

Canada Pension Plan Investment Board Regulations require that the annual report disclose the governance practices of the board of directors. More extensive governance information is posted at www.cppib.ca.

DUTIES, OBJECTIVE AND MANDATE OF THE BOARD OF DIRECTORS.

The board is responsible for the stewardship of the CPP Investment Board, including oversight of management.

As fiduciaries, the directors are required to act honestly and in good faith in the best interests of Canada Pension Plan contributors and beneficiaries. They must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Directors must use their specialist knowledge in carrying out their duties and are subject to higher standards of care in areas that relate to their expertise.

Among other duties, the directors review and approve investment policies, standards and procedures; appoint the chief executive officer and annually review his performance; determine with management the organization's strategic direction; review and approve the annual business plan and budget; appoint independent internal and external auditors; establish procedures to identify and resolve conflicts of interest; establish codes of conduct for directors and employees; assess the performance of the board itself; and review and approve the stakeholder communications strategy, including material disclosure such as quarterly and annual financial statements and the annual report.

COMPOSITION, MANDATES AND ACTIVITIES OF BOARD COMMITTEES.

The board has four committees – investment, audit, governance and human resources and compensation. The investment committee consists of the full board. Membership of the other committees is shown on page 40.

The investment committee reviews and recommends our Investment Statement to the board for approval and reviews, approves and monitors the CPP Investment Board's investment program. It also reviews portfolio risk tolerance and approves the engagement of external investment managers and new or large mandates and custodians.

The audit committee oversees financial reporting, the external and internal audit, information systems and internal control policies and practices. It also oversees aspects of the employee pension plans and advises the board in connection with any statutorily mandated special examinations. Responsibility for enterprise-wide risk management is shared with the board and other committees. It regularly meets with both external and internal auditors without management present.

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

The governance committee monitors application of the code of conduct and conflict of interest procedures, recommends governance initiatives, makes recommendations to the board to improve the board's effectiveness, reviews criteria for new directors, establishes and recommends a performance evaluation process for the chief executive officer and assumes other duties at the board's request.

DECISIONS REQUIRING PRIOR BOARD APPROVAL.

Management's discretion in making operational and investment decisions is established in board-approved policies. The board considers recommendations made by management to board committees. In particular, board approval is required for the strategic direction for the organization and the annual business plan and budget. Annual and incentive-based compensation, as well as officer appointments, require board approval.

PROCEDURES FOR THE ASSESSMENT OF BOARD PERFORMANCE.

Soon after its inception in October 1998, the board established an annual process for evaluating its own performance and that of its committees. The assessments are conducted through confidential questionnaires that are summarized by an independent consultant. The summaries are reviewed by the full board and help to focus the directors on their fiduciary duties in representing the best interests of CPP contributors and beneficiaries. The board also conducts a confidential annual peer review to assist each director in identifying self-development initiatives and to provide the external nominating committee with guidance when it considers individual reappointments.

BOARD EXPECTATIONS OF MANAGEMENT.

Management is expected to comply with the *Canada Pension Plan Investment Board Act* and Regulations as well as all policies approved by the board, the most notable of which is the *Code of Conduct and Conflict of Interest Procedures for Officers and Employees*. Management develops, with involvement from the board, the strategic direction of the organization in response to its growing asset management responsibilities and the outlook for capital markets. The strategic response incorporates risk-management policies and controls as well as monitoring and reporting mechanisms.

Management is charged with developing benchmarks that objectively measure the performance of markets and asset classes in which CPP assets are invested. Benchmarks assist the board in evaluating management's investment performance and structuring performance-based compensation incentives.

Management is expected to make full and timely disclosure to the board and the public of all material activities, including new investments, the engagement of operational and investment partners, quarterly and annual financial results, and developments that may affect the CPP Investment Board's reputation.

TOTAL COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS.

The total compensation of directors is summarized in Note 7a to the Consolidated Financial Statements. A study prepared by a private compensation consulting firm in March 2004 included data with respect to TSX companies and selected public sector organizations.

The total compensation of the five mostly highly paid officers of the corporation is detailed in Note 7b to the Consolidated Financial Statements. Officer compensation is partially incentive-based and is reviewed annually by the board.

