

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*, the accompanying regulations, 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



MYRA LIBENSON

Chief Financial Officer

Toronto, Ontario
May 2, 2008

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, 2008, were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures.



ROBERT M. ASTLEY

Chair of the audit committee on behalf of the board of directors
Toronto, Ontario
May 13, 2008

Auditors' Report

TO THE BOARD OF DIRECTORS

Canada Pension Plan Investment Board


We have audited the consolidated balance sheet and the consolidated statements of investment portfolio and investment asset mix of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2008 and the consolidated statements of net income (loss) 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, 2008 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 except for the changes in accounting policies as described in note 1b.

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

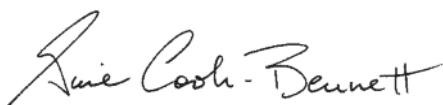
Licensed Public Accountants
Toronto, Ontario
May 2, 2008

Consolidated Balance Sheet

AS AT MARCH 31 (\$ millions)	2008	2007
ASSETS		
Investments (note 2)	\$ 126,423	\$ 117,465
Amounts receivable from pending trades	4,471	2,477
Premises and equipment (note 3)	18	12
Other assets	11	5
TOTAL ASSETS	130,923	119,959
LIABILITIES		
Investment liabilities (note 2)	1,694	1,382
Amounts payable from pending trades	6,423	2,576
Accounts payable and accrued liabilities	103	66
TOTAL LIABILITIES	8,220	4,024
NET ASSETS	\$ 122,703	\$ 115,935
NET ASSETS, REPRESENTED BY		
Share capital (note 5)	\$ –	\$ –
Accumulated net income from operations	32,344	32,766
Accumulated net transfers from the Canada Pension Plan (note 6)	90,359	83,169
NET ASSETS	\$ 122,703	\$ 115,935

The accompanying notes are an integral part of these Consolidated Financial Statements.

On behalf of the board of directors



GAIL COOK-BENNETT

Chair



ROBERT M. ASTLEY

Chair of the audit committee

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

FOR THE YEAR ENDED MARCH 31 (\$ millions)	2008	2007
NET INVESTMENT INCOME (LOSS) (note 7)	\$ (268)	\$ 12,788
OPERATING EXPENSES		
Salaries and benefits	95	72
General operating expenses (note 8a)	43	31
Professional and consulting fees (note 8b)	16	11
	154	114
NET INCOME (LOSS) FROM OPERATIONS	(422)	12,674
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF YEAR	32,766	20,092
ACCUMULATED NET INCOME FROM OPERATIONS, END OF YEAR	\$ 32,344	\$ 32,766

Consolidated Statement of Changes in Net Assets

FOR THE YEAR ENDED MARCH 31 (\$ millions)	2008	2007
NET ASSETS, BEGINNING OF YEAR	\$ 115,935	\$ 88,532
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (note 6)		
Transfers from the Canada Pension Plan	27,784	33,494
Transfers to the Canada Pension Plan	(20,594)	(18,765)
Net income (loss) from operations	(422)	12,674
INCREASE IN NET ASSETS FOR THE YEAR	6,768	27,403
NET ASSETS, END OF YEAR	\$ 122,703	\$ 115,935

