Caisse de dépôt et placement du Québec

DECISIONS THAT COUNT

ANNUAL REPORT 2006

THE CAISSE STRIVES
TO BECOME
A BENCHMARK
ORGANIZATION
AMONG INSTITUTIONAL
FUND MANAGERS.
IT BELIEVES THIS IS THE BEST
WAY TO ENSURE ITS
SUSTAINABILITY
AND TO FULFILL ITS
MISSION OVER THE
LONG TERM.

The "General Notes" at the end of this document provide information that facilitates an understanding of the texts, tables and figures that follow.

THE CAISSE EMPHASIZES

FOUR STRATEGIC PRIORITIES

ANNUAL REPORT 2006 AT A GLANCE

MESSAGES

RETURNS AND FINANCIAL POSITION

ECONOMIC DEVELOPMENT

MANAGEMENT FRAMEWORK

OPERATIONAL LEVERS

BOARD OF DIRECTORS AND BOARD COMMITTEES

ADDITIONAL INFORMATION

PDF VERSION ON CD ATTACHED

Caisse de dépôt et placement du Québec

STANDING FOR GROWTH

ANNUAL REPORT 2006
AT A GLANCE

MISSION

THE MISSION OF THE FUND IS TO RECEIVE MONEYS ON DEPOSIT AS PROVIDED BY LAW AND MANAGE THEM WITH A VIEW TO ACHIEVING OPTIMAL RETURN ON CAPITAL WITHIN THE FRAMEWORK OF DEPOSITORS' INVESTMENT POLICIES WHILE AT THE SAME TIME CONTRIBUTING TO QUÉBEC'S ECONOMIC DEVELOPMENT.

Act respecting the Caisse de dépôt et placement du Québec, section 4.1

INVESTMENT PHILOSOPHY

THE CAISSE STRIVES TO ACHIEVE ITS TARGET RETURNS IN ACCORDANCE WITH THE DEPOSITORS' INVESTMENT POLICIES AND THE RESULTING RISK BUDGETS. THIS ACTIVE MANAGEMENT OF DEPOSITORS' HOLDINGS IS BASED ON THE FOLLOWING INVESTMENT PHILOSOPHY:

ACTIVE MANAGEMENT
Exploit opportunities in all financial markets by adapting strategies to various issues.

FUNDAMENTAL AND OPPORTUNISTIC APPROACH
Emphasize the intrinsic value of companies as well as their potential earnings and value creation over the medium and long terms.

OPEN MANAGEMENT
Use external management or partnerships to complement in-house expertise, especially for certain distant markets.

INTERNAL RESEARCH AND INVESTMENT PROCESS
Invest on the basis of internal research and rigorous analysis.

RISK MANAGEMENT
Optimize risk level and allocation, using a range of financial products, various management styles and investment diversification based on company size, sector and geographic location.

ACCOUNTABILITY OF THE CAISSE AND ITS MANAGERS
Ensure managers are fully accountable for their results.

VALUES

THE OFFICERS AND EMPLOYEES OF THE CAISSE SHARE AND ACT ON FOUR FUNDAMENTAL VALUES IN THE DAY-TO-DAY PERFORMANCE OF THEIR DUTIES. THESE VALUES SHAPE THE ORGANIZATION'S IDENTITY AND ARE THE BASIS FOR ITS BUSINESS POLICIES AND DEPOSITOR-SERVICE APPROACH.

EXCELLENCE
The determination to excel and the commitment to aim constantly for outstanding success in a given field of expertise. This value is based on development of employees' competencies and recognition of their performance as well as the use of best practices for each area.

ETHICS
Endorsement by all employees of high standards and criteria in their behaviour and business practices and of rules of conduct for relations with colleagues, suppliers and partners.

BOLDNESS
Leadership and a flair for innovation in all areas of activity. It is also the determination to take calculated risks in order to act on promising business and investment opportunities and to achieve objectives, as well as the ability to learn from one's mistakes.

TRANSPARENCY
Clear communication with employees, depositors, the public and other stakeholders as well as accurate, regular reporting on practices, objectives and results.

MANAGEMENT PRINCIPLES

IN 2006, THE CAISSE ADOPTED A NEW APPROACH TO HUMAN RESOURCES MANAGEMENT BASED ON THREE PRINCIPLES: MERITOCRACY, TRANSPARENCY AND COLLABORATION. THIS APPROACH MOTIVATES EMPLOYEES TO ACHIEVE THE CAISSE'S OBJECTIVES BY RECOGNIZING PERFORMANCE AND FOSTERING TRANSPARENT COMMUNICATION IN A COLLABORATIVE ENVIRONMENT.

MERITOCRACY
Encourage employees to achieve an outstanding level of success by recognizing performance and rewarding those who excel.

TRANSPARENCY
Promote clear, open communication between team leaders on various hierarchical levels and their employees to establish specific objectives and expectations.

COLLABORATION
Promote employee engagement and commitment to achieve all objectives.

PROFILE

THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC IS ONE OF THE LARGEST INSTITUTIONAL FUND MANAGERS IN CANADA

The Caisse was created in 1965 by an Act of the National Assembly of Québec to manage the funds contributed to Québec's newly created universal pension plan. In the decades that followed, many other public organizations also became depositors, increasing the pool of capital that the Caisse represents.

As at December 31, 2006, the Caisse had 22 depositors, which are mainly Québec public and private pension and insurance plans. The net assets of the Caisse's depositors at year-end 2006 totalled $143.5 billion. The seven main depositors represented more than 98% of net assets.

The Caisse invests its depositors' funds in various asset classes, including fixed income, equities, hedge funds, commodity financial instruments, private equity, infrastructures, real estate and real estate debt. Asset allocation, currency management and extensive research are also integral aspects of the Caisse's investment operations. As at December 31, 2006, the funds were allocated as follows: 30% in fixed income, 37% in equities and 33% in other investments.

The Caisse invests in Québec, in Canada and on international markets. Its geographic diversification aims to take advantage of investment opportunities that arise in all regions of the world. Investments outside Canada represented 38% of depositors' total assets as at December 31, 2006.

In addition to depositors' funds, the Caisse administers or manages property for third parties, mainly in the real estate sector.

The Caisse's strategic plan 2006-2008 addresses the four following priorities: returns, Québec's economic development, the management framework and operational levers.

HIGHLIGHTS

RETURN – 2006[1]

TABLE 1
(for the period ended December 31, 2006)

CAISSE OVERALL RETURN (Weighted average return on depositors' funds)		VALUE ADDED (Overall return less the return on benchmark indexes)		RANK IN RELATION TO LARGE CANADIAN PENSION FUNDS (RBC Dexia Investor Services – pension plans of $1 billion or more)
14.6%	**$17.8 B**	**1.9%**	**$2.0 B**	**First quartile**

The individual returns of the main depositors range from 12.5% to 16.3%.

