



CPP
INVESTMENT
BOARD

it's about the **future**



ANNUAL REPORT 2002

Canadians have the right to know

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.

Consequently, we are committed to pro-actively disclosing comprehensive and timely information about our investment activities, primarily through our web site, so that Canadians can understand how we are helping to keep the Canada Pension Plan promise.

Our timely disclosure of important developments is also made through news wire services. Examples are our quarterly and annual financial results, new investments, new partner-like relationships, executive appointments, and notice of public meetings.

We do not disclose information regarding investments under consideration or not completed, and we respect third-party confidentiality agreements. We comply with federal and provincial laws and regulations regarding such matters as privacy.

What's available on our website www.cppib.ca

• What's New	• Our Regulations
• Public Meetings	• Our Investment Challenge
• Results	• Investment Considerations
• Holdings	• Return Expectations
• News Releases	• Risk Management
• Quarterly Reports	• Public Market Investments
• Partnering Opportunities	• Guidelines for Public Market Investments
• Meet Our Team	• Private Market Investments
• Our Governance	• Guidelines for Private Market Investments
• Our Policies	• Measuring Total Fund Performance
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Our investment and operating objectives

Our goal is to grow the value of assets available to the Canada Pension Plan to help pay pensions to today's workers, starting as early as 2021. Consequently, what we do is very much about the financial future for millions of Canadians.

While our investment focus is long term, we set annual investment and operating objectives, and report on them at the end of each fiscal year.

FISCAL 2002 OBJECTIVES AND PERFORMANCE

Implement investment risk management framework.

Expanded policies, guidelines and procedures to control risk and introduced a portfolio risk management system.

Diversify portfolio investment activities, including introduction of active management.

Diversified from exclusive investment in passive index funds to include externally managed private equity funds.

Control our costs as we expand operations and diversify investment activities.

Held costs below board-approved budget, with expenses of 9¢ per \$100 of assets.

Redesign and expand the web site as our primary medium of public communications.

Substantially completed by year end for implementation in May 2002.

FISCAL 2003 OBJECTIVES

- Adjust our passive equity investing strategies to enhance long-term returns
- Initiate active public market investment programs to complement our active private equity investing
- Implement an internal audit function to augment the external audit function within an enterprise-wide risk management approach
- Enhance performance measurement and attribution reporting



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Our vision, mission, and long-term objectives can be found under Who We Are.

Accountability *through disclosure and oversight*

Chair's Report

The CPP Investment Board is responsible for billions of dollars of retirement funds belonging to Canadians and must, therefore, be fully accountable to them. These funds must be managed to the highest professional standards and at arm's length from governments with qualified managers making investment decisions.

Accordingly, in framing the CPP Investment Board's legislation and regulations, the federal and provincial governments addressed both accountability and professional independence.

By legislation, the CPP Investment Board is required to report to Parliament through the finance minister, who tables our annual report in the House of Commons. Quarterly and annual financial statements are filed with the federal and provincial finance ministers, who are collectively responsible for the Canada Pension Plan. Furthermore, legislation requires the Chairperson and Chief Executive Officer to hold bi-annual public meetings in each province that participates in the Canada Pension Plan.

The CPP Investment Board has, however, moved far beyond these legislated disclosure requirements to embrace the philosophy described on the inside cover of this report. The belief that Canadians have the right to know how and where their dollars are invested and, of course, how their investments are performing dictates disclosure of investment policies, decisions and holdings. As a result of this pro-active process, Canadians and their representatives can assess the performance of the organization.

Oversight of management is a central duty of the directors to ensure compliance with the CPP Investment Board's legislated mandate. That mandate is to invest for CPP contributors and beneficiaries and to maximize investment returns without undue risk of loss. Critical to effective oversight is having directors



Gail Cook-Bennett



with experience in financial services, investing and other areas pertinent to the Investment Board's responsibilities. The legislation and nominating process are quite clear in requiring directors with this experience.

The board's four committees provide more detailed oversight from different perspectives:

- The investment committee, consisting of the full board, reviews and approves all investment policies and strategies and the appointment of external fund managers. The investment policies were revised in fiscal 2002 and key elements are published as our Investment Statement.
- The governance committee oversees codes of conduct for directors, officers and employees as well as the identification and resolution of conflicts of interest. In fiscal 2002, it approved a revised governance manual.
- The human resources and compensation committee evaluates the performance, compensation and organization of management.
- The audit committee ensures that management has an effective internal control structure for enterprise-wide risks and oversees the completion of the financial statements with the assistance of the auditors. In fiscal 2002, an accounting firm was retained to provide on-going internal audit services, including the review of management's monitoring and evaluation of risks, the related policies, operating procedures and controls. The internal audit firm complements the activities of the external audit firm.

Through a rigorous process, objectives for the Chief Executive Officer and management are set and performance is monitored and rewarded annually.

The directors also engage in an annual self-assessment of their own effectiveness as a team and as individuals. The individual assessment questionnaire, for example, asks directors to evaluate their own



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The mandate and activities of board committees are explained under Our Governance.