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Investment Portfolio

The CPP Investment Board's investments are grouped by asset class based on the intent of the investment strategies of the underlying portfolios. The investments, before allocating the market exposure of 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 (\$ millions)	Fair Value 2008	Fair Value 2007
EQUITIES (note 2b)		
Canada		
Public equities	\$ 17,276	\$ 14,800
Private equities	644	667
	17,920	15,467
Foreign		
Public equities	30,966	36,656
Private equities	12,820	7,436
	43,786	44,092
TOTAL EQUITIES	61,706	59,559
FIXED INCOME (note 2c)		
Bonds	27,192	27,867
Other debt	1,144	—
Money market securities	18,798	15,561
TOTAL FIXED INCOME	47,134	43,428
ABSOLUTE RETURN STRATEGIES (note 2d)	1,547	260
INFLATION-SENSITIVE ASSETS (note 2e)		
Public real estate	488	1,409
Private real estate	7,421	5,441
Inflation-linked bonds	3,962	3,802
Infrastructure	2,776	2,181
TOTAL INFLATION-SENSITIVE ASSETS	14,647	12,833
INVESTMENT RECEIVABLES		
Accrued interest	660	699
Derivative receivables (note 2f)	560	519
Dividends receivable	169	167
TOTAL INVESTMENT RECEIVABLES	1,389	1,385
TOTAL INVESTMENTS	\$ 126,423	\$ 117,465
INVESTMENT LIABILITIES		
Debt on private real estate properties (note 2e)	(980)	(1,174)
Derivative liabilities (note 2f)	(714)	(208)
TOTAL INVESTMENT LIABILITIES	(1,694)	(1,382)
Amounts receivable from pending trades	4,471	2,477
Amounts payable from pending trades	(6,423)	(2,576)
NET INVESTMENTS	\$ 122,777	\$ 115,984

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Investment Asset Mix

This Consolidated Statement of Investment Asset Mix illustrates the full market exposure and is grouped by asset class based on the intent of the investment strategies of the underlying portfolios. The investments, after allocating the market exposure of 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 (\$ millions)		2008		2007	
	Fair Value	(%)	Fair Value	(%)	
EQUITIES¹					
Canada	\$ 28,891	23.5%	\$ 29,174	25.2%	
Foreign	48,159	39.2	46,130	39.8	
	77,050	62.7	75,304	65.0	
FIXED INCOME					
Bonds ^{1,2}	30,215	24.6	28,519	24.6	
Other debt ¹	1,142	0.9	—	—	
Money market securities ³	(1,530)	(1.2)	145	0.1	
	29,827	24.3	28,664	24.7	
ABSOLUTE RETURN STRATEGIES	1,547	1.3	260	0.2	
INFLATION-SENSITIVE ASSETS					
Real estate ^{1,4}	6,877	5.6	5,696	4.9	
Inflation-linked bonds ^{1,2}	4,739	3.9	3,852	3.3	
Infrastructure ¹	2,737	2.2	2,208	1.9	
	14,353	11.7	11,756	10.1	
NET INVESTMENTS	\$ 122,777	100%	\$ 115,984	100%	

¹ Includes derivative receivables, derivative liabilities and associated money market securities.

² Includes accrued interest.

³ Includes amounts receivable/payable from pending trades, dividends receivable and accrued interest.

⁴ Net of mortgage debt on private real estate properties, as described more fully in note 2e.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2008

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 6), in the best interests of the beneficiaries and contributors. The CPP Investment Board’s assets are to be invested in accordance with the Act, regulations and the investment policies with a view to achieving a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

The CPP Investment Board and its wholly-owned 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 the right of Canada or by a Corporation whose shares are owned by Her Majesty the Queen in right of Canada, respectively.

The Consolidated Financial Statements provide information on the net assets managed by the CPP Investment Board and 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 and the requirements of the Act and the accompanying regulations.

These Consolidated Financial Statements present the consolidated financial position and results of operations of the CPP Investment Board, its wholly-owned subsidiaries and the proportionate share of the fair value of assets, liabilities and operations of privately held real estate investments in joint ventures. Inter-company 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) CHANGES IN ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

In April 2005, the Canadian Institute of Chartered Accountants (“CICA”) issued section 3855, Financial Instruments – Recognition and Measurement, which is effective for fiscal years beginning on or after October 1, 2006. As the CPP Investment Board qualifies as an investment company and reports its investments at fair value in accordance with Accounting Guideline 18, Investment Companies, only the recognition and fair value measurement considerations of section 3855 are applicable.