RETURN – 2004 TO 2006[1]

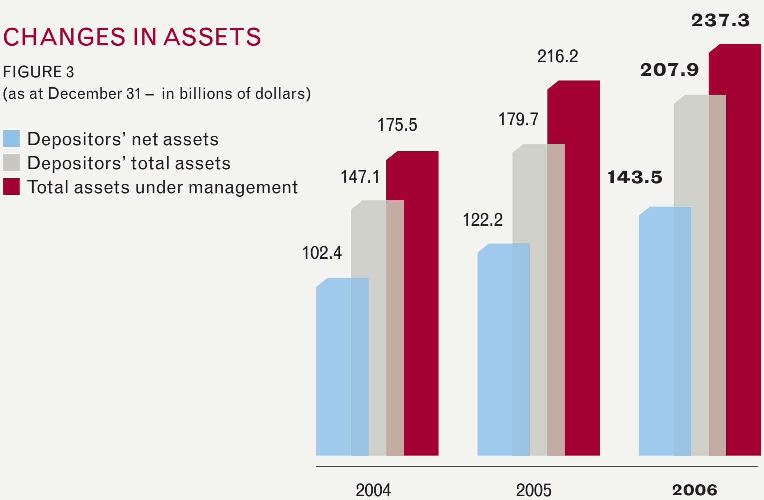
TABLE 2
(for periods ended December 31, 2006)

	CAISSE OVERALL RETURN (Weighted average return on depositors' funds)		VALUE ADDED (Overall return less the return on benchmark indexes)		RANK IN RELATION TO LARGE CANADIAN PENSION FUNDS (RBC Dexia Investor Services – pension plans of $1 billion or more)
Average 3 years	**13.8%**	**$14.6 B**	**1.6%**	**$1.4 B**	**Top 5%**
Total 3 years	**47.4%**	**$43.8 B**	**5.9%**	**$4.1 B**	

[1] Figures in dollars are net of operating expenses.

CHANGES IN ASSETS

FIGURE 3
(as at December 31 – in billions of dollars)



Q1

/ Start of investment operations by the New York office on international equity markets

/ Development by Cadim of a residential project in China in partnership with Shanghai Forte Land

/ Inroads into Europe's real estate debt sector through the Stoneleigh Capital subsidiary

Q2

/ Creation of the Investment Division

/ Acquisition of BAA, the world's leading airport operator, in partnership with Spain's Grupo Ferrovial and the Government of Singapore Investment Corporation

/ Acquisition of hotels in North America and Europe in partnership with Westmont Hospitality Group

/ Signature of the UN's Principles for Responsible Investment

/ Depositor survey showing a high overall satisfaction rate

/ Recognition activity to mark the publication of numerous articles by the Research team in scientific journals

Q3

/ Acquisition of Freescale, a microprocessor manufacturer, with partners that include the Blackstone Group

/ Creation by Ivanhoe Cambridge of the shopping centre management company C2 Group in China

/ Disclosure of the Caisse's proxy voting record on its website

Q4

/ Application of a new approach to performance management and a new variable-compensation program based on the principles of meritocracy, transparency and collaboration

/ Amendment of the Act respecting the Caisse as part of the adoption of the *Act respecting the governance of state-owned enterprises*

/ Endorsement of the Carbon Disclosure Project to address the impact of business activity on climate change

/ Creation of the Québec Manufacturing Fund and a second fund with the Business Development Bank of Canada to finance small businesses

/ Presentation of diplomas to the first graduating class of the Collège des administrateurs, of which the Caisse is a founding member

AMBITION

ACHIEVE RECOGNITION AS A BENCHMARK ORGANIZATION AMONG INSTITUTIONAL FUND MANAGERS

CHARACTERISTICS OF A BENCHMARK ORGANIZATION SOUGHT BY THE CAISSE:

- Sustained performance, backed by quality advisory services
- Team culture and common values
- Leadership in governance and integrated management
- Talented employees and employer of choice
- Robust operational levers

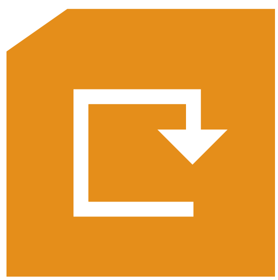
STRATEGIC PRIORITIES 2006–2008

RETURN

Generate a return that meets depositors' long-term expectations by optimizing investment strategies

ECONOMIC DEVELOPMENT

Contribute to Québec's economic development



MANAGEMENT FRAMEWORK

Implement a management framework based on the characteristics of a benchmark organization, strategic priorities and legal requirements, particularly in internal control, risk management and resource optimization

OPERATIONAL LEVERS

Strengthen operational levers to optimize resources

ORGANIZATIONAL STRUCTURE OF THE CAISSE

The Caisse has an organizational structure that reflects the way it conducts its main activities. Its objective is to maintain a simple, efficient structure.

The business operations of the Caisse are overseen by the Board of Directors, which consists of a maximum of 15 members (14 as at December 31, 2006), including the Chairman and the President and Chief Executive Officer. The Board of Directors has four committees: the Human Resources Committee; the Audit Committee; the Governance and Ethics Committee; and the Risk Management Committee.

The President and Chief Executive Officer is responsible for management of the Caisse. The Investment Division, the Real Estate group, the Private Equity group and the five general services groups report directly to the President and Chief Executive Officer.

In 2006, the Caisse created the Investment Division, which includes the Chief Strategist's team and the Equity Markets, Fixed Income and Hedge Funds groups. The Investment Division also includes the following teams: Research and Investment Policy Advising; Tactical Asset Allocation; Currency Management; and Analytical Support.

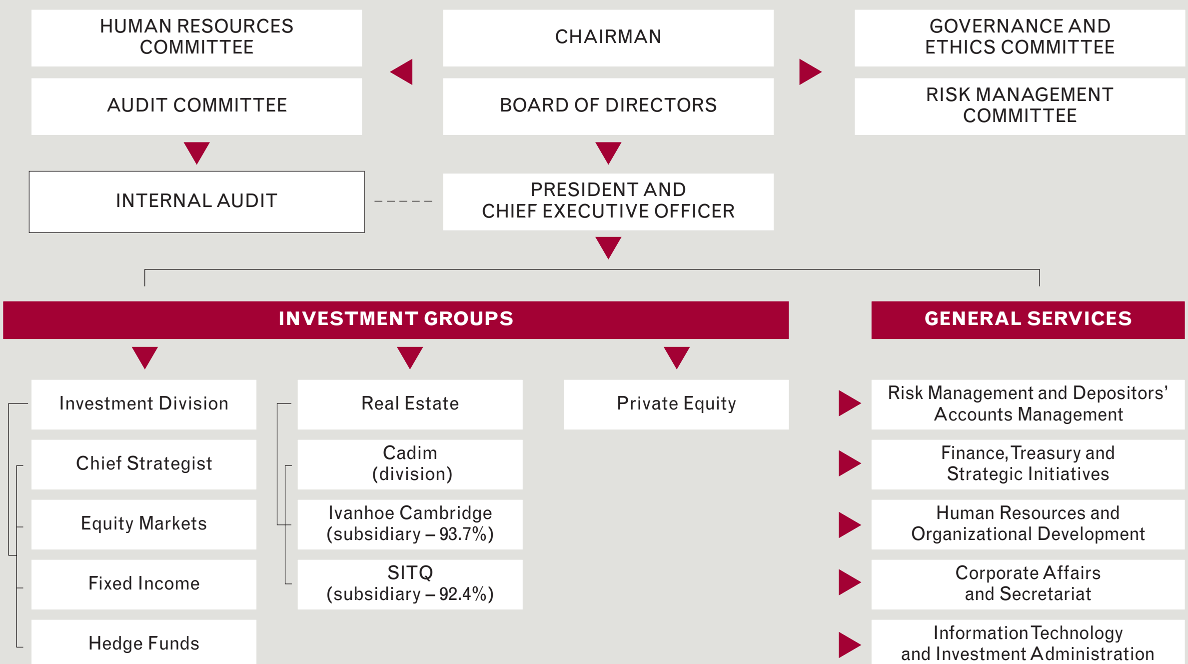
The Caisse's investment groups are assisted by five general services groups: Risk Management and Depositors' Accounts Management; Finance, Treasury and Strategic Initiatives; Human Resources and Organizational Development; Corporate Affairs and Secretariat; and Information Technology and Investment Administration.