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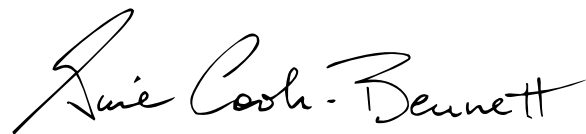
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contribution and rate their colleagues. Appropriate confidentiality is retained through use of an outside consultant to collate the information.

The governance model and processes do not, of course, guarantee organizational success, though we believe they contribute to good performance. As a relatively new organization we were honoured that the CPP Investment Board was selected as the winner of the Conference Board of Canada/Spencer Stuart governance award for the public sector in 2002. The award is an endorsement of key governance decisions made by the federal and provincial governments in the late 1990s in forming the CPP Investment Board. These decisions are the solid foundation on which we have developed our governance practices.

From time to time, directors must leave the board as their job responsibilities change or systemic conflicts arise. On behalf of the board, my sincere thanks to Monique Leroux who stepped down after a short but productive tenure. The CPP contributors and beneficiaries are served by a board of independently minded directors that exercises oversight over a professional management team committed to helping the Canada Pension Plan meet its long-term obligations.



Gail Cook-Bennett, Chairperson



A board with the right expertise

The nominating committee that recommends individuals to serve as directors is required to consider candidates with financial, investment and business experience. The directors are responsible for investment policies, standards and procedures, appointing an independent auditor, approving policies to identify and resolve conflicts of interest, approving codes of conduct for directors, officers and employees, and monitoring and assessing management's performance.



Gail Cook-Bennett
Chairperson ^{1,3}
Economist.
Former professor,
business consultant.
Chair, investment
committee.



Mary C. Arnold ²
Chartered accountant.
Management consultant.
Chair, audit committee.



Gilbert Gill ²
Chartered accountant.
Former deputy finance
minister, Newfoundland
and Labrador.



Jacob Levi ^{1,2}
Actuary.



Helen M. Meyer ^{2,3}
Financial executive.



Dale G. Parker ¹
Corporate director.
Former financial
executive.
Chair, governance
committee.



M. Joseph Regan ^{2,3}
Retired bank executive.



Helen Sinclair ¹
Financial executive.



Richard M. Thomson ³
Retired bank executive.
Chair, human resources
and compensation
committee.



David Walker ³
Business executive.



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An explanation of the nominating process and directors' biographies are under Who We Are.

All directors are members of the investment committee, which reviews and approves management's investment strategy and recommendations for external fund managers.

¹ The governance committee is responsible for governance, measuring board effectiveness, and monitoring codes of conduct and conflicts of interest, including clear board and management authority for resolving perceived conflicts and ensuring directors and employees formally acknowledge their compliance semi-annually.

² The audit committee oversees financial reporting, external audit, information systems, internal audit and internal controls, and risk management.

³ The human resources and compensation committee is responsible for compensation philosophy, reviewing CEO's performance, succession planning and organizational structure.

A distinctive *national, institutional investor*

President's Report



John A. MacNaughton

We have completed another productive year at the CPP Investment Board. Among our accomplishments:

- We earned \$316 million on equity investments for a 3.4 per cent rate of return.
- We expanded beyond passive public equity investing into actively managed private equity funds by committing \$2.4 billion to 14 external managers. These commitments will be invested over the next several years.
- We enhanced our investment accounting, performance measurement and risk management capabilities. This will enable us to refine our short-term and long-term portfolio risk management as our assets undergo rapid growth.
- We expanded to 23 permanent staff with the recruitment of professionals and support personnel in all investment and operating areas. We continue as a lean and focused organization committed to controlling overhead costs, developing and managing disciplined investment and operating strategies, retaining outside specialists to implement most of our strategies under our close supervision, and producing long-term returns that contribute to the financial strength of the Canada Pension Plan.

We are well positioned to move to the next phase of our development. As we shape our future course, it is important to remember that the CPP Investment Board is substantially different in purpose and design from many Canadian pension funds.

First, unlike a typical pension plan, the Canada Pension Plan does not have a target of being fully funded (that is, with assets matching liabilities). Born as a pay-as-you-go scheme in 1966, the plan is now designed to be partially funded, with assets projected to reach roughly 25 per cent of liabilities in future years. Contributions by employers and employees and investment income from the CPP Investment Board will help governments to meet their CPP obligations as they come due.



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Our approach to forming partner-like relationships with external investment managers is outlined under Partnering Opportunities.

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Second, CPP benefits are fully indexed for inflation, which means we need to invest in assets that outperform inflation. The least risky investments that guarantee a return above inflation are real-return bonds.

Unfortunately, they do not produce returns sufficient to satisfy the CPP's future needs. We have to assume some risks to earn higher returns over the long term.

Third, with high levels of annual cash inflow we will be a large institutional investor relative to the small Canadian market. Our assets will range between \$125 billion and \$150 billion by 2012. The exact amount will depend on the returns we earn, how much of the government bond portfolio held by the Canada Pension Plan is transferred to us, and the excess of CPP contributions over benefits paid. During the next decade, we expect to have between \$6 billion and \$8 billion of new cash to invest on average *every year*. Obviously, we want to avoid bidding prices up, especially in the Canadian public equity market. To diversify from having "too many eggs in one basket" we will maximize non-Canadian exposure to capitalize on growth in other world economies.