On April 1, 2007, the CPP Investment Board prospectively adopted section 3855. These standards prescribe the quoted market price to be used in measuring the fair value of investments traded in an active market. The appropriate quoted market price for an asset held is the bid price and, for a liability held, the asking price. On April 1, 2007, the CPP Investment Board revalued the investments to reflect the new valuation standards. The change in fair value arising from the revaluation did not have a material impact to the CPP Investment Board's consolidated financial position and, therefore, no transition adjustment was made to the opening Accumulated Net Income from Operations at April 1, 2007. Other requirements under section 3855 are the expensing of transaction costs as incurred and applying the effective interest method in accounting for interest income on bonds starting April 1, 2007. The impact of these changes did not have a material impact on the CPP Investment Board's prior year consolidated statement of net income.

MANAGEMENT FEES

Effective April 1, 2007, the CPP Investment Board changed its accounting policy for the treatment of management fees paid to limited partnerships for private equity and infrastructure investments. In previous periods, these management fees were capitalized and recorded as part of the cost of the investment. The management fees are now expensed as incurred. This change was made to be consistent with the valuation standards in CICA section 3855, Financial Instruments, as previously discussed under the heading Financial Instruments. The change in accounting policy did not have a material impact on the current or prior periods' Consolidated Financial Statements of the CPP Investment Board.

(C) 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) Fair value for publicly-traded equities is based on quoted market prices. Where the market price is not available or 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) Fair value for fund investments is based on the net asset value as reported by the external managers of the funds using accepted industry valuation methods.
- (iii) Private equity and infrastructure investments are either held directly or through ownership in limited partnership arrangements. The fair value for investments held directly is determined 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 change in the value of the investment. In the case of investments held through a limited partnership, fair value is generally determined based on carrying values and other relevant information reported by the General Partner using accepted industry valuation methods.
- (iv) Fair value for marketable bonds is based on quoted market prices. Where the market price is not available, fair value is calculated using discounted cash flows based on current market yields of instruments with similar characteristics.

- (v) Fair value for non-marketable Canadian government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, adjusted for the non-marketable and rollover provisions of the bonds.
 - (vi) Money market securities are recorded at cost, which, together with accrued interest income, approximates fair value.
 - (vii) Fair value for public real estate investments is based on quoted market prices.
 - (viii) Fair value for private real estate investments is determined using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. Debt on private real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics.
 - (ix) Fair value for inflation-linked bonds is based on quoted market prices.
 - (x) Fair value for exchange-traded derivatives, which include futures, is based on quoted market prices. Fair value for over-the-counter derivatives, which include swaps and forward contracts, is determined based on the quoted market prices of the underlying instruments or other accepted industry valuation methods.
- (D) **INCOME RECOGNITION**
- Income from investments is recognized on an 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 real estate investments. Distributions received from limited partnerships and funds are recognized as interest income, dividend income, realized gains and losses from investments or return of capital, as appropriate.
- (E) **TRANSACTION COSTS**
- Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment. Transaction costs are expensed as incurred and recorded as a component of net investment income.
- (F) **TRANSLATION OF FOREIGN CURRENCIES**
- Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the transaction date. Investments and other monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the year-end date with any resulting foreign exchange gain or loss included in net gain/loss in net investment income (see note 7).
- (G) **CANADA PENSION PLAN TRANSFERS**
- Amounts from the CPP are recorded as received.
- (H) **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.

(I) **PREMISES AND EQUIPMENT**

Premises and equipment are recorded at cost and amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment and software	3 years
Office furniture and equipment	5 years
Leasehold improvements	over the term of the leases

(J) **FUTURE ACCOUNTING POLICY CHANGES**

FINANCIAL INSTRUMENTS

In December 2006, the CICA issued section 3862, Financial Instruments – Disclosures, and section 3863, Financial Instruments – Presentation, which are effective April 1, 2008 for the CPP Investment Board. These two new sections replace the current disclosure and presentation requirements of section 3861, Financial Instruments – Disclosure and Presentation. The impact to the CPP Investment Board will be increased disclosure of the nature and extent of risks arising from financial instruments.

