amount drawn on the credit facilities is $nil (March 31, 2005 – $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 of the *Canada Pension Plan* and the Agreement, 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 included an interest in the bond portfolio administered by the federal government and, until August 2005, 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, the 12 monthly payments to the CPP Investment Board of the cash operating reserve, completed in August 2005, were used to reduce the cash returned to the CPP for expenses and benefits as noted above.

During the year ended March 31, 2006, a total of $34.5 billion was transferred to the CPP Investment Board, including bonds of $9.2 billion, based on fair market value at the time of transfer, and cash of $25.3 billion. During the same year, a total of $16.7 billion (net of the cash operating reserve entitlement of $2.7 billion) was returned to the CPP to meet its liquidity requirements.

The accumulated transfers are as follows:

($ millions)	**March 31, 2006**	March 31, 2005
Accumulated transfers from CPP	**$ 91,795**	$ 57,296
Accumulated transfers to CPP	**23,355**	6,669
Accumulated net transfers from CPP	**$ 68,440**	$ 50,627

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 markets investments are expensed as incurred. These fees include an incentive portion that fluctuates with investment performance. Investment management fees for private markets 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, are as follows:

($ millions)	2006	2005
EQUITIES[1,7]		
Canada		
Public markets	**$ 7,567**	$ 3,827
Private markets[2]	**(25)**	70
	7,542	3,897
Non-Canada		
Public markets	**3,054**	398
Private markets[2]	**597**	311
	3,651	709
Less: Public markets external investment management fees	**(30)**	(16)
	11,163	4,590
REAL RETURN ASSETS		
Public markets real estate[3]	**298**	53
Private markets real estate[4]	**183**	48
Less: Private markets real estate external investment management fees	**(6)**	(4)
	177	44
Inflation-linked bonds	**57**	–
Private markets infrastructure	**(8)**	(2)
	524	95
NOMINAL FIXED INCOME[5]		
Bonds	**465**	319
Money market securities	**41**	10
	506	329
INVESTMENT INCOME, NET OF EXTERNAL INVESTMENT MANAGEMENT FEES[6]	**$ 12,193**	$ 5,014

1 Includes unrealized gains of $3,715 million (2005 – unrealized gains of $2,141 million), realized gains of $6,449 million net of external investment management fees (2005 – realized gains of $1,729 million net of external investment management fees), dividends of $993 million (2005 – $717 million) and securities lending income of $6 million (2005 – $3 million).

2 As described more fully in note 1b, the carrying values of private equity investments are reviewed quarterly and any resulting adjustments are reflected as unrealized gains or losses in investment income.

3 Includes unrealized gains of $260 million (2005 – unrealized gains of $30 million), realized losses of $0.3 million (2005 – realized gains of $3.7 million) and dividends of $38 million (2005 – $19.6 million).

4 Includes private markets real estate operating income of $110 million (2005 – $37 million), which is net of debt interest of $42 million (2005 – $23 million), and unrealized gains of $73 million (2005 – unrealized gains of $11 million).

5 Includes interest income of $1,092 million (2005 – $360 million), realized losses of $44 million (2005 – realized losses of $2 million) and unrealized losses of $542 million (2005 – unrealized losses of $29 million).

6 Includes foreign exchange losses of $1,679 million (2005 – foreign exchange losses of $867 million).

7 In fiscal 2006, as a result of the removal of the foreign property restrictions under the *Income Tax Act (Canada)*, the CPP Investment Board elected to change its method of accounting for the cost of public markets equity investments from a total portfolio average cost basis to an individual portfolio-based approach. The change resulted in a reclassification of $443 million from realized gains to unrealized gains in fiscal 2006.

(b) Investment Performance

Portfolio returns and benchmark returns are as follows:

	2006		2005	
	Portfolio Returns	**Benchmark Returns**	Portfolio Returns	Benchmark Returns
Canadian equity investments	**29.1%**	**31.7%**	16.2%	16.0%
Non-Canadian equity investments	**15.0**	**15.7**	4.9	3.1
Real return assets	**12.9**	**19.9**	11.8	10.7
Nominal fixed income	**4.0**	**4.8**	5.2	5.9
Total portfolio	**17.4%**	**19.5%**	10.7%	9.9%

The portfolio returns of investment activities are measured against Canadian dollar-denominated benchmarks as specified in the CPP Investment Board's investment policies. The composite benchmark for the total portfolio aggregates the investment activities' related benchmarks in accordance with asset mix weights also specified within the investment policies.