Fourth, the plan will not need cash from the CPP Investment Board for about 20 years. According to the Chief Actuary's assumptions, Canada Pension Plan contributions are projected to exceed benefit payments until 2021. This is good news for a cash-rich equity investor. We can take advantage of several business cycles to gain higher equity returns from economic growth in Canada and global markets, and invest a portion of assets in less liquid assets to earn higher returns.

These distinctive characteristics mean that we must move away from the limitations in our current strategy of replicating stock indexes for Canadian, U.S. and other markets. Our plan is to internalize the passive management of public equities, reconfigure the portfolio and retain external specialists to actively manage



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Our general approach to risk management can be found at How We Invest.

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a portion of it. We will also expand our commitments in private equity and explore opportunities in income-producing real estate, infrastructure and natural resources. Our current and future investment strategies are described in the next section, Strategies for Long-Term Growth.

Finally, we differ from Canadian pension funds in that we work for and report to a national constituency of 16 million CPP contributors and beneficiaries, as well as to the federal and provincial governments. We accept the responsibility to keep them informed on changes in our investment strategy. With that in mind, we have greatly expanded the continuous disclosure of investment information on our web site. We also welcome hearing from Canadians at the public meetings scheduled across the country in June 2002, the details of which are posted on our web site.

Thank you to our board of directors for its guidance and support during the past year, and our dedicated staff for their commitment and hard work in ensuring that everything we do at the CPP Investment Board is designed to further the long-term financial strength of the Canada Pension Plan.



John A. MacNaughton, President and Chief Executive Officer



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Strategies for long-term growth

We invest cash not currently required by the Canada Pension Plan to pay benefits. This cash is put to work in capital markets so that it can grow in value to support today's younger workers when they retire.

Legislation requires us to act in the best interests of CPP contributors and beneficiaries, to maximize investment returns without undue risk of loss, and to take into consideration the CPP's funding status and ability to meet its obligations.

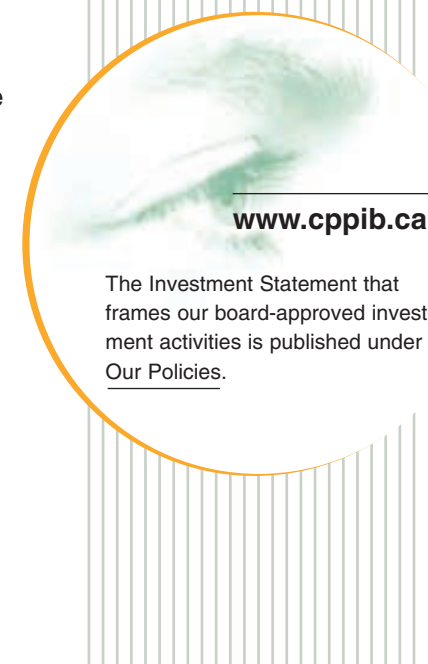
We are currently investing exclusively in equities to earn the level of returns expected by the plan over the long-term and to balance \$39.3 billion of government bonds and short-term securities held by the CPP. In our view, equities should outperform bonds over the long-term and more than compensate for the extra risks assumed.

By the end of fiscal 2002, we had invested mostly in public equity, with three per cent in private equity. Our target of investing 10 per cent of the total portfolio in private equity and five per cent in other private market assets will take several years to achieve.

We comply at all times with the foreign property limit in the *Income Tax Act* that restricts pension funds to investing no more than 30 per cent of assets (at cost) outside Canada.

Public Market Investments At the end of fiscal 2002, we were invested in externally managed funds that replicate the composition of:

- The S&P/TSE Composite Index of approximately 300 firms that trade on the Toronto Stock Exchange. Stocks are selected by a committee of the TSE and Standard & Poor's Company.
- The S&P 500 Index of large U.S. companies selected by the Standard & Poor's Company.
- The MSCI EAFE Index of about 1,000 companies in 21 countries in Europe, the Far East and Australasia. Stocks are selected by Morgan Stanley Capital International.



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The Investment Statement that frames our board-approved investment activities is published under Our Policies.

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During our first three years we invested passively in public equities. In fiscal 2003, we will develop and implement a new public markets strategy.

First, we will consolidate the stock index funds in a single passive portfolio under internal management. We will employ several firms to help minimize costs during the time lapse between receiving cash from the Canada Pension Plan and actually investing it. The goal is to reduce portfolio costs associated with putting large sums of money into the market.

Second, staff will focus on managing portfolio risk, rather than solely on beating a broad market benchmark. We will use derivatives to reduce risk, enhance returns and reduce costs. For example, an S&P 500 futures contract is a cheaper and easier way to adjust market exposure in the U.S. than buying or selling the 500 stocks in the S&P 500 Index.

Third, we will hire external managers to add value to the passive portfolio through active management. They will use their expertise to overweight or underweight certain components of the portfolio. This might mean, for example, buying and selling individual stocks in an economic sector to achieve a more positive outcome than the weighting of the same stocks in our passive portfolio.

Private market investments We initiated our private equity strategy in June 2001. Private equity offers the potential to earn higher returns than public equity over time. It requires patience because private markets are illiquid (with fewer buyers and sellers). During the early years, when investments are made, low returns and losses are possible, particularly in venture capital. Strong growth in value and investment returns tend to appear in later years when investments are sold.