Incentive compensation is awarded based on the achievement of a combination of corporate, investment and personal objectives. A specified portion of each officer's annual award is deferred and paid three years hence. The deferred amounts are adjusted each year by the CPP Investment Board's portfolio return. An independent compensation consulting firm advises the human resources and compensation committee on officer compensation.

RESULTS OF SPECIAL AUDIT OR SPECIAL EXAMINATION.

At least once every six years, as required under Section 47 of the *Canada Pension Plan Investment Board Act*, the Minister of Finance routinely orders a special examination of the CPP Investment Board's financial and management control and information systems and management practices. The latest such examination covered a three-month period beginning in January 2004 and was carried out, as legally required, by the CPP Investment Board's auditors, Deloitte & Touche LLP. Its purpose is to provide reasonable assurance that the assets of the CPP Investment Board are safeguarded and controlled, that the board is managed economically and efficiently and that its operations are carried out effectively. In their report to the federal and provincial ministers of finance, Deloitte & Touche gave the CPP Investment Board the best possible rating, stating that it found no significant deficiencies in our systems and practices. The complete report can be found on our website, www.cppib.ca.

CONFLICT OF INTEREST PROCEDURES.

Conflicts of interest were anticipated in the CPP Investment Board's legislation as a result of the federal and provincial governments' desire to recruit directors with financial and investment expertise and to engage employees with financial expertise. The code of conduct has been established to manage and, where possible, eliminate such conflicts. The procedures under the legislation and the code of conduct are designed to ensure that directors and employees do not profit or otherwise benefit from a transaction by or with the CPP Investment Board. Stringent disclosure of any personal or business interests that might lead to a real, potential or perceived conflict is required. The process for identifying, reporting and discussing such conflicts culminates with the board's governance committee recommending a resolution to the full board.

CODE OF CONDUCT.

The code of conduct for directors and employees is designed to create a corporate culture of trust, honesty and integrity, and conflict of interest procedures deal with such matters as relations with suppliers, personal investments, and confidentiality of proprietary information. For example, the code establishes strict pre-clearance procedures for personal trading in securities issued by companies. It also deals with the acceptance by directors and employees of entertainment, gifts or special treatment that could create or appear to create a favoured position for contractors or suppliers.

To augment our conflict of interest policy and code of conduct, the board of directors decided in 2002 to appoint an external conduct review advisor. This person is available to discuss ethical issues with directors and employees on a confidential basis.

BOARD ATTENDANCE: FISCAL 2005.

The board held 12 meetings in fiscal 2005. The investment committee is a committee of the full board. The table below reflects the number of meetings attended by each director relative to the total meetings that director could have attended.

	Board & Investment Committee	Audit Committee	Governance Committee	HR & Compensation Committee	Ad Hoc Communications Committee	Ad Hoc CEO Search Committee
Mary C. Arnold	12/12	5/5	N/A	N/A	N/A	N/A
Gail Cook-Bennett ¹	12/12	5/5	5/5	4/4	N/A	13/13
Germaine Gibara	12/12	N/A	5/5	N/A	2/3	N/A
Gilbert Gill ²	8/8	3/3	N/A	N/A	N/A	N/A
Peter K. Hendrick ³	4/4	2/2	N/A	N/A	N/A	N/A
Jacob Levi	12/12	5/5	N/A	4/4	N/A	N/A
William "Philip" MacDougall ⁴	1/1	N/A	1/1	N/A	N/A	N/A
Helen M. Meyer	12/12	5/5	N/A	4/4	N/A	N/A
Dale G. Parker	11/12	N/A	5/5	N/A	3/3	13/13
M. Joseph Regan	12/12	N/A	N/A	4/4	N/A	13/13
Helen Sinclair	12/12	N/A	5/5	4/4	N/A	13/13
Ronald E. Smith	12/12	5/5	N/A	N/A	3/3	13/13
David Walker	12/12	N/A	5/5	4/4	3/3	13/13

¹ The chairperson is not a member of the audit or human resources and compensation committees, but attends their meetings.

² Term expired in October 2004.

³ Appointed to the board of directors in October 2004.

⁴ Appointed to the board of directors in October 2004 but did not assume seat until February 2005.