CAPITAL DISCLOSURES

In December 2006, the CICA issued section 1535, Capital Disclosures, which is effective April 1, 2008 for the CPP Investment Board. Section 1535 requires an entity to disclose its objectives, policies and processes for managing capital, which for the CPP Investment Board, is its net investments. The requirements of section 1535 will not have a material impact on the CPP Investment Board's financial statement disclosure.

2. Investments and Investment Liabilities

(A) **FINANCIAL RISK MANAGEMENT**

The CPP Investment Board is exposed to a variety of financial risks as a result of its investment activities. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The CPP Investment Board manages financial risks in accordance with the Act, regulations and the investment policies. In addition, derivatives are used, where appropriate, to manage certain risk exposures (see note 2f).

- (i) **Market Risk:** Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices. 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 level, based on risk limits established in the investment policies. Market risk is comprised of the following:

Currency Risk: The CPP Investment Board is exposed to currency risk through holdings of investments in various currencies. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value and future cash flows of these investments.

The net underlying currency exposures, after allocating foreign currency derivatives, as at March 31 are as follows:

(\$ millions)	2008		2007	
CURRENCY	Net Exposure	% of Total	Net Exposure	% of Total
United States Dollar	\$ 23,586	49%	\$ 23,502	50%
Euro	10,813	23	8,744	19
Japanese Yen	4,910	10	5,299	11
British Pound Sterling	3,593	8	4,166	9
Australian Dollar	1,243	3	1,799	4
Swiss Franc	1,111	2	1,167	2
Other	2,317	5	2,378	5
Total	\$ 47,573	100%	\$ 47,055	100%

Interest Rate Risk: Interest rate risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates. The CPP Investment Board's interest-bearing investments and investment liabilities are exposed to interest rate risk. The most significant exposure to interest rate risk is investment in bonds (see note 2c).

Price Risk: Price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

- (ii) **Credit Risk:** Credit risk refers to the risk of financial loss due to a counterparty failing to meet its contractual obligations. The CPP Investment Board's investment in debt securities and derivatives are exposed to credit risk. The carrying amounts of these investments as presented in the Consolidated Statement of Investment Portfolio represent the maximum credit risk exposure at the balance sheet date. The CPP Investment Board limits credit risk by dealing with counterparties that have a minimum credit rating of A minus for derivative transactions and BBB/R-2 (short term) for all other transactions as determined by a recognized credit rating agency, where available, or as determined through an internal credit rating process. Credit exposure to any single counterparty is limited to maximum amounts as specified in the investment policies.
- (iii) **Liquidity Risk:** Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost-effective manner to meet commitments as they come due. The CPP Investment Board's unfunded investment commitments (see note 9) and its responsibility for providing cash management services to the CPP (see note 6) expose it to liquidity risk. The CPP Investment Board mitigates liquidity risk through its unsecured credit facilities (see note 4) and the ability to readily dispose certain investments traded in an active market.

(B) **EQUITIES**

- (i) Public equity investments are made directly or through funds. As at March 31, 2008, public equities include fund investments with a fair value of \$1,202 million (2007 – \$nil).
- (ii) Private equity investments are generally made directly or through ownership in limited partnership arrangements which have a typical term of 10 years. The private equity investments represent equity ownerships or investments with the risk/return characteristics of equity. As at March 31, 2008, private equities include direct investments with a fair value of \$3,219 million (2007 – \$1,032 million).

With respect to limited partnership arrangements, 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 expensed as incurred. During the year ended March 31, 2008, management fees of \$157 million (2007 – \$131 million) were paid to the limited partnerships.

(C) **FIXED INCOME**

- (i) Bonds consist of marketable and Canadian government non-marketable bonds.

The non-marketable bonds issued by the provinces prior to 1998 have rollover provisions attached to them by the Act which permits each issuer, at its option, to roll over the bonds on maturity for a further 20-year term at a rate based on capital markets borrowing rates for that province existing at the time of rollover. The non-marketable bonds are also redeemable before maturity at the option of the issuers.