By year end, we had formed relationships with 14 fund managers in Canada, the United States and United Kingdom. We committed approximately \$2.4 billion, primarily to 16 pooled funds managed by these firms.



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The commitments will be drawn down as the firms identify attractive investments. By year end, \$460 million was invested. Our ultimate goal is to invest as much as 10 per cent of total assets in private equity.

We make venture capital available to early-stage companies developing products or services with the prospect of generating revenue in the future and to later-stage firms already generating revenue with the expectation of near-term profits. We also invest in buyout funds that make capital available to companies undertaking a new business plan or expansion, as well as acquisitions and financial restructuring, to generate growth and improve financial performance.

We will continue to forge partner-like relationships with additional private equity managers in Canada and abroad.

Starting in fiscal 2003, we will explore opportunities to commit funds to income-producing real estate and infrastructure projects, as well as energy and natural resource assets. Our goal, subject to identifying appropriate opportunities, is to invest as much as five per cent of our total portfolio in these types of assets.



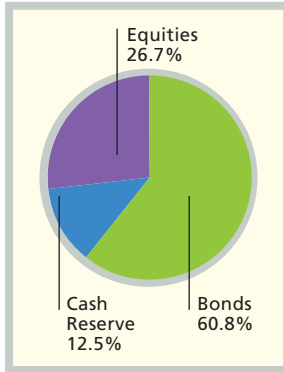
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What we mean by private market investments, and the partners we have chosen to date, is reviewed under How We Invest.

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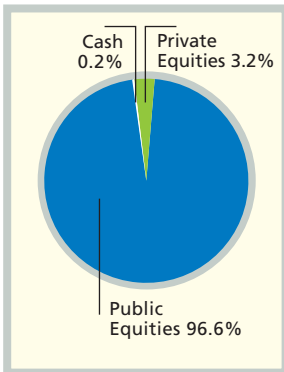
How the assets are performing

ASSETS AVAILABLE TO CPP
March 31, 2002



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

EQUITY ASSET MIX
March 31, 2002



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

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

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

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

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

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



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

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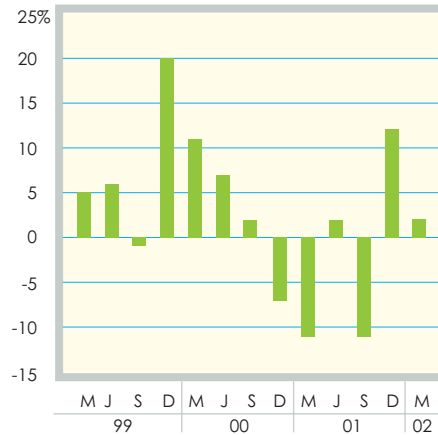
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Equities The assets managed by the CPP Investment Board are invested in equities to balance the large fixed-income portfolio and because we believe equities will produce superior long-term returns for the risks incurred. The \$14.3 billion in equity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

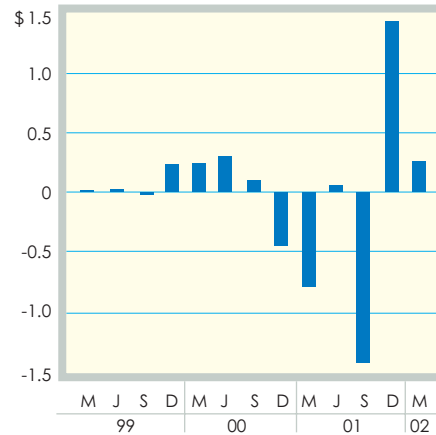
The equity portfolio earned \$316 million in fiscal 2002 for a 3.4 per cent return, compared with an \$845 million investment loss in fiscal 2001 for a negative 9.4 per cent return.

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

QUARTERLY PERCENTAGE GAINS AND LOSSES



QUARTERLY DOLLAR GAINS AND LOSSES (\$billions)



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

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



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

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

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

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

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

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

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

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

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

¹ Based on the Chief Actuary's real return assumptions for equities, including inflation

² The CPP Investment Board's long-term risk-adjusted target, also including inflation

³ Returns are annualized since March, 1999

* Prior year's numbers have been restated to reflect inflation using a two-month lag consistent with how returns on Government of Canada real-return bonds are calculated.

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

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

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

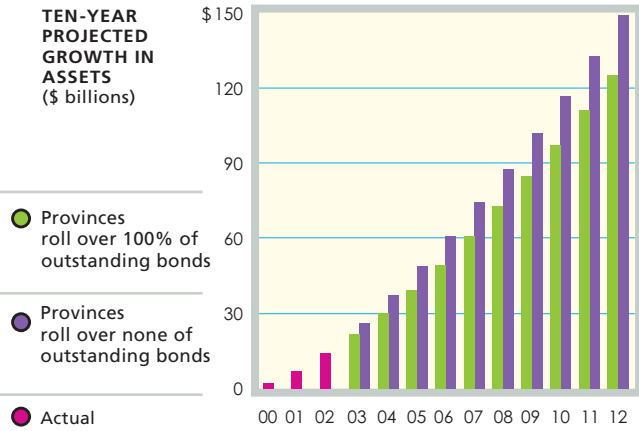


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Our most recent financial statements are published under Quarterly Reports.