The portfolio returns and benchmark returns have been calculated in accordance with the acceptable methods set forth by the CFA Institute.

7. Operating Expenses

(a) *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 2006 amounted to $4,262,692 (2005 – $3,897,227). Compensation for these officers and the Vice-President – Finance and Operations consists of the following[7]:

Name	Year	Salary	Annual Bonus [1]	Long-Term Bonus [1,2]	Benefits and Other Compensation [3]	Total
David F. Denison[4]	**2006**	**$ 450,000**	**$ 562,500**	**$ –**	**$ 51,603**	**$ 1,064,103**
President and Chief Executive Officer	2005	$ 93,462	$ 82,500	$ –	$ 6,688	$ 182,650
Jane Nyman	**2006**	**$ 210,000**	**$ 140,000**	**$ 67,649**	**$ 24,110**	**$ 441,759**
Vice-President – Finance and Operations	2005	$ 205,000	$ 146,575	$ 54,309	$ 19,678	$ 425,562
	2004	$ 185,000	$ 60,125	$ 22,842	$ 16,877	$ 284,844
Mark D. Wiseman[5]	**2006**	**$ 242,308**	**$ 900,000**	**$ –**	**$ 17,106**	**$ 1,159,414**
Vice-President – Private Investments						
Donald M. Raymond	**2006**	**$ 295,000**	**$ 330,000**	**$ 190,960**	**$ 48,461**	**$ 864,421**
Vice-President – Public Market Investments	2005	$ 275,000	$ 285,000	$ 119,302	$ 37,354	$ 716,656
	2004	$ 205,000	$ 131,200	$ –	$ 25,843	$ 362,043
Graeme Eadie[6]	**2006**	**$ 216,827**	**$ 275,000**	**$ –**	**$ 15,927**	**$ 507,754**
Vice-President – Real Estate Investments						

[1] Bonus awards include an annual and a long-term component and are based on the achievement of agreed objectives.

[2] Long-term bonuses reflect amounts payable for the current year. Prior to fiscal 2006, bonuses under the long-term incentive plan were granted at the end of each fiscal year based on the achievement of agreed upon objectives. Amounts awarded but not yet paid under this plan are adjusted annually by the CPP Investment Board returns and are payable at the end of a three-year period from the date they were granted. In fiscal 2006, a new long-term incentive plan was implemented. Under the new plan, long-term bonus grants are made at the beginning of each fiscal year and are calculated as a percentage of base salary. The amounts are payable at the end of a four–year period. The initial grant values are adjusted over the four-year period by the total fund rate of return and a performance multiplier, which is based on the returns generated relative to established benchmarks. The maximum performance multiplier for any one year's grant is five times the initial grant based on performance results. For the entire four-year period, the maximum performance multiplier is three times the initial grant based on performance results during that period. The payment of long-term bonuses is subject to executive officers meeting certain conditions of employment.

The total accumulated value as of March 31, 2006 of the total long-term bonuses awarded but not yet paid, by officer, and by payment year, is as follows:

	2007	2008	2009	Total
David F. Denison	$ –	$ 96,888	$ 400,200	$ 497,088
Jane Nyman	60,144	92,690	74,700	227,534
Mark D. Wiseman	–	311,300	311,300	622,600
Donald M. Raymond	213,268	223,136	266,800	703,204
Graeme Eadie	–	–	171,200	171,200
	$ 273,412	$ 724,014	$ 1,224,200	$ 2,221,626

[3] Benefits include pension contributions in connection with a defined contribution registered pension plan and a defined contribution supplementary pension plan, life insurance, fitness and club dues, and other miscellaneous remuneration. Under the defined contribution registered pension plan, executive officers contribute 3% of annual eligible earnings and the CPP Investment Board contributes 6% 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% 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% of their eligible earnings in excess of the maximum eligible earnings under the defined contribution registered pension plan. Contributions vest with the employee after five years of continuous service. The total unfunded liability for the officers noted above as at March 31, 2006 is $149,000 (2005 – $74,200).

[4] Joined the CPP Investment Board on January 17, 2005.

[5] Joined the CPP Investment Board on June 20, 2005. Annual bonus includes an amount paid in consideration of compensation foregone from Mr. Wiseman's previous employer.