In lieu of exercising its statutory rollover right described in the preceding paragraph, agreements between the CPP Investment Board and the provinces permit each province to repay the bond and concurrently cause the CPP Investment Board to purchase a replacement bond or bonds 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 that permit the issuer, at its option, to roll over the bond 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 before maturity at the option of the issuers.

The terms to maturity of the marketable and non-marketable bonds, not including any rollover options, as at March 31 are as follows:

(\$ millions)	2008					2007			
	Terms to Maturity								
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Average Effective Yield	Total	Average Effective Yield	
MARKETABLE BONDS									
Government of Canada	\$ –	\$ 345	\$ 207	\$ 359	\$ 911	3.6%	\$ 2,200	4.1%	
Provincial government	–	423	431	772	1,626	4.4	1,110	4.5	
Government corporations	–	768	318	319	1,405	4.1	920	4.3	
NON-MARKETABLE BONDS									
Government of Canada	527	613	–	–	1,140	2.7	1,836	4.4	
Provincial government	1,441	8,303	568	11,798	22,110	4.6	21,801	4.9	
TOTAL	\$ 1,968	\$ 10,452	\$ 1,524	\$ 13,248	\$ 27,192	4.5%	\$ 27,867	4.8%	

At March 31, 2008, should nominal interest rates have increased/decreased by 1%, with all other variables held constant, the fair value of the bonds would decrease/increase by 6.6% (2007 – 6.2%).

- (ii) Other debt consists of investments in distressed mortgage funds and private debt funds.

(D) **ABSOLUTE RETURN STRATEGIES**

Absolute return strategies consist of investments in funds whose objective is to generate positive returns regardless of market conditions, that is, returns with a low correlation to broad market indexes. The underlying securities of the funds could include, but are not limited to, equities, fixed income securities and derivatives.

(E) **INFLATION-SENSITIVE ASSETS**

- (i) The CPP Investment Board obtains exposure to real estate through investments in publicly-traded securities and privately held real estate.

Private real estate investments are held by wholly-owned subsidiaries and are managed on behalf of the CPP Investment Board by investment managers through co-ownership arrangements. As at March 31, 2008, the subsidiary's share of these investments includes assets of \$7,421 million (2007 – \$5,441 million) and \$980 million of secured debt (2007 – \$1,174 million), with a weighted average fixed interest rate of 6.4 per cent and terms to maturity of one to 20 years.

Included in the private real estate are investments in joint ventures. The CPP Investment Board's proportionate interest in joint ventures at March 31 is summarized as follows:

PROPORTIONATE SHARE OF NET ASSETS (\$ millions)	2008		2007	
Assets	\$	5,173	\$	4,790
Liabilities		(980)		(1,174)
	\$	4,193	\$	3,616

PROPORTIONATE SHARE OF NET INCOME (\$ millions)	2008		2007	
Revenue	\$	531	\$	484
Expenses		(328)		(325)
	\$	203	\$	159

- (ii) The terms to maturity of the inflation-linked bonds as at March 31 are as follows:

(\$ millions)	2008					2007		
	Terms to Maturity							
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Average Effective Yield	Total	Average Effective Yield
Inflation-linked bonds	\$ –	\$ 181	\$ 158	\$ 3,623	\$ 3,962	3.9%	\$ 3,802	3.3%

- (iii) Infrastructure investments are generally made directly, but can also occur through limited partnership arrangements that have a typical term of 10 years. As at March 31, 2008, infrastructure includes direct investments with a fair value of \$1,913 million (2007 – \$1,721 million). Direct investments do not have management fees, while 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, 2008, management fees of \$3.4 million (2007 – \$4.7 million) were paid to the limited partnerships.

(F) **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 fair value of these contracts is reported as derivative receivables and derivative liabilities on the Consolidated Statement of Investment Portfolio. In the Consolidated Statement of Investment Asset Mix, the derivative exposure is allocated to the asset class to which each contract relates. Derivative exposure generally includes the fair value plus the notional amount of the contract.