Internal Audit reports directly to the Chairman of the Audit Committee of the Board of Directors. From the administrative standpoint, this unit reports to the President and Chief Executive Officer.

As at December 31, 2006, the Caisse employed 880 people, including its Cadim division. The subsidiaries Ivanhoe Cambridge and SITQ employed a total of 1,647 people.

CAISSE ORGANIZATION CHART AS AT DECEMBER 31, 2006

FIGURE 4



MAIN FINANCIAL DATA

COMPOSITION OF TOTAL ASSETS UNDER MANAGEMENT

FIGURE 5
(as at December 31, 2006)

DEPOSITORS

Depositors' net assets **$143.5 B** + Liabilities (primarily assets financed by borrowing) **$64.4 B**

= **DEPOSITORS' TOTAL ASSETS**

$207.9 B

+

CLIENTS

Assets under management **$14.0 B** + Assets under administration **$15.4 B**

= **ASSETS UNDER MANAGEMENT AND ASSETS UNDER ADMINISTRATION**

$29.4 B

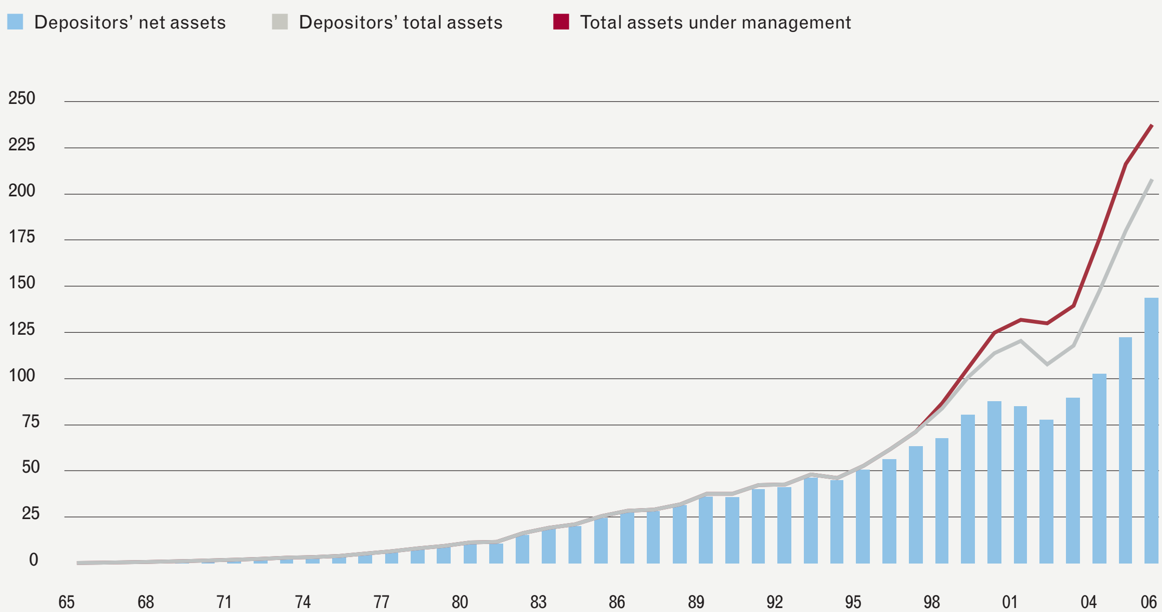
=

TOTAL ASSETS UNDER MANAGEMENT

$237.3 B

CHANGES IN ASSETS

FIGURE 6
(as at December 31 – in billions of dollars)



RESULTS AND CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

TABLE 7
(for periods ended December 31 - in millions of dollars)

	2006	2005
Investment activities		
Investment income	**5,516**	4,724
less: operating expenses	**262**	239
Net investment income	**5,254**	4,485
Net gains on the sale of investments	**4,594**	7,715
Total realized income	**9,848**	12,200
Net unrealized increase in value	**7,920**	2,955
Total investment operations	**17,768**	15,155
Excess deposits over withdrawals	**3,552**	4,571
Increase in net assets	**21,320**	19,726
Depositors' net assets	**143,479**	122,159
Liabilities (primarily assets financed by borrowing)	**64,379**	57,580
Depositors' total assets	**207,858**	179,739
Assets under management	**13,979**	16,417
Assets under administration	**15,460**	19,997
Assets under management and assets under administration	**29,439**	36,414
Total assets under management	**237,297**	216,153

RETURNS FOR THE CAISSE AND ITS DEPOSITORS

TABLE 8
(for periods ended December 31)

	2006	2005
Caisse's overall return (weighted average return on depositors' funds)	**14.6%**	14.7%
Benchmark returns	**12.7%**	12.9%
Caisse's value added	**1.9%**	1.8%
Individual returns for the main depositors	**12.5% to 16.3%**	13.4% to 17.9%

RETURNS OF THE INVESTMENT GROUPS

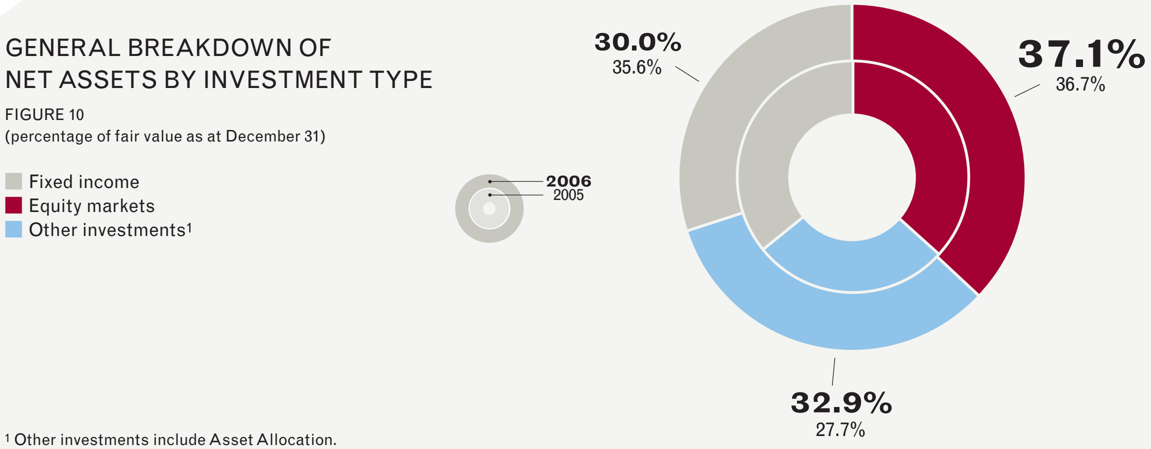
TABLE 9
(for periods ended December 31)

Investment group	2006 Return %	2006 Value added[1] b.p.	2005 Return %	2005 Value added[1] b.p.
Fixed Income	**4.0**	**11**	6.6	8
Equity Markets	**20.9**	**188**	17.0	(94)
Hedge Funds	**5.7**	**68**	11.2	507
Private Equity	**22.0**	**583**	22.3	1,410
Real Estate	**20.2**	**217**	26.4	565
Asset Allocation	**$0.4 B**	**$0.4 B**	$9.1 M	$9.1 M
Total	**14.6**	**188**	14.7	178

[1] In relation to benchmark indexes.