[6] Joined the CPP Investment Board on June 20, 2005.

[7] Valter Viola, former Vice-President – Research and Risk Management, ceased employment with the CPP Investment Board on June 23, 2005. Total compensation earned during fiscal 2006 by Mr. Viola amounted to $667,000, which consisted of a salary of $48,600 and other payments of $618,400.

(b) General Operating Expenses

General operating expenses consist of the following:

($ thousands)		2006		2005
Custodial fees	**$**	**6,835**	$	3,515
Office rent, supplies and equipment		**5,862**		4,099
Data, analytical and operational services		**4,021**		2,430
Travel and accommodation		**1,461**		583
Communications		**865**		944
Directors' remuneration		**563**		548
Internal audit		**555**		405
Other		**1,025**		717
	$	**21,187**	$	13,241

Directors' remuneration includes an annual retainer for each director of $20,000, board and committee meeting fees of $1,000 per meeting, plus an annual retainer of $7,500 for each committee chair. 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 but is not eligible to receive annual or committee chair retainers or meeting fees unless the fees relate to public meetings.

In fiscal 2006, the board of directors held 11 board and investment committee meetings (2005 – 12) and 21 other committee meetings (2005 – 30).

(c) Professional and Consulting Fees

Professional and consulting fees consist of the following:

($ thousands)		2006		2005
Consulting[1]	**$**	**5,300**	$	2,429
Legal		**1,139**		1,772
External audit and tax services[2]		**880**		902
	$	**7,319**	$	5,103

[1] Includes fees for non-audit services of $nil (2005 – $26,000) that were paid to the external auditors of the CPP Investment Board.

[2] Includes fees paid to the external auditors of the CPP Investment Board for audit services of $765,000 (2005 – $657,000), tax services of $61,000 (2005 – $58,000), non-audit services of $54,000 (2005 – $46,000) and fees for the special examination carried out by the external auditors pursuant to the Act of $nil (2005 – $141,000).

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, 2006, the remaining commitments total $8.3 billion (March 31, 2005 – $5.4 billion).

As at March 31, 2006, the CPP Investment Board has made lease commitments of $26.0 million (March 31, 2005 – $20 million) over the next eight years.

9. Guarantees and Indemnifications

The CPP Investment Board provides indemnifications to its officers, directors and, in certain circumstances, to various counterparties. 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.

BOARD OF DIRECTORS






MARY C. RITCHIE

FELLOW, INSTITUTE OF CHARTERED ACCOUNTANTS

President of Richford Holdings Ltd. of Alberta. Director of EPCOR Utilities, Alberta Credit Union Deposit Guarantee Corporation and Industrial Alliance Ltd. Governor of Royal Bank Mutual Funds. Member of CICA Accounting Standards Oversight Council. Board member of Axcan Pharma Inc. and Isotechnika Ltd.

INVESTMENT AND AUDIT (CHAIR) COMMITTEES.

GAIL COOK-BENNETT

ECONOMIST

Previous academic positions at University of Toronto and senior executive positions at Bennecon Ltd. and C.D. Howe Institute, Montreal. Director of Manulife Financial Corporation, Petro-Canada and Emera Inc.

INVESTMENT (CHAIR) AND GOVERNANCE COMMITTEES.

JACOB LEVI

ACTUARY

Partner in Eckler Partners, actuarial consultants. External actuary to public sector pension plans and Workers' Compensation Board of British Columbia. Former chairman of the workers' compensation committee of the Canadian Institute of Actuaries.

INVESTMENT, AUDIT AND HUMAN RESOURCES AND COMPENSATION COMMITTEES.

HELEN SINCLAIR

FINANCIAL EXECUTIVE

Founding CEO of Bank Works Trading Inc. Former president of Canadian Bankers Association and senior vice-president of Scotiabank. Director of TD Bank Financial Group, McCain Capital Corporation and Davis + Henderson GP. Trustee of Davis + Henderson Income Fund.

INVESTMENT AND GOVERNANCE (CHAIR) COMMITTEES.

PETER K. HENDRICK

CHARTERED ACCOUNTANT, CHARTERED FINANCIAL ANALYST

Former executive vice-president of investments and chief investment officer at Mackenzie Financial Corporation. Former vice-president and director of CIBC Wood Gundy Securities Inc. (CIBC World Markets). Former lecturer at Harvard University.