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TEN-YEAR PROJECTED GROWTH IN ASSETS (\$ billions)



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

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

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

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

Investment management and administrative expenses will continue to rise in dollar terms as we increase our human resources and form partner-like relationships with external investment managers to implement a diversified investment strategy. We plan to introduce incentive-based compensation for outside managers. This should produce higher net investment returns (i.e. after expenses) and consequently higher fees.

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



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

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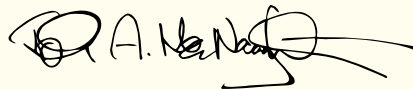
Management's Responsibility for Financial Reporting

The financial statements of the Canada Pension Plan Investment Board (the "CPP Investment Board") have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management is responsible for the contents of the financial statements and the financial information contained within the annual report.

The CPP Investment Board maintains records and develops and maintains systems of internal control and supporting procedures to provide reasonable assurance that the CPP Investment Board's assets are safeguarded and controlled and that transactions are in accordance with the *Canada Pension Plan Investment Board Act*, the accompanying regulations, the by-laws, the Investment Statement, and the Investment Policies.

The Audit Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Committee meets regularly with both management and the external auditors to discuss the scope and findings of audits and other work that the external auditors may be requested to perform from time to time, to review financial information, and to discuss the adequacy of internal controls. The Committee reviews and approves the annual financial statements and recommends them to the Board of Directors for approval.

The CPP Investment Board's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the 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 of the CPP Investment Board's financial reporting and the adequacy of internal control systems.



John A. MacNaughton

President and Chief Executive Officer



Jane Nyman

Vice President – Finance and Operations

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Investment Certificate

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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.

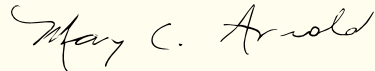
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The investments of the CPP Investment Board, held during the year ended March 31, 2002, were in accordance with the *Canada Pension Plan Investment Board Act* and the CPP Investment Board's Investment Statement and Investment Policies.

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Mary C. Arnold

Chair of the Audit Committee on behalf of the Board of Directors, May 8, 2002

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Auditors' Report

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To the Board of Directors

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Canada Pension Plan Investment Board

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We have audited the balance sheet and the statement of investment portfolio of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2002 and the statements of income/(loss) and accumulated net loss from operations and of changes in net assets for the year then ended. These financial statements are the responsibility of the CPP Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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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.

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In our opinion, these financial statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2002 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.

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Further, in our opinion, the transactions of the CPP Investment Board that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the "Act") and the by-laws.

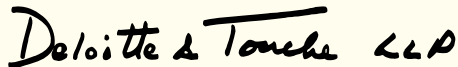
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Further, in our opinion, the record of investments kept by the CPP Investment Board's management pursuant to paragraph 39(1)(c) of the Act fairly presents, in all material respects, the information required by the Act.

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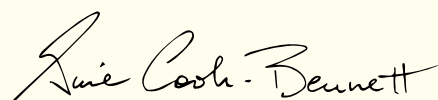
Chartered Accountants

Toronto, Ontario, April 24, 2002

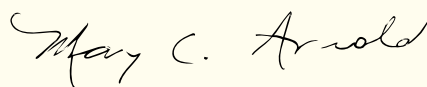
Balance Sheet

March 31, 2002	(\$ 000's)	2002	2001
ASSETS			
Investments (Note 2)		\$ 14,289,378	\$ 7,154,876
Due from brokers		2,343	—
Premises and equipment		1,278	261
Other assets (Note 3)		79	1,206
TOTAL ASSETS		14,293,078	7,156,343
LIABILITIES			
Accounts payable and accrued liabilities		4,730	2,174
Due to brokers		3,382	—
TOTAL LIABILITIES		8,112	2,174
NET ASSETS		\$ 14,284,966	\$ 7,154,169
NET ASSETS, REPRESENTED BY			
Share capital (Note 5)		\$ —	\$ —
Accumulated net loss from operations		(86,626)	(391,252)
Accumulated Canada Pension Plan transfers		14,371,592	7,545,421
NET ASSETS		\$ 14,284,966	\$ 7,154,169

On behalf of the Board of Directors:



Gail Cook-Bennett
Chairperson



Mary C. Arnold
Chair of the Audit Committee

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Statement of Income/(Loss) and Accumulated Net Loss from Operations

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Year ended March 31, 2002	(\$ 000's)	2002	2001
INVESTMENT INCOME/(LOSS) (Note 7)		\$ 316,034	\$ (844,855)
INVESTMENT AND ADMINISTRATIVE EXPENSES (Note 8)			
Salaries and benefits		4,283	1,963
General operating expenses		3,204	2,279
External investment management fees		2,951	1,535
Professional and consulting fees		970	958
		11,408	6,735
NET INCOME/(LOSS) FROM OPERATIONS		304,626	(851,590)
ACCUMULATED NET INCOME/(LOSS) FROM OPERATIONS, BEGINNING OF YEAR		(391,252)	460,338
ACCUMULATED NET LOSS FROM OPERATIONS, END OF YEAR		\$ (86,626)	\$ (391,252)

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Statement of Changes in Net Assets