GENERAL BREAKDOWN OF NET ASSETS BY INVESTMENT TYPE

FIGURE 10
(percentage of fair value as at December 31)



[1] Other investments include Asset Allocation.

DETAILED BREAKDOWN OF DEPOSITORS' NET ASSETS BY INVESTMENT TYPE

TABLE 11
(percentage of fair value as at December 31)

	2006 **%**	2005 %
Specialized portfolio		
Fixed income		
Short Term Investments	**1.9**	3.3
Real Return Bonds	**0.7**	1.0
Bonds	**25.2**	29.7
Long Term Bonds	**2.2**	1.6
	30.0	35.6
Equity markets		
Canadian Equity	**13.2**	14.3
U.S. Equity	**5.1**	5.7
Foreign Equity	**6.6**	6.7
Emerging Markets Equity	**3.0**	1.1
Québec International	**9.2**	8.9
	37.1	36.7
Other investments		
Investments and Infrastructures	**6.1**	3.9
Private Equity	**5.7**	5.1
Real Estate Debt	**6.3**	5.2
Real Estate	**9.9**	8.9
Hedge Funds	**3.0**	3.2
Commodities	**1.6**	1.3
	32.6	27.6
Asset Allocation	**0.3**	0.1
Total	**100.0**	100.0

CAISSE DEPOSITORS

THE MAIN DEPOSITORS

The Government and Public Employee Retirement Plan (RREGOP) is the depositor with the greatest assets. This plan consists primarily of contributions by employees who work in Québec's health and social services sector, education system and public sector. The plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA).

The Fonds du Régime de rentes du Québec contributes to Quebecers' income security, mainly by providing for payment of a retirement pension. Administered by the Régie des rentes du Québec (RRQ), the plan is mandatory and the contributions to the fund are made by all employers and employees.

The Fonds d'amortissement des régimes de retraite (FARR) provides for payment of retirement benefits that are the responsibility of the government, according to the provisions of the retirement plans for the public and parapublic sectors. The fund is financed by the Québec government and administered by the Ministère des Finances.

The Supplemental Pension Plan for the Employees of the Québec Construction Industry is administered by the Commission de la construction du Québec (CCQ). The contributions to the plan are paid by construction industry employers and employees.

The Health and Work Safety Fund mainly compensates workers who have work-related accidents and contributes to their rehabilitation. The fund is administered by the Commission de la santé et de la sécurité du travail (CSST) and financed by contributions from Québec employers.

The Fonds d'assurance automobile du Québec provides funds to compensate victims of vehicular accidents and to promote traffic safety. The fund is financed mainly by fees collected by the Société de l'assurance automobile du Québec (SAAQ) for driver's licences and vehicle registration.

The Pension Plan for Management (RRPE) consists of contributions by management employees in the public and parapublic sectors. The plan is administered by CARRA.

CAISSE DEPOSITORS

TABLE 12
(fair value as at December 31 – in millions of dollars)

	First deposit	Depositors' net assets			
		2006		2005	
		$	**%**	$	%
PENSION PLANS					
Régie des rentes du Québec					
Fonds du Régime de rentes du Québec	1966	**32,680**	**22.8**	27,436	22.5
Commission de la construction du Québec					
Supplemental Pension Plan for Employees of the Quebec Construction Industry	1970	**11,087**	**7.7**	9,750	8.0
Commission administrative des régimes de retraite et d'assurances					
Government and Public Employees Retirement Plan	1973	**44,163**	**30.8**	38,922	31.9
Pension Plan for Management	1973	**7,373**	**5.1**	6,421	5.2
Individual Plans	1977	**253**	**0.2**	226	0.2
Pension Plan for Elected Municipal Officials	1989	**164**	**0.1**	144	0.1
Régime de retraite pour certains employés de la Commission scolaire de la Capitale[1]	2006	**48**	**–**	–	–
Régime complémentaire de rentes des techniciens ambulanciers œuvrant au Québec	1990	**240**	**0.2**	206	0.2
Fonds d'amortissement des régimes de retraite	1994	**26,823**	**18.7**	20,859	17.1
Régime de retraite de l'Université du Québec	2004	**162**	**0.1**	132	0.1
Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec	2005	**21**	**–**	2	–
Régime complémentaire de retraite des employés syndiqués de la Commission de la construction du Québec[1]	2006	**14**	**–**	–	–
INSURANCE PLANS					
Régie des marchés agricoles et alimentaires du Québec					
Fonds d'assurance-garantie	1967	**6**	**–**	5	–
La Financière agricole du Québec	1968	**232**	**0.2**	209	0.2
Autorité des marchés financiers	1969	**409**	**0.3**	388	0.3
Commission de la santé et de la sécurité du travail					
Health and Work Safety Fund	1973	**10,697**	**7.5**	9,224	7.6
Société de l'assurance automobile du Québec					
Fonds d'assurance automobile du Québec	1978	**8,207**	**5.7**	7,617	6.2
Fédération des producteurs de bovins du Québec	1989	**4**	**–**	4	–
Régime de rentes de survivants	1997	**452**	**0.3**	406	0.3
Conseil de gestion de l'assurance parentale					
Parental Insurance Fund	2005	**408**	**0.3**	198	0.1
OTHER DEPOSITORS					
Office de la protection du consommateur	1992	**22**	**–**	10	–
Société des alcools du Québec	1994	**14**	**–**	–	–
Total		**143,479**	**100.0**	122,159	100.0

[1] New depositor in 2006

The *Annual Report 2006 at a Glance*, the *Annual Report 2006* and the document *Annual Report 2006 – Additional Information* are available on the website: www.lacaisse.com

Information: 514 842-3261
info@lacaisse.com

La version française de ce document est aussi disponible dans notre site Internet.

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Rolland Opaque

Completely recyclable – the responsible choice

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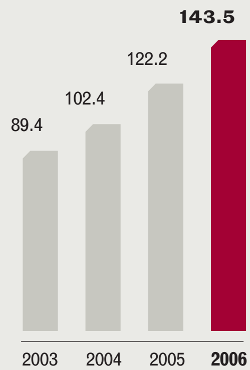
DEPOSITORS' NET ASSETS

$143.5 BILLION

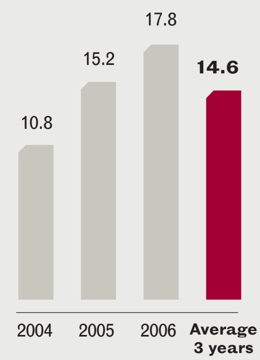
DEPOSITORS' NET ASSETS

FIGURE 14
(as at December 31 – in billions of dollars)



NET INVESTMENT RESULTS

FIGURE 15
(for periods ended December 31 – in billions of dollars)



RESULTS

INDIVIDUAL RETURNS FOR THE MAIN DEPOSITORS

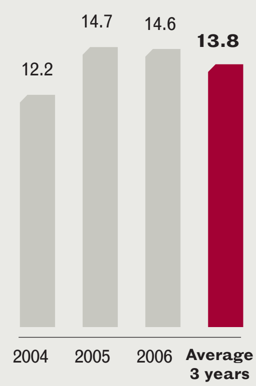
TABLE 13
(for periods ended December 31)

2006 – 12.5% to 16.3%
2005 – 13.4% to 17.9%
2004 – 11.3% to 14.6%

The differences in the individual returns of the main depositors are due to the specifics of their investment policies; some include a larger proportion of fixed-income securities while others include a larger proportion of variable-income securities.