INVESTMENT AND AUDIT COMMITTEES.

RONALD E. SMITH

FELLOW, INSTITUTE OF CHARTERED ACCOUNTANTS

Retired senior vice-president and CFO of Emera Inc. Former CFO of Maritime Tel Limited and Aliant Telecom Inc. Chair of the board of governors of Acadia University.

INVESTMENT AND HUMAN RESOURCES AND COMPENSATION (CHAIR) COMMITTEES.






HELEN M. MEYER
FINANCIAL EXECUTIVE

President of Meyer Corporate Valuations Ltd. Served in senior positions with Merrill Lynch Canada, Morgan Bank of Canada and Dominion Securities Limited. Former commissioner with Ontario Securities Commission.

INVESTMENT, AUDIT AND HUMAN RESOURCES AND COMPENSATION COMMITTEES.

DALE G. PARKER
CORPORATE DIRECTOR

Former CEO of the British Columbia Financial Institutions Commission, Bank of British Columbia and Workers' Compensation Board of British Columbia. Director of Talisman Energy, Industrial Alliance Pacific Insurance and Financial Services and Growth Works Ltd.

INVESTMENT, AUDIT AND HUMAN RESOURCES AND COMPENSATION COMMITTEES.

GERMAINE GIBARA
CHARTERED FINANCIAL ANALYST

President and CEO of Avvio Management Inc. Served in senior positions with Caisse de dépot et placement du Québec, TAL Global Asset Management Inc. and Alcan Aluminium Ltd. Director of Sun Life Financial, Cogeco Cable Inc. and Agrium Inc.

INVESTMENT, HUMAN RESOURCES AND COMPENSATION AND GOVERNANCE COMMITTEES.

DAVID WALKER
BUSINESS EXECUTIVE

President of West-Can Consultants Ltd. Former professor at the University of Winnipeg. Member of Parliament for Winnipeg North-Centre. Parliamentary Secretary to the Minister of Finance. Chief federal representative for consultations on the Canada Pension Plan.

INVESTMENT AND GOVERNANCE COMMITTEES.

PHILIP MACDOUGALL
FELLOW, INSTITUTE OF CHARTERED ACCOUNTANTS

President of MacDougall Consulting. Served as deputy minister in several departments in the Government of Prince Edward Island, including Finance, Industry and Commerce, Health and Social Services. Was a member of the Deputy Ministers Committee on the CPP.

INVESTMENT AND GOVERNANCE COMMITTEES.

M. JOSEPH REGAN
BANK EXECUTIVE (RETIRED)

Former senior executive vice-president of Royal Bank of Canada. Former chair of Pension Commission of Ontario. Former director of the Canada Pension Plan Advisory Board and Ontario Pension Board. Director of the Bank of Tokyo-Mitsubishi (Canada).

INVESTMENT AND GOVERNANCE COMMITTEES.

GOVERNANCE PRACTICES OF THE BOARD OF DIRECTORS

The *Canada Pension Plan Investment Board Regulations* require that the annual report disclose 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, the 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; 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 and the annual report.

A key part of the carefully designed governance structure that balances independence with accountability is that investment professionals are accountable to an independent board of directors operating at arm's length from governments with decisions made on the basis of sound investment principles, not political considerations. Symbolic of the board's ongoing vigilance with regard to potential interference is the formal process whereby the chair annually asks board members and the CEO if they have been subjected to pressure with respect to investments, procurement and hiring decisions. As intended by the stewards, the answer has always been in the negative.

DIRECTOR APPOINTMENT PROCESS

Directors are appointed by the federal finance minister in consultation with the participating provinces with the assistance of a nominating committee. The federal government appoints the chair of the nominating committee, and each participating provincial government appoints one representative.

The nominating committee recommends candidates for appointment and re-appointment to the federal finance minister who, in turn, makes the appointments in consultation with the provincial finance ministers.

The nomination process is designed to ensure that only those with expertise in investment, business and finance are appointed to the board.

COMPOSITION, MANDATES AND ACTIVITIES OF BOARD COMMITTEES

The board has four committees – investment, audit, governance and human resources and compensation. The investment committee consists of the full board. Membership of the other committees is shown.

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 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. Responsibility for enterprise risk management is shared with the board and other committees. The audit committee regularly meets with both external and internal auditors without management present.

The governance committee monitors application of the code of conduct and conflict of interest procedures, 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.