The CPP Investment Board uses the following types of derivative instruments as described below:

SWAPS

Swaps include equity, bond, cross-currency interest rate, inflation-linked bond and variance swaps which are over-the-counter contractual agreements between two counterparties to exchange financial returns with predetermined conditions based on notional amounts. Swaps are used for yield enhancement purposes or to adjust exposures to certain equities, bonds, currencies, inflation-linked bonds or interest rates without directly purchasing or selling the underlying asset. Swap contracts create credit risk exposure due to the possible inability of counterparties to meet the terms of the contracts. There is also risk arising from exposure to movements in equity values, credit ratings, interest rates and foreign exchange rates, as applicable.

FUTURES

Futures include equity, interest rate and bond futures which are standardized contracts transacted on an exchange to purchase or sell a specified quantity of equities, interest rate sensitive financial instruments or bonds at a predetermined price and date in the future. Futures are used to adjust exposure to specified equities, interest rate sensitive financial instruments and bonds without directly purchasing or selling the underlying asset. The primary risks associated with futures contracts are related to the exposure to movements in equity values, interest rates and foreign exchange rates, as applicable. Credit risk on exchange-traded futures is limited, as these transactions are executed on regulated exchanges, each of which is associated with a well-capitalized clearing house that assumes the obligations of both counterparties.

FORWARDS

Forward contracts include foreign exchange and interest rate forwards which are over-the-counter contractual agreements negotiated between two counterparties to either purchase or sell a specified amount of foreign currencies or interest rate sensitive financial instruments at a predetermined price and date in the future. Forward contracts are used for yield enhancement purposes or to manage exposures to currencies and interest rates. The primary risks associated with forward contracts arise from exposure to movements in foreign exchange and interest rates, as applicable, and from the possible inability of counterparties to meet the terms of the contract.

Notional amounts of derivative contracts represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged. The notional amounts are used to determine the gains/losses and fair value of the contracts and are generally a measure of the exposure to the asset class to which the contract relates. They are not recorded as assets or liabilities on the balance sheet. Notional amounts do not represent the potential gain or loss associated with the market risk or credit risk associated with a derivative contract.

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

(\$ millions)	As at March 31, 2008				For the Year Ended March 31, 2008	
	Notional Amount	Gross Positive Fair Value	Gross Negative Fair Value	Net Fair Value	Average Gross Positive Fair Value ¹	Average Gross Negative Fair Value ¹
SWAPS						
Equity	\$ 12,296	\$ 311	\$ (312)	\$ (1)	\$ 347	\$ 299
Bond	2,401	17	(12)	5	13	5
Cross-currency interest rate	1,477	2	(64)	(62)	–	5
Inflation-linked bond	762	39	–	39	3	–
Variance	597	–	(1)	(1)	–	–
FUTURES						
Equity	2,969	16	(5)	11	12	12
Interest rate and bond	–	–	–	–	–	–
FORWARDS						
Foreign exchange	14,899	175	(320)	(145)	239	201
Interest rate	276	–	–	–	–	–
Total	\$ 35,677	\$ 560	\$ (714)	\$ (154)	\$ 614	\$ 522

(\$ millions)	As at March 31, 2007				For the Year Ended March 31, 2007	
	Notional Amount	Gross Positive Fair Value	Gross Negative Fair Value	Net Fair Value	Average Gross Positive Fair Value ¹	Average Gross Negative Fair Value ¹
SWAPS						
Equity	\$ 14,435	\$ 373	\$ (134)	\$ 239	\$ 274	\$ (156)
Bond	–	–	–	–	–	–
Cross-currency interest rate	–	–	–	–	–	–
Inflation-linked bond	–	–	–	–	–	–
Variance	–	–	–	–	–	–
FUTURES						
Equity	1,797	1	(2)	(1)	4	(4)
Interest rate and bond	–	–	–	–	–	(1)
FORWARDS						
Foreign exchange	19,170	145	(72)	73	132	(147)
Interest rate	–	–	–	–	–	–
Total	\$ 35,402	\$ 519	\$ (208)	\$ 311	\$ 410	\$ (308)

¹ Determined using month-end values.