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Year ended March 31, 2002	(\$ 000's)	2002	2001
NET ASSETS, BEGINNING OF YEAR		\$ 7,154,169	\$ 2,391,793
CHANGES IN NET ASSETS			
Canada Pension Plan transfers (Note 6)		6,826,171	5,613,966
Net income/(loss) from operations		304,626	(851,590)
INCREASE IN NET ASSETS FOR THE YEAR		7,130,797	4,762,376
NET ASSETS, END OF YEAR		\$ 14,284,966	\$ 7,154,169

Statement of Investment Portfolio

<i>March 31, 2002</i> (\$ 000's)	Fair Value		% of Portfolio	
	2002	2001	2002	2001
EQUITIES (Note 2)				
Canada				
Public Markets	\$ 9,969,569	\$ 5,024,457	69.8%	70.2%
Private Markets	144,207	—	1.0%	—
	10,113,776	5,024,457	70.8%	70.2%
United States				
Public Markets	1,861,021	1,069,852	13.0%	15.0%
Private Markets	304,445	—	2.1%	—
	2,165,466	1,069,852	15.1%	15.0%
Non-North America				
Public Markets	1,971,484	1,060,567	13.8%	14.8%
Private Markets	11,606	—	0.1%	—
	1,983,090	1,060,567	13.9%	14.8%
TOTAL EQUITIES				
(Cost 2002 – \$14,690,451 2001 – \$ 8,042,325)	14,262,332	7,154,876	99.8%	100.0%
OTHER INVESTMENTS (Note 2)				
Money Market Securities				
(Cost 2002 – \$ 27,046 2001 – \$ Nil)	27,046	—	0.2%	—
TOTAL INVESTMENTS	\$ 14,289,378	\$ 7,154,876	100.0%	100.0%

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Notes to the Financial Statements

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ORGANIZATION

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The Canada Pension Plan Investment Board (the “CPP Investment Board”) was formed pursuant to the *Canada Pension Plan Investment Board Act* (the “Act”). The CPP Investment Board is responsible for managing amounts that are transferred to it under Section 111 of the *Canada Pension Plan* in the best interests of the beneficiaries and contributors under that Act. The amounts are to be invested with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan (the “CPP”) and the ability of the CPP to meet its financial obligations.

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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(A) BASIS OF PRESENTATION

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These financial statements present the consolidated financial position and operations of the CPP Investment Board and its wholly-owned subsidiary. The financial statements include only a portion of the assets (as described in Note 2) and none of the pension liabilities of the CPP. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act and the accompanying regulations.

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(B) VALUATION OF INVESTMENTS

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Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act.

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Quoted market prices for publicly traded securities and unit values for pooled and mutual funds are used to represent fair value for these investments. Unit values reflect the quoted market prices of the underlying securities. In the case of private market investments, where quoted market prices are not available, fair value is determined utilizing valuations provided by external managers who use industry valuation methods such as earnings multiples of comparable publicly traded companies, discounted cash flows, and appraisals. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value, unless there is an indication of permanent impairment of value.

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(C) INVESTMENT INCOME RECOGNITION

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Investment income is recorded on the accrual basis and represents realized gains and losses on disposal or transfer of investments, unrealized gains and losses on investments held at the end of the year, dividend income (recognized on ex-dividend date), interest income, and distributions from mutual and pooled funds.

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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 change in the difference between fair value and cost of investments at the beginning and end of each year.

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Notes to the Financial Statements

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(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.

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(E) CANADA PENSION PLAN TRANSFERS

Amounts received from the CPP are recorded on a cash basis.

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(F) INCOME TAXES

The CPP Investment Board is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board are owned by Her Majesty in right of Canada.

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(G) USE OF ESTIMATES

In preparing these financial statements, management must make certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures. Actual results could differ from these estimates.

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2. INVESTMENTS

The statement of investment portfolio provides detailed information on the investments held as at March 31, 2002.

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(A) INVESTMENT POLICIES

The CPP Investment Board has established an Investment Statement and Investment Policies (collectively the "Investment Policies") which set out the manner in which assets shall be invested. The majority of the CPP Investment Board's investments are allocated to public and private equities in the Canadian, United States and Non-North American markets. In determining the asset mix, the CPP Investment Board must take into consideration certain assets of the CPP which are held outside of the CPP Investment Board. As at March 31, 2002, these assets totalled approximately \$35.0 billion (at cost) (2001 – \$36.0 billion) and consisted primarily of government debt obligations.

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As at March 31, 2002, 96.6% (2001 – 100%) of investments are held in public market equities. Approximately 99% (2001 – 60.8%) of investments in Canadian public market equities are held in funds that substantially replicate the composition of the Toronto Stock Exchange 300 Composite Index. All United States and Non-North America (collectively "Non-Canadian") public market equities are held in funds that substantially replicate the Standard & Poor's ("S&P") 500 Index and the Morgan Stanley Capital International ("MSCI") EAFE Index, respectively.

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As at March 31, 2002, 3.2% (2001 – 0%) of investments are held in private market equities. These investments, currently in Canada, the United States, and Western Europe, are generally made by taking an interest in funds managed by third parties. The underlying investments represent equity ownership or investments with the risk and return characteristics of equity.