The human resources and compensation committee administers a performance evaluation process for the chief executive officer, reviews and recommends the compensation framework, reviews organizational structure and ensures succession planning. It also oversees employee benefits and human resource policies, the employee pension plans and directors' compensation.

At every meeting, the board of directors and all committees have *in-camera* sessions, meaning that no member of management is in attendance. The audit committee also has *in-camera* meetings with both internal and external auditors. In addition, the board also has *in-camera* meetings with the president and CEO.

DECISIONS REQUIRING PRIOR BOARD APPROVAL

Management's discretion in making operational and investment decisions is established in board or committee approved policies. The board considers 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, that of the chairperson and that of its committees. In May 2005 the board incorporated a confidential and separate Chairperson Effectiveness Assessment process. The assessments are conducted through confidential questionnaires that are summarized by an independent consultant. The summaries are reviewed by the full board and provide a basis for action plans for improvement. The board conducts a confidential annual peer review to assist each director in identifying self-development initiatives and assist in providing the external nominating committee with guidance when it considers individual re-appointments. The chairperson also meets formally with each director as part of the board and individual director assessment process.

BOARD EXPECTATIONS OF MANAGEMENT

Management is expected to comply with the *Canada Pension Plan Investment Board Act* and Regulations as well as all policies 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 ever-changing outlook for capital markets. The strategy 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. Once approved by the board, 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 engagement 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 7b to the Consolidated Financial Statements. Director compensation is based in part on data contained in a study prepared by a private compensation consulting firm in March 2004, using relevant data with respect to TSX companies and selected public sector organizations.

The total compensation of the five most highly paid executive officers of the corporation is detailed in Note 7a to the Consolidated Financial Statements. Executive officer compensation is partially incentive-based and is reviewed annually by the board.

Incentive compensation is awarded based on the achievement of a combination of corporate, investment and personal objectives and is a combination of annual and long-term (four years) incentive components.

An independent compensation consulting firm advises the human resources and compensation committee on officer compensation.

RESULTS OF SPECIAL AUDIT OR SPECIAL EXAMINATION

At least once every six years, as required under section 47 of the *Canada Pension Plan Investment Board Act*, the Minister of Finance routinely orders a special examination of the CPP Investment Board's financial and management control and information systems and management practices. The latest such examination included a comprehensive review of all business processes during a three-month period beginning in January 2004. The report of the special examination is available on our website, www.cppib.ca.

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 recruit directors with financial and investment expertise and to engage employees with financial expertise. The code of conduct has been established to manage and, where possible, eliminate such conflicts. The procedures under the legislation and these codes of conduct 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 interests that might lead to a real, potential or perceived conflict is required.

It is CPP Investment Board policy that non-audit services being provided by either our internal or external auditor must be approved by the audit committee. Firms that perform an internal or external audit function must also provide confirmation that non-audit services do not impair their independence.

CODES OF CONDUCT

The 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 code establishes strict pre-clearance procedures for personal trading in securities. It also deals with the acceptance by directors and employees of entertainment, gifts or special treatment that could create or appear to create a favoured position for actual or potential contractors or suppliers.

To augment our code of conduct and conflict of interest procedures, the board of directors decided in 2003 to appoint an external conduct review advisor. This person is available to discuss ethical issues with directors and employees on a confidential basis.

BOARD ATTENDANCE: FISCAL 2006

The board held 11 meetings in fiscal 2006. 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.

	Board and Investment Committee[1]	Audit Committee	Governance Committee	Human Resources and Compensation Committee (HRCC)	Ad Hoc Communications Committee
Gail Cook-Bennett[2]	11/11	5/5	6/6	8/8	2/2
Germaine Gibara[3]	10/11	N/A	5/6	6/6	1/2
Peter K. Hendrick	11/11	5/5	N/A	N/A	N/A
Jacob Levi	8/11	4/5	N/A	6/8	N/A
Philip MacDougall	11/11	N/A	6/6	N/A	N/A
Helen M. Meyer	11/11	5/5	N/A	8/8	N/A
Dale G. Parker[4]	11/11	4/4	2/2	6/6	2/2
M. Joseph Regan[5]	11/11	N/A	4/4	2/2	N/A
Mary C. Ritchie	11/11	5/5	N/A	N/A	N/A
Helen Sinclair[6]	9/11	N/A	6/6	2/2	N/A
Ronald E. Smith[7]	11/11	1/1	N/A	6/6	2/2
David Walker[6]	11/11	N/A	5/6	2/2	2/2