At March 31, 2008, all derivative contracts have a term to maturity of one year or less except for the following:

(\$ millions)	Notional Amount	Weighted Average
		Terms to Maturity (years)
Equity swaps	1,500	2.0
Cross currency interest rate swaps	1,477	2.0
Variance swaps	597	9.7

At March 31, 2007, all derivative contracts had a term to maturity of one year or less.

(G) **SECURITIES LENDING**

The CPP Investment Board engages in securities lending to enhance portfolio returns. Credit risk associated with securities lending 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, 2008, the CPP Investment Board's investments include securities loaned with a fair value of \$2,480 million (2007 – \$3,047 million).

The fair value of collateral received in respect of the securities loaned is \$2,606 million (2007 – \$3,202 million).

3. Premises and Equipment

(\$ thousands)	2008			2007		
	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
Computer equipment and software	\$ 9,817	\$ 4,484	\$ 5,333	\$ 5,184	\$ 2,483	\$ 2,701
Office furniture and equipment	5,528	2,064	3,464	3,641	1,251	2,390
Leasehold improvements	12,647	3,284	9,363	8,649	1,868	6,781
Total	\$ 27,992	\$ 9,832	\$ 18,160	\$ 17,474	\$ 5,602	\$ 11,872

4. Credit Facilities

The CPP Investment Board maintains \$1.5 billion (2007 – \$1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2008, the total amount drawn on the credit facilities is \$nil (2007 – \$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 the Queen in right of Canada.

6. Canada Pension Plan Transfers

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 administered by the federal government to the CPP Investment Board. These assets consist of a portfolio of non-marketable federal, provincial and territorial bonds which were transferred to the CPP Investment Board in 36 monthly installments beginning on May 1, 2004. The final installment of \$0.6 billion based on fair market value occurred on April 1, 2007.

Pursuant to Section 108.1 of the *Canada Pension Plan* and the Agreement, amounts not required to meet specified obligations of the CPP are transferred weekly to the CPP Investment Board. The funds originate from employer and employee contributions to the CPP.

The CPP Investment Board is responsible for providing cash management services to the CPP, including the periodic return, on at least a monthly basis, of funds required to meet CPP benefits and expenses.

The accumulated transfers from the CPP since inception are as follows:

(\$ millions)	March 31, 2008	March 31, 2007
Accumulated transfers from the Canada Pension Plan	\$ 153,073	\$ 125,289
Accumulated transfers to the Canada Pension Plan	(62,714)	(42,120)
Accumulated net transfers from the Canada Pension Plan	\$ 90,359	\$ 83,169

7. Net Investment Income (Loss)

Net investment income (loss) is reported net of transaction costs and investment management fees. Investment management fees in respect of externally managed publicly-traded investments include an incentive portion that fluctuates with investment performance.

Net investment income (loss) by asset class, after giving effect to derivative contracts and investment receivables and liabilities for the year ended March 31 are as follows:

(\$ millions)	2008						
	Investment Income ¹	Net Gain (Loss) on Investments ^{2,3}	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)	
EQUITIES							
Canada							
Public equities	\$ 309	\$ 986	\$ 1,295	\$ (8)	\$ (23)	\$ 1,264	
Private equities	13	21	34	(12)	(7)	15	
	322	1,007	1,329	(20)	(30)	1,279	
Foreign							
Public equities	1,881	(7,744)	(5,863)	(8)	(26)	(5,897)	
Private equities	105	988	1,093	(145)	(12)	936	
	1,986	(6,756)	(4,770)	(153)	(38)	(4,961)	
	2,308	(5,749)	(3,441)	(173)	(68)	(3,682)	
FIXED INCOME							
Bonds	1,423	560	1,983	–	–	1,983	
Other debt	–	(48)	(48)	(2)	(1)	(51)	
Money market securities	67	9	76	–	–	76	
	1,490	521	2,011	(2)	(1)	2,008	
ABSOLUTE RETURN STRATEGIES	–	106	106	(23)	–	83	
INFLATION-SENSITIVE ASSETS							
Public real estate	28	(222)	(194)	(5)	(1)	(200)	
Private real estate	259	276	535	(27)	(19)	489	
Inflation-linked bonds	89	287	376	–	–	376	
Infrastructure	134	551	685	(3)	(24)	658	
	510	892	1,402	(35)	(44)	1,323	
TOTAL	\$ 4,308	\$ (4,230)	\$ 78	\$ (233)	\$ (113)	\$ (268)	