Notes to the Financial Statements

(B) DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, interest rates or exchange rates.

As outlined in the Investment Policies, certain derivatives may be used to achieve market exposure by replicating direct investments in a relevant equity index, provided that the derivatives are not used to create leverage. The mutual and pooled funds in which the CPP Investment Board owns units are permitted to, and may from time to time, use derivatives subject to this constraint. During the years ended March 31, 2002, and 2001, other than through mutual and pooled funds, the CPP Investment Board did not directly enter into derivative contracts.

(C) FOREIGN CURRENCY EXPOSURE

The CPP Investment Board is exposed to currency risk through holdings of units in pooled funds of Non-Canadian equities and through investments in Non-Canadian private market equities where investment values will fluctuate due to changes in foreign exchange rates. Investments are not hedged against changes in foreign exchange rates. The underlying currency exposures as at March 31, 2002 are as follows:

(\$ 000's)	2002		2001	
	Fair Value	% of Total	Fair Value	% of Total
Currency				
United States Dollar ¹	\$ 2,163,954	52%	\$ 1,069,872	50%
Euro	697,552	17%	403,823	19%
British Pound Sterling	542,765	13%	228,192	11%
Japanese Yen	388,170	9%	253,549	12%
Swiss Franc	156,826	4%	73,019	3%
Other	199,996	5%	101,964	5%
	\$ 4,149,263	100%	\$ 2,130,419	100%

¹ Includes \$707 (2001 - \$Nil) of United States money market securities.

3. OTHER ASSETS

Other assets consist of the following:

(\$ 000's)	2002	2001
Cash and short-term investments	\$ 25	\$ 546
Dividends receivable	—	493
Other amounts receivable	54	167
	\$ 79	\$ 1,206

Notes to the Financial Statements

4. CREDIT FACILITY

During the current year, the CPP Investment Board established a \$300,000,000 unsecured credit facility to meet short-term liquidity requirements. As at March 31, 2002, the total amount drawn on the credit facility was \$Nil.

5. SHARE CAPITAL

The issued and authorized share capital of the CPP Investment Board is \$100 divided into 10 shares having a par value of \$10 each. The shares are owned by Her Majesty in right of Canada.

6. CANADA PENSION PLAN TRANSFERS

Section 111 of the *Canada Pension Plan* provides for the transfer to the CPP Investment Board of funds not required by the CPP to pay current benefits. The funds come from both employer and employee contributions to the CPP, proceeds of maturing and redeemed government bonds held in a portfolio administered by the federal government, and interest income generated from this portfolio. During the year, a total of \$6,826,171,000 (2001 – \$5,613,966,000) was transferred to the CPP Investment Board.

7. INVESTMENT INCOME/(LOSS)

(A) INVESTMENT INCOME/(LOSS)

Investment income/(loss) consists of the following:

(\$ 000's)	2002	2001
NET GAIN/(LOSS) ON EQUITIES¹		
Canada	\$ 405,763	\$ (538,392)
United States	7,414	(151,620)
Non-North America	(119,281)	(163,507)
	293,896	(853,519)
DIVIDEND INCOME		
Canada	12,153	2,533
United States	—	—
Non-North America	—	—
	12,153	2,533
INTEREST AND OTHER INCOME	9,985	6,131
TOTAL INVESTMENT INCOME/(LOSS)	\$ 316,034	\$ (844,855)

¹ Includes unrealized gains of \$459,247 (2001 – unrealized losses of \$1,246,995), realized losses of \$378,669 (2001 – realized gains of \$180,178) and distributions from pooled and mutual funds of \$213,318 (2001 – \$213,298). Distributions include capital gains and dividends.

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Notes to the Financial Statements

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The CPP Investment Board utilizes index funds to implement its market replication strategy. In instances where a large dollar value of index fund units will be purchased, the CPP Investment Board initially purchases individual securities that make up the index. The securities are then transferred to the index fund in exchange for units in the fund. On transfer, a gain or loss may be realized representing the difference between the market price of the securities at the time of the transfer and their original cost.

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(B) INVESTMENT PERFORMANCE

Portfolio returns and benchmark returns are as follows:

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	2002		2001	
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns
Canadian investments	5.9 %	4.8%	(7.7)%	(18.6)%
Non-Canadian investments	(2.3)%	(2.8)%	(17.5)%	(18.2)%
Total return	3.4 %	2.4 %	(9.4)%	(17.8)%

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The portfolio return for Canadian investments is the total return from Canadian public and private market equities, and money market securities. The Non-Canadian investment return reflects the performance of Non-Canadian public and private market equities.

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The CPP Investment Board uses a variety of metrics over the short, medium and long term to evaluate investment performance. Benchmark returns are based upon the TSE 300 for Canadian investments, and the S&P 500 and the MSCI EAFE for Non-Canadian investments. The total portfolio benchmark return aggregates the asset class benchmark returns according to the weights specified in the Investment Policies.

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Returns have been calculated in accordance with the methods set forth by the Association for Investment Management and Research.