[1] Eight regular meetings and three special meetings.
[2] Chair of board and investment committee and member of governance committee, but attends all committee meetings.
[3] Appointed to HRCC effective May 12, 2005.
[4] Term on governance committee expired May 11, 2005. Appointed to audit committee and HRCC effective May 12, 2005.
[5] Term on HRCC expired effective May 11, 2005. Appointed to governance committee effective May 12, 2005.
[6] Term on HRCC expired effective May 11, 2005.
[7] Term on audit committee expired May 11, 2005. Appointed to HRCC effective May 12, 2005.

DIRECTORS' REMUNERATION

	Annual Retainer	Board and Committee Meeting Fees	Total Remuneration
Gail Cook-Bennett, Chair of the Board	$ 95,000	N/A	$ 95,000
Germaine Gibara	20,000	$ 23,000	43,000
Peter K. Hendrick	20,000	16,000	36,000
Jacob Levi	20,000	18,000	38,000
Philip MacDougall	20,000	17,000	37,000
Helen M. Meyer	20,000	24,000	44,000
Dale G. Parker	21,250	28,000	49,250
M. Joseph Regan	21,250	17,000	38,250
Mary C. Ritchie, Chair of Audit Committee	27,500	16,000	43,500
Helen Sinclair, Chair of Governance Committee	26,250	17,000	43,250
Ronald E. Smith, Chair of HRCC	26,250	22,000	48,250
David Walker[8]	27,500	20,000	47,500

Directors' remuneration includes an annual retainer for each director of $20,000, board and committee meeting fees of $1,000 per meeting, including meetings attended by invitation, plus an annual retainer of $7,500 for each committee chair. 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 but is not eligible to receive annual or committee chair retainers or meeting fees unless the fees relate to public meetings.

[8] Chair of ad hoc communications committee.

SEVEN-YEAR REVIEW

For the year ended March 31 ($ billions)	**2006**	2005	2004	2003	2002	2001	2000
CHANGE IN NET ASSETS							
Income							
Investment income	**13.1**	6.3	10.3	(1.1)	2.3	3.0	1.1
Net contributions	**3.6**	4.5	4.6	3.1	2.6	1.2	(1.3)
Increase in net assets	**16.7**	10.8	14.9	2.0	4.9	4.2	(0.2)

As at March 31 ($ billions)	**2006**	2005	2004	2003	2002	2001	2000
NET ASSETS							
Equities							
Canada	**29.1**	27.7	22.6	11.7	10.0	5.0	2.0
Non-Canada	**32.6**	20.9	9.3	5.4	4.1	2.1	0.4
Real return assets							
Real estate	**4.2**	0.8	0.7	0.3	0.1	–	–
Infrastructure	**0.3**	0.2	–	–	–	–	–
Inflation-linked bonds	**4.0**	–	–	–	–	–	–
Nominal fixed income							
Bonds	**27.2**	28.6	30.2	31.0	32.6	35.3	35.8
Money market securities	**0.6**	3.1	7.7	7.2	6.8	6.3	6.3
Net assets	**98.0**	81.3	70.5	55.6	53.6	48.7	44.5
PERFORMANCE (%)							
Rate of return (annual)	**15.5%**	8.5%	17.6%	(1.5)%	4.0%	7.0%	3.2%

Officers

DAVID F. DENISON
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

JOHN H. BUTLER
VICE-PRESIDENT — GENERAL COUNSEL
AND CORPORATE SECRETARY

IAN M.C. DALE
VICE-PRESIDENT — COMMUNICATIONS
AND STAKEHOLDER RELATIONS

GRAEME EADIE
VICE-PRESIDENT —
REAL ESTATE INVESTMENTS

JOHN H. ILKIW
VICE-PRESIDENT — PORTFOLIO DESIGN
AND RISK MANAGEMENT

JANE NYMAN
VICE-PRESIDENT —
FINANCE AND OPERATIONS

DONALD M. RAYMOND
VICE-PRESIDENT —
PUBLIC MARKET INVESTMENTS

DAVID WEXLER
VICE-PRESIDENT —
HUMAN RESOURCES

MARK D. WISEMAN
VICE-PRESIDENT —
PRIVATE INVESTMENTS

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