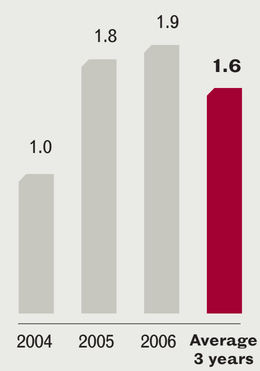
OVERALL RETURN

FIGURE 16
(for periods ended December 31 – in percentage)



VALUE ADDED

FIGURE 17
(for periods ended December 31 – in percentage)



THE DEPOSITORS

The Caisse's depositors are public and private pension and insurance plans whose funds are managed by the Caisse. About 60% of the contributions received by these bodies come from individuals (workers and insured persons). The objective of all these organizations is to earn a superior return on the moneys provided by their contributors with a view to meeting future needs, such as payment of pension benefits or accident compensation. During the year, two new depositors joined the Caisse, the Régime complémentaire de retraite des employés syndiqués de la Commission de la construction du Québec and the Régime de retraite pour certains employés de la Commission scolaire de la Capitale.
The Caisse managed 28 funds belonging to 22 depositors as at December 31, 2006. Seven of them account for more than 98% of depositors' net assets.

THE MAIN DEPOSITORS:

* Commission administrative des régimes de retraite et d'assurances Québec
Régie des rentes Québec
Commission de la construction du Québec
Fonds d'amortissement des régimes de retraite Québec
Société de l'assurance automobile Québec
CSST

* RREGOP and RRPE are administered by CARRA.

MESSAGE FROM THE CHAIRMAN

The governance of the Caisse was once again central to the work done by the Board of Directors in 2006 as it continued applying the new provisions of the Act respecting the Caisse. The purpose of the new provisions includes ensuring the Board's independence and clarifying its responsibilities.

During the year, the National Assembly of Québec adopted the *Act respecting the governance of state-owned enterprises*, which increases the Board's accountability for optimal resource use.

The Board took several measures to ensure it has a complete framework for the discharge of its responsibilities. For example, it evaluated its functioning and made the necessary adjustments. It identified the competencies required of Board members to provide guidance to the government on the appointment of future directors. It also defined and spelled out the roles of the Board's Chairman and its committee Chairmen in a charter.

At year-end, the Board had the necessary tools to be able to make the best decisions in a timely fashion and on the basis of relevant information. Generally speaking, the Caisse has made significant progress on the governance front.

The Board closely monitored application of the three-year strategic plan adopted in 2005. It also saw to optimal resource use, risk management and application of various oversight policies. And the Board was of course involved in the institution's major decisions. The reports by the Board and its committees testify to the scope of the work done at 60 meetings during the year.

As a result of a government decision, the Caisse's independent Board members have been compensated since last July. This Annual Report includes information on their remuneration, which serves to recognize the strategic role played by the members, individually and collectively.

I should like to point out that the Board members are most generous with their time. They are also assiduous in attending meetings, reviewing complex files and devoting their expertise and experience to decisions. In this way, they help make the Caisse a more rigorous and effective organization and thereby enhance its performance.

In brief, I am satisfied with the work accomplished in 2006, for which I thank the Board members. But the results would not have been the same without the support of senior management, the Secretariat and ultimately all employees. I am well aware that many people prepare files for the four committees concerned with audit, risk management, governance and ethics, and human resources, as well as for the Board itself. Behind all the transactions studied, the policies adopted, the processes applied and the rules approved are dozens of men and women who analyze, compile, design and develop, as well as manage resources, files and systems. On behalf of the Board, I wish to thank them.

DECISIONS THAT COUNT

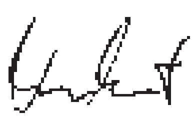
ENSURING THE SUSTAINABILITY OF THE CAISSE

/ **PIERRE BRUNET**
Chairman

The Caisse's 2006 results are excellent and the Board of Directors is obviously proud of them. But it is satisfied above all for the depositors, the contributors to the various plans and the entire population of Québec, who all benefit. Congratulations are due first to Henri-Paul Rousseau, the President and Chief Executive Officer, for the Caisse has flourished under his direction. We should also like to congratulate the members of the senior management team, who can count on the Board's support in conducting the Caisse's business.

And we also extend congratulations to all the employees, whose competence and commitment we salute. The investment business is becoming increasingly demanding, in a context of portfolio diversification, complex financial instruments and intense competition. Need I add that our success is not due to chance but is the outcome of wise decisions and sustained efforts?

In conclusion, I must express my pride and that of my colleagues on the Board in being associated with an institution that is remarkable, not only in our society but increasingly on the global stage. This pride confirms the Board's determination to make the Caisse an organization that is even more flexible, rigorous and effective – in short to make it a benchmark organization for institutional fund managers.



/ **PIERRE BRUNET**
Chairman

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC IS A PERFORMANCE-DRIVEN INVESTOR THAT CAPITALIZES ON ITS DIVERSE HOLDINGS AND VAST POOL OF DEPOSITORS' FUNDS.

A PERFORMANCE-DRIVEN INVESTOR

The Caisse significantly exceeded its overall value-added objective in 2006 with returns that place it in the first quartile of large Canadian pension funds for the third straight year.

The Caisse's overall return, at 14.6%, exceeds the 12.7% return on the index for the benchmark portfolio by 188 basis points (1.9%), for a record $2 billion of value added. The Caisse's overall return is the weighted average return on the funds of 22 depositors, which are mainly pension and insurance plans, each with different requirements and objectives. The individual returns for the Caisse's seven main depositors, accounting for more than 98% of net assets, ranged from 12.5% to 16.3%. All the depositors with a diversified portfolio benefited from value added.

For the three-year period from 2004 to 2006, the Caisse's average overall return is 13.8%, a result achieved by only 5% of large Canadian pension fund managers. This return exceeds the return on the index used for the benchmark portfolio by 155 basis points (1.6%) and represents $4.1 billion of total value added.

DIVERSIFIED INVESTMENTS

The Caisse's returns are due to the composition of the benchmark portfolio, active management of 18 specialized portfolios and asset allocation decisions. The specialized portfolios correspond to the main asset classes in which the depositors' funds are invested.

In agreement with the depositors, the Caisse has been changing its asset allocation since 2003 to ensure a performance that exceeds the return on bonds and to diversify risk. It has therefore increased its investments in real estate, private equity, infrastructure, real estate debt, hedge funds, commodities and emerging markets equities. From 2003 to 2006, the proportion invested in these holdings increased from 20.6% to 35.6% of net assets.

The Caisse continued to reduce the weight of the bond portfolios within the overall portfolio in 2006. As a result, it considerably increased the size of the Emerging Markets Equity, Real Estate Debt, and Investments and Infrastructures portfolios. These asset allocation changes, combined with the markets' behaviour and efforts to improve the results of the various portfolios, helped diversify the Caisse's sources of absolute return and value added.

With all the investment groups adding value in relation to their benchmark indexes or return thresholds, the Caisse obtained diversified sources of return in 2006. Most notable is the excellent performance of the Equity Markets group, which contributed $645 million of value added. The Canadian Equity portfolio stands out with a 22.0% return, outperforming its index by 473 basis points (4.7%) as the group reaped the benefits of a new management approach put in place over the past three years.

The Private Equity and Real Estate groups also posted excellent results, earning 22.0% and 20.2% respectively, for $600 million and $357 million of value added. Asset allocation operations were especially profitable in 2006, contributing $377 million. Lastly, the Hedge Funds and Fixed Income groups generated respectively $15 million and $13 million of value added.

VAST POOL OF DEPOSITORS' FUNDS

Net investment results totalled $17.8 billion in 2006. When $3.5 billion of net deposits is added to this amount, depositors' net assets totalled $143.5 billion as at December 31, 2006. This figure represents an increase of $54.1 billion since December 31, 2003, of which $43.8 billion, or 81%, is net investment results. The depositors have a combined total return of 47.4% over three years.

Over four decades, ever-larger amounts of capital resulting from the pooling of depositors' funds have prompted the Caisse to diversify its investments so as to generate superior returns and to optimize the risk of the overall portfolio. In recent years, this size has become a major competitive advantage vis-à-vis other large investors, especially in real estate and private equity. It gives the Caisse major-player status with access to large transactions that are beyond the reach of small and medium-sized investors.

A number of transactions carried out in 2006 reflect this reality, starting with the acquisition of a 29% stake in BAA, the world's largest airport operator. This deal, with a total value of £16.7 billion, was done in partnership with Spain's Grupo Ferrovial, acting as operator, and the Government of Singapore Investment Corporation (GIC), which purchased 61% and 10% of the company respectively. Without doubt, in the years to come the Caisse will use its size to diversify its portfolio further by taking part in major international transactions.

The Caisse will also continue to use its excellent credit ratings to contract loans and to finance promising investment opportunities in real estate and private equity. Lastly, it will strive to optimize its portfolio's risk-return ratio, forming new in-house partnerships between the investment teams for projects and products offering superior returns.

DECISIONS THAT COUNT

TOWARD BECOMING A BENCHMARK ORGANIZATION

/ **HENRI-PAUL ROUSSEAU**
President and Chief Executive Officer

THE CAISSE IS STILL SOLIDLY ROOTED IN QUÉBEC BUT IS ALSO RECOGNIZED FOR ITS INTERNATIONAL THRUST AND COMMITMENT TO RESPONSIBLE INVESTMENT.

ROOTED IN QUÉBEC

Fundamentally, the Caisse is able to carry out its mission because of its large pool of capital, diversified holdings and highly skilled management teams. And in doing so it contributes to the prosperity of all Quebecers.

Above all, the Caisse contributes to Québec's economic development[1] with the returns it earns for its depositors, which are mainly public and private pension funds and insurance plans.

Moreover, as an investor, the Caisse has the advantage of proximity to Québec.[1] Throughout its history, it has used its knowledge of the Québec market to identify business opportunities and to invest in profitable projects that the financial markets have overlooked or undervalued. In this way, it has earned competitive returns on its investments in Québec.

The Caisse's contribution as an investor in proximity will continue to be made primarily through private equity. In recent years, the Caisse has changed its approach in response to new market conditions.

In venture capital, it invests in highly successful local and foreign funds active Québec. In the small business sector, the Caisse and the Business Development Bank of Canada renewed a strategic partnership formed in 2003 when they created a second small business fund in December 2006. In the financing of ownership transfers of businesses from one generation to the next, the Caisse played the role of catalyst when it launched the Accès Relève product in 2000. The product was repositioned in 2003, and two financial institutions, National Bank and Royal Bank, have since partnered with the Caisse to distribute it to their commercial customers.

The Caisse also has a team that focuses exclusively on mid-sized businesses, providing effective market intelligence and capital adapted to the business climate. Lastly, in the large business sector, it is positioning itself on the financial markets as a complementary player by engaging in complex transactions and offering distinctive products when business opportunities arise.

The Caisse is also a major investor in Québec's real estate sector, and the economic benefits of these activities are substantial. For example, the spinoffs from the development of Montréal's Quartier International district, of which the Caisse was one of the main proponents, are estimated at several hundred million dollars.

[1] For more details, please see the section "Contribution to Québec's economic development".

In addition, with its operations in Montréal and elsewhere in Québec, the Caisse contributes to the development of the province's financial sector by creating highly specialized jobs, acquiring services and helping organize major events. Lastly, as a good corporate citizen, the Caisse contributes to the well-being of society by supporting educational, cultural and philanthropic causes.

INTERNATIONAL THRUST

The Caisse still has most of its assets in Québec and Canada, where its experience and expertise are strongest. In recent years, however, its foreign investments have increased rapidly, so that the Caisse is now one of the largest Canadian institutional investors on international markets.

At year-end, 38% of the Caisse's assets were invested outside Canada, mainly in the United States and the developed economies of Western Europe and Asia. The Caisse is also increasingly active in emerging markets.

The Caisse made a number of foreign investments during the year, mostly in partnership. In addition to the BAA transaction, the Caisse acquired stakes in Keolis, a French public-transport operator, and Freescale, a microprocessor manufacturer. In partnership with Westmont Hospitality Group, it invested in the hotel sector in North America and Europe.

In the years to come, the Caisse will continue to diversify in the international arena. In emerging markets, the Caisse will still be partial to a co-ordinated approach, since these countries present specific risks that require especially careful monitoring.

COMMITMENT TO RESPONSIBLE INVESTMENT

As an international investor, the Caisse has greater responsibilities regarding ethics, human rights and environmental protection. It therefore adopted a policy on socially responsible investment in 2005, and one year later became a signatory to the United Nations' Principles for Responsible Investment. In the same spirit, the Caisse endorsed the Carbon Disclosure Project, which enables investors to request disclosure of the impact of business operations on climate change.

As a shareholder in more than 3,000 companies around the world, the Caisse strives to translate its policy and commitments into reality, notably by systematically exercising its voting rights and promoting principles of good governance. Moreover, the Caisse posts its proxy voting record on its website.

WITH HIGH-CALIBRE EMPLOYEES AND THE ABILITY TO SUSTAIN ITS EDGE, THE CAISSE STRIVES TO BECOME A BENCHMARK ORGANIZATION AMONG INSTITUTIONAL FUND MANAGERS.

HIGH-CALIBRE EMPLOYEES AND A DISTINCT EDGE TO CREATE A BENCHMARK ORGANIZATION

Senior management carried out a strategic review in 2005 to define the way the Caisse will continue to fulfill its mission while rising to the many challenges that the future holds. The outcome of the review was an ambition – to become a benchmark organization – and the development of a three-year strategic plan. The section "Follow-up on the strategic plan 2006-2008" reports on 2006 and gives the plan's objectives for 2007.

During the past year, the Caisse made considerable progress toward acquiring the characteristics of the organization that it intends to become. A great deal of work remains, however.

The first-quartile returns recorded in 2006 reflect the efforts we have made to **generate a sustained financial performance, from diversified sources, that meets depositors' expectations**. In 2007, we will continue to optimize asset allocation, for example by increasing the overall portfolio's proportion of emerging markets equities and other investments, such as real estate, private equity and infrastructures. We will also strive to enhance the performance of the bond, international equity and hedge fund portfolios.

The Caisse's progress toward the status of a benchmark organization also involves a transformation of its corporate culture, as shown by the development of in-house partnerships between investment groups. The benefits of sharing information and expertise between colleagues and teams are already evident. We will therefore continue to develop initiatives that let all teams **collaborate productively to achieve the Caisse's objectives**.

The Caisse demonstrated its leadership during the year, not only in responsible investment but also in governance and public financial certification. It will continue to adopt best practices for financial reporting in line with the principles of Multilateral Instrument 52-109 of the Canadian Securities Administrators. In the years to come, it intends to continue to **promote a sound, dynamic, wealth-creating environment in accordance with laws, regulations and policies**. The Caisse will continue to be an active shareholder by voting the shares it holds in publicly traded companies and posting its voting record on line. Mindful of the complex issues surrounding socially responsible investment, it is convinced of the need to play its role as a "universal owner," in concert with other major global investors.

The Caisse also **aims to be regarded as an employer of choice** in a specialized market where competition is still intense. It already has highly qualified employees and a talented new generation of managers it intends to retain. At the same time, it is investing in the recruitment of new resources, striving constantly to hone its edge in expertise and proprietary research. In the years to come, the recruiting challenge will be compounded by another major challenge: that of building a coherent managerial culture within the organization.

Lastly, the Caisse continues to take various initiatives to strengthen its operational levers to ensure it **possesses efficient management practices, systems, tools and organizational processes that are benchmarked regularly**.

In 2006, after a survey of all Caisse employees, the Caisse adopted a new approach to performance management based on three principles: meritocracy, transparency and collaboration. This approach is designed to ensure equitable evaluation and recognition of the efforts of each employee, as well as optimal co-ordination of individual, team and corporate objectives. The team leaders will play a key role in its implementation and the resulting human resources practices.

In risk management, we revised the integrated risk management policy during the year and implemented tools to optimize and control risk. In 2007, we will focus on refining our risk measurement and related tools, while ensuring their effective deployment.

To increase the impact of proprietary research, we formed, within the Investment Division, a team that brings specialists in research and investment-policy counsel together with specialists in macroeconomics. The work done by this new team aims to enhance the return on the overall portfolio.

In technology and operational efficiency we made strides with our main programs, especially the corporate data hub and optimization of the operational application chain. The goal of a simplified technology infrastructure is now in sight. We also began reducing the number of clearing brokers and securities custodians we do business with. In general, we are co-ordinating our present and future efforts to improve management information, to reduce operational risk and to apply our plan for optimal resource use.

CONCLUSION

The Caisse has changed considerably since 2002 from strategic, organizational and operational standpoints. It has laid a solid foundation to take up the challenges that the future holds. Still, the game is far from won, and the environment in which the Caisse operates is still characterized by profound economic imbalances, relatively high geopolitical risk, greater financial market efficiency and intense competition among major investors around the world.

I should also like to point out that we believe the rate of return earned over the past three years is not sustainable over the long term. We forecast that the Caisse will earn a return of about 7% on a 10-year horizon. To be able to generate this performance for depositors, it is clear that we must continue to draw on our competitive advantages, to innovate, to demonstrate boldness but also to effectively manage the risks inherent in a balanced portfolio.

During the year, by starting to apply our strategic plan 2006-2008, we did our utmost to put in place the elements required to ensure the sustainability of our organization and the fulfilment of its mission over the long term. And from this standpoint, we have set the goal of becoming a benchmark organization.

Without a doubt, 2006 was another year of major achievements at the Caisse. I should like to thank the members of the depositors' investment committees, pension committees and boards of directors for their constant support. I am also grateful to the members of the Caisse's Board of Directors for their dedication and the care they take in considering the numerous matters submitted to them.

Lastly, without the personal commitment of all our employees, this tremendous team work would not have been possible. I thank them once again for having made the right decisions, decisions that count!

/ HENRI-PAUL ROUSSEAU
President and Chief Executive Officer

"BY MAKING DECISIONS THAT COUNT, THE CAISSE IS FULFILLING ITS AMBITION OF BECOMING A BENCHMARK ORGANIZATION.

THE FIRST YEAR OF OUR STRATEGIC PLAN PRODUCED MAJOR ACHIEVEMENTS AND SUBSTANTIAL RETURNS. WITH THE EVER-RENEWED COMMITMENT OF OUR EMPLOYEES, WE LOOK TO THE FUTURE WITH CONFIDENCE AND DETERMINATION."

THE SENIOR MANAGEMENT TEAM

EXECUTIVE COMMITTEE

FRANÇOIS GRENIER
Executive Vice-President
Equity Markets

SUSAN KUDZMAN
Executive Vice-President
Risk Management and
Depositors' Accounts
Management

CHRISTIAN PESTRE
Executive Vice-President
and Chief Strategist

FERNAND PERREAULT
Executive Vice-President
Real Estate

GHISLAIN PARENT
Executive Vice-President
Finance, Treasury and
Strategic Initiatives

MICHEL MALO
Executive Vice-President
Hedge Funds

NORMAND PROVOST
Executive Vice-President
Private Equity

HENRI-PAUL ROUSSEAU
President and
Chief Executive
Officer

SUZANNE MASSON
Executive Vice-President
Corporate Affairs
and Secretary

RICHARD GUAY
Chief Investment Officer

V.P. PHAM
Executive Vice-President
Information Technology and
Investment Administration

ROBERT W. DESNOYERS
Executive Vice-President
Human Resources
and Organizational
Development

FOLLOW-UP ON THE STRATEGIC PLAN 2006-2008

IN THE PERIOD 2006-2008, THE CAISSE IS EMPHASIZING FOUR STRATEGIC PRIORITIES TO GUIDE ITS ACTION AND FULFILL ITS MISSION

Priority
RETURNS

Priority
ECONOMIC DEVELOPMENT

Priority
MANAGEMENT FRAMEWORK

Priority
OPERATIONAL LEVERS

IN 2006, THE CAISSE CONTINUED VARIOUS PROJECTS AND LAUNCHED MANY INITIATIVES.

WE'RE PROUD OF THE RESULTS AND BELIEVE WE ARE WELL ON THE WAY TO ACHIEVING THE CAISSE'S THREE-YEAR OBJECTIVES.

CONSOLIDATION WILL TAKE PRECEDENCE IN 2007. WE WILL FOCUS ON THE RESULTS OF OUR BUSINESS DECISIONS AND CARRY OUT STRUCTURING PROJECTS, INCLUDING MAJOR INFORMATION TECHNOLOGY PROGRAMS.

PRIORITY – RETURNS

GENERATE A RETURN THAT MEETS DEPOSITORS' LONG-TERM EXPECTATIONS BY OPTIMIZING INVESTMENT STRATEGIES

IN 2006

The strength of the financial markets and the talent of our employees enabled us to earn a first-quartile return in 2006. Quality research services, partnerships and refined investment strategies contributed significantly to the Caisse's success.