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8. INVESTMENT AND ADMINISTRATIVE EXPENSES

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(A) EXECUTIVE COMPENSATION

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Compensation earned by executive officers of the CPP Investment Board during fiscal 2002 amounted to \$1,967,699 (2001 – \$1,214,697). Included in this total are the following amounts:

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Notes to the Financial Statements

Name	Year	Salary	Annual Bonus ⁶	Long-Term Bonus ⁶	Benefits ⁷
John A. MacNaughton	2002	\$ 363,650	\$ 181,825	\$ 31,526	\$ 52,419
<i>President and Chief Executive Officer</i>	2001	\$ 350,000	\$ 175,000	\$ 30,490	\$ 50,406
Mark Weisdorf ¹	2002	\$ 185,000	\$ 148,000	\$ —	\$ 25,191
<i>Vice President – Private Market Investments</i>	2001	\$ 85,385	\$ 68,308	\$ —	\$ 9,206
Valter Viola ²	2002	\$ 170,000	\$ 132,940	\$ —	\$ 19,043
<i>Vice President – Research and Risk Management</i>	2001	\$ 109,846	\$ 74,695	\$ —	\$ 7,303
Jane Nyman ³	2002	\$ 160,000	\$ 62,880	\$ 5,120	\$ 15,588
<i>Vice President – Finance and Operations</i>	2001	\$ 101,231	\$ 49,603	\$ 4,952	\$ 15,501
Donald Raymond ⁴	2002	\$ 106,019	\$ 84,815	\$ —	\$ 8,564
<i>Vice President – Public Market Investments</i>	2001	\$ —	\$ —	\$ —	\$ —
Jane Beatty ⁵	2002	\$ 125,192	\$ 47,072	\$ —	\$ 8,392
<i>Vice President – General Counsel and Corporate Secretary</i>	2001	\$ —	\$ —	\$ —	\$ —

¹ Commenced employment on October 16, 2000.

² Commenced employment on August 9, 2000. In addition to the amounts noted herein, Mr. Viola was paid \$50,000 upon commencement of employment representing compensation foregone from his previous employer.

³ Fiscal 2001 salary represents 8½ months of compensation.

⁴ Commenced employment on September 4, 2001.

⁵ Commenced employment on June 11, 2001.

⁶ Bonus awards include an annual and a long-term component and are based on the achievement of agreed objectives. The long-term bonus reflects amounts payable for the current year. Additionally, long-term bonuses awarded but not yet paid include approximately \$36,646 for payment in 2003, \$387,762 for payment in 2004, and \$719,525 for payment in 2005. These amounts are adjusted annually by the total portfolio return. The payment of the long-term bonus is subject to executive officers meeting certain conditions of employment.

⁷ Benefits include pension contributions in connection with a defined contribution registered pension plan and a defined contribution supplemental pension plan, life insurance, club dues, and other miscellaneous non-cash remuneration.

(B) GENERAL OPERATING EXPENSES

General operating expenses consist of the following:

(\$ 000's)	2002	2001
Office rent, supplies and equipment	\$ 1,314	\$ 570
Communication expenses	572	700
Directors' remuneration	325	376
Travel and accommodation	272	201
Custodial fees	213	281
Technology, data and analytical services	160	69
Other operating expenses	348	82
	\$ 3,204	\$ 2,279

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Notes to the Financial Statements

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Directors' remuneration includes an annual retainer for each director of \$12,000, board and committee meeting fees of \$900 per meeting, plus an additional annual retainer of \$3,000 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 usual custom. The Chair of the Board of Directors receives \$32,000 in additional annual compensation but is not eligible as Chair of the Investment Committee to receive the \$3,000 retainer paid to committee chairs.

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In fiscal 2002, 10 board and investment committee meetings and 17 other committee meetings were held.

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(C) PROFESSIONAL AND CONSULTING FEES

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Professional and consulting fees consist of the following:

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(\$ 000's)	2002	2001
Consulting	\$ 481	\$ 532
Legal	261	225
Professional accounting and external audit	228	201
	\$ 970	\$ 958

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9. COMMITMENTS

The CPP Investment Board has committed to enter into private market investment transactions, which will be funded over the next several years in accordance with the terms and conditions agreed to. As at March 31, 2002, these outstanding commitments totaled \$2.0 billion (2001 – \$Nil).

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10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current presentation.

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Corporate *Information*

Board of Directors and Investment Committee

Gail Cook-Bennett (Chairperson)	Dale G. Parker
Mary C. Arnold	M. Joseph Regan
Gilbert Gill	Helen Sinclair
Jacob Levi	Richard M. Thomson
Helen M. Meyer	David Walker

Officers

John A. MacNaughton
President and Chief Executive Officer

Jane Beatty
Vice President – General Counsel and
Corporate Secretary

Jane Nyman
Vice President – Finance and Operations

Donald M. Raymond
Vice President – Public Market Investments

Valter Viola
Vice President – Research and Risk
Management

Mark A. Weisdorf
Vice President – Private Market Investments

Audit Committee

Mary C. Arnold (Chair)
Gilbert Gill
Jacob Levi
Helen M. Meyer
M. Joseph Regan

Governance Committee

Dale G. Parker (Chair)
Gail Cook-Bennett
Jacob Levi
Helen Sinclair

Human Resources and Compensation Committee

Richard M. Thomson (Chair)
Gail Cook-Bennett
Helen M. Meyer
M. Joseph Regan
David Walker

Our Address

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