(\$ millions)

2007

	Investment Income ¹	Net Gain (Loss) on Investments ^{2,3}	Total Investment Income (Loss)	Investment Management Fees (note 1b)	Transaction Costs ⁴	Net Investment Income (Loss)
EQUITIES						
Canada						
Public equities	\$ 390	\$ 2,785	\$ 3,175	\$ (6)	\$ –	\$ 3,169
Private equities	8	69	77	–	–	77
	398	2,854	3,252	(6)	–	3,246
Foreign						
Public equities	1,062	3,893	4,955	(3)	–	4,952
Private equities	90	1,747	1,837	–	–	1,837
	1,152	5,640	6,792	(3)	–	6,789
	1,550	8,494	10,044	(9)	–	10,035
FIXED INCOME						
Bonds	1,559	(375)	1,184	–	–	1,184
Other debt	–	–	–	–	–	–
Money market securities	86	12	98	–	–	98
	1,645	(363)	1,282	–	–	1,282
ABSOLUTE RETURN STRATEGIES	–	(1)	(1)	(1)	–	(2)
INFLATION-SENSITIVE ASSETS						
Public real estate	51	402	453	(1)	–	452
Private real estate	230	625	855	(11)	–	844
Inflation-linked bonds	109	(79)	30	(3)	–	27
Infrastructure	23	127	150	–	–	150
	413	1,075	1,488	(15)	–	1,473
TOTAL	\$ 3,608	\$ 9,205	\$ 12,813	\$ (25)	\$ –	\$ 12,788

¹ Includes interest income, dividends, securities lending income and private real estate operating income, net of interest expense.

² Includes realized gains and losses from investments, unrealized gains and losses on investments held at the end of the period and foreign exchange gains and losses.

³ Includes foreign exchange losses of \$1,365 million (2007 – foreign exchange gains of \$1,053 million).

⁴ Prior to April 1, 2007, transaction costs on purchases were capitalized and recorded as part of the investment and transaction costs on sales were deducted from realized gains or added to losses as a cost of disposition.

8. Operating Expenses

(A) GENERAL OPERATING EXPENSES

General operating expenses consist of the following:

(\$ thousands)	2008	2007
Custodial fees	\$ 11,536	\$ 9,999
Office rent, supplies and equipment	11,900	7,162
Data, performance and Information Services	7,160	5,367
Amortization of premises and equipment	4,230	2,648
Travel and accommodation	3,297	2,295
Communications	1,333	678
Directors' remuneration	705	593
Other	3,180	1,938
	\$ 43,341	\$ 30,680

(B) PROFESSIONAL AND CONSULTING FEES

Professional and consulting fees consist of the following:

(\$ thousands)	2008	2007
Consulting	\$ 12,971	\$ 8,461
Legal	1,986	1,105
External audit and tax services ¹	1,281	1,061
	\$ 16,238	\$ 10,627

¹ Includes fees paid to the external auditors of the CPP Investment Board for audit services of \$1,004,804 (2007 – \$946,620), tax services of \$133,820 (2007 – \$26,090) and non-audit services of \$142,751 (2007 – \$88,145).

9. 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, 2008, the commitments total \$18.6 billion (2007 – \$13.4 billion).

As at March 31, 2008, the CPP Investment Board has made lease and other commitments of \$59.4 million (2007 – \$54.9 million) over the next 10 years.

10. Guarantees and Indemnifications

The CPP Investment Board provides indemnifications to its officers, directors, certain others 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 pursuant to such indemnifications.