INITIATIVES AND ACHIEVEMENTS

/ 14.6% overall return that exceeds the return on the benchmark indexes by 1.9%
/ Outstanding performance by the team that manages the specialized Canadian Equity portfolio
/ Excellent performance by the Private Equity and Real Estate investment groups
/ Caisse involvement in some 70 depositor investment committees and working groups
/ Organization of seminars for depositors
/ Creation of the Investment Division
/ Strengthening of internal and external partnerships
/ Intensification of the Caisse's international positioning
/ Start of investment operations at the New York office
/ Major transactions

IN 2007

We will consolidate the operations of the Investment Division and optimize asset and risk allocation. While continuing to offer quality advisory services to depositors, we will increasingly apply investment strategies based on proprietary research and will identify further investment opportunities in emerging markets. Lastly, we will step up our efforts to create strategic partnerships that are profitable and sustainable.

PRIORITY – ECONOMIC DEVELOPMENT

CONTRIBUTE TO QUÉBEC'S ECONOMIC DEVELOPMENT

IN 2006

The Caisse contributes to Québec's economic development in various ways. In 2006, in addition to the financial return that it added to depositors' capital, it strengthened its position as an investor in proximity to Québec. The spinoff benefits of our operations for Québec's financial sector and real estate market are other examples of our impact. We also contribute to the well-being of the community by supporting various educational, cultural and philanthropic initiatives.

INITIATIVES AND ACHIEVEMENTS

- Financial return of $17.8 billion added to depositors' capital
- Record $5.4 billion of investments in Québec by the Private Equity group
- Creation of a second fund with the Business Development Bank of Canada to provide $330 million of small business financing
- Creation of the Québec Manufacturing Fund with $100 million of initial capital
- Redeployment of the Accès Relève program in partnership with National Bank and Royal Bank
- Signature in New York of the UN's Principles for Responsible Investment and endorsement of the Carbon Disclosure Project
- First graduates of the Collège des administrateurs, of which the Caisse is a founding member
- Participation in major events, such as the Conference of Montréal, and financial support for several university chairs
- Canada's first Go Green Plus environmental certification awarded to the Centre CDP Capital

IN 2007

We will continue to contribute to the financial health of Québec's pension funds and insurance plans by generating the best possible returns on their funds. Although active on international markets, we will still be a major investor concerned with the province's sustainable economic development. Lastly, we will make a special effort to ensure the public gains a better understanding of the Caisse's contribution to society.

PRIORITY – MANAGEMENT FRAMEWORK

IMPLEMENT A MANAGEMENT FRAMEWORK BASED ON THE CHARACTERISTICS OF A BENCHMARK ORGANIZATION, STRATEGIC PRIORITIES AND LEGAL REQUIREMENTS, PARTICULARLY IN INTERNAL CONTROL, RISK MANAGEMENT AND RESOURCE OPTIMIZATION

IN 2006

We continued to consolidate our management base by evaluating administrative, operational and control processes. Substantial progress was made in integrated risk management, internal control, compliance, optimal resource use and financial governance. We also continued to adapt the Caisse to its constituting statute. We are proud to rely on control, communications and internal audit teams that have a genuine impact on the organization.

INITIATIVES AND ACHIEVEMENTS

- Amendment of the Act respecting the Caisse as a function of the Act respecting the governance of state-owned enterprises
- Update of the integrated risk management policy
- Progress in internal control, compliance and optimal resource use
- Continuation of the financial certification project with documentation and evaluation of internal control over financial information
- Publication of the Caisse's proxy voting record on its website
- Development of a policy on information security and business continuity
- Completion of work to apply the Act respecting the Caisse
- Revision of the Regulation respecting internal management
- Audit by an external firm of Internal Audit's compliance with professional standards

IN 2007

The Caisse now has an administrative, operational and control framework that is complete and up-to-date. In 2007, we will finish the initiatives begun in 2006. We will then implement compliance programs for the general services units, refine fraud prevention and detection measures, identify operational risks for major business processes and apply the plan for optimal resource use. We will continue to take an integrated approach to the way the general services units interact with the investment groups.

PRIORITY – OPERATIONAL LEVERS

STRENGTHEN OPERATIONAL LEVERS TO OPTIMIZE RESOURCES

IN 2006

We have carried out several initiatives since 2002 to assist the Caisse's teams and help them achieve their ambitious business objectives. In all, 2006 was very productive in terms of human resources excellence, rigorous and dynamic risk management, leading-edge research, and leading-edge technology and operations efficiency.

INITIATIVES AND ACHIEVEMENTS

/ Survey and discussion groups to assess the organizational climate
/ Adoption of a new performance management approach based on meritocracy, transparency and collaboration
/ Introduction of on-line recruiting on the Caisse's website
/ Further improvements to integrated risk management, including an update of the policy, refinement of optimization and control tools, and self-assessment of the operational risks of several Caisse units
/ Creation of a unit to allocate, optimize and monitor risk for the investment units
/ Merger of the research teams within the Investment Division
/ Development of a concerted research program
/ Major advances with the technology programs, including the technology infrastructure, the corporate data hub, the portal and the operational application chain
/ Development of a technological disaster recovery plan

IN 2007

We will intensify development of the new performance management approach in 2007 and will also consolidate our major investments of recent years in risk management, research, technology and operational efficiency. Specifically, we will continue to refine the methods and tools we use to estimate risks so as to optimize them for all the Caisse's specialized portfolios. We will also implement various components of the major technology programs.

RETURNS AND FINANCIAL POSITION

FINANCIAL CERTIFICATION

PURSUANT TO THE CAISSE'S FINANCIAL CERTIFICATION POLICY, THE PRESIDENT AND CHIEF EXECUTIVE OFFICER AND THE EXECUTIVE VICE-PRESIDENT, FINANCE, TREASURY AND STRATEGIC INITIATIVES, SIGN A PUBLIC FINANCIAL CERTIFICATE EACH YEAR.

THEIR SIGNING OF THE PUBLIC FINANCIAL CERTIFICATES IS BASED ON INTERNAL FINANCIAL CERTIFICATES SIGNED BY VARIOUS OFFICERS OF THE CAISSE AND ITS SUBSIDIARIES.

I, **Henri-Paul Rousseau, President and Chief Executive Officer** of the Caisse de dépôt et placement du Québec, certify that:

1 / I have reviewed the combined financial statements, the schedules (tables of returns), the press release announcing the annual results and the Annual Report (hereafter referred to as the "**Annual Filings**") of the **Caisse de dépôt et placement du Québec (the "Caisse")** for the year ended December 31, 2006.

2 / To the best of my knowledge, the Annual Filings do not contain any untrue statement of a material fact or omit to state a material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the fiscal year covered by the Annual Filings.

3 / To the best of my knowledge, the combined financial statements and the other financial information included in the Annual Filings fairly present in all material respects the financial position of the Caisse as at the closing dates of the fiscal years presented in the Annual Filings, as well as the results of its operations for those years.

4 / The Executive Vice-President, Finance, Treasury and Strategic Initiatives, and I are responsible for establishing and maintaining disclosure controls and procedures for the Caisse, and we have:

a) Designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the Caisse, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which the Annual Filings are prepared;

b) Designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance that the financial information is reliable and that the combined financial statements have been prepared, with a view to publication of the financial information, in accordance with accounting principles generally accepted in Canada;

c) Evaluated the effectiveness of the disclosure controls and procedures as at the end of the fiscal year covered by the Annual Filings and ensured that the Caisse presents in the Annual Report 2006 our conclusions in accordance with our self-assessment.

5 / I have ensured that the Caisse presents in the Annual Report 2006 any material changes in internal control over financial reporting during the fiscal year ