

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
President and
Chief Executive Officer



Jane Nyman
Vice-President –
Finance and Operations

INVESTMENT CERTIFICATE

The *Canada Pension Plan Investment Board Act* (the "Act") requires that a certificate be signed by a director on behalf of the board of directors, stating that the investments of the CPP Investment Board held during the year were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of the CPP Investment Board, held during the year ended March 31, 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, 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.



Chartered Accountants
Toronto, Ontario
May 3, 2006

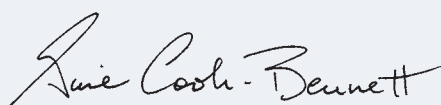
CONSOLIDATED FINANCIAL STATEMENTS

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 EQUITIES¹	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 ASSETS²	9,041	1,252
NOMINAL FIXED INCOME		
Bonds (note 2d)	17,288	8,507
Money market securities	10,356	12,067
TOTAL NOMINAL FIXED INCOME³	27,644	20,574
INVESTMENT RECEIVABLES		
Accrued interest	513	254
Derivative receivables (note 2a)	259	240
Dividends receivable	128	86
TOTAL INVESTMENT RECEIVABLES⁴	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 LIABILITIES⁵	(775)	(280)
NET INVESTMENTS	\$ 89,006	\$ 58,722

Cost of investments is as follows:

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

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

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

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

⁵Investment 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:

As at March 31, 2006 (\$ millions)	2006		2005	
	Fair Value	(%)	Fair Value	(%)
EQUITIES¹				
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:

(\$ millions)	2006		2005	
	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:

(\$ millions)	Terms to Maturity				Total
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	
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:

(\$ millions)	Terms to Maturity				Total
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	
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	
	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 INCOME⁵		
Bonds	465	319
Money market securities	41	10
	506	329
INVESTMENT INCOME, NET OF EXTERNAL INVESTMENT MANAGEMENT FEES⁶	\$ 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 following⁷:

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
<i>President and Chief Executive Officer</i>	2005	\$ 93,462	\$ 82,500	\$ –	\$ 6,688	\$ 182,650
Jane Nyman	2006	\$ 210,000	\$ 140,000	\$ 67,649	\$ 24,110	\$ 441,759
<i>Vice-President – Finance and Operations</i>	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
<i>Vice-President – Private Investments</i>						
Donald M. Raymond	2006	\$ 295,000	\$ 330,000	\$ 190,960	\$ 48,461	\$ 864,421
<i>Vice-President – Public Market Investments</i>	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
<i>Vice-President – Real Estate Investments</i>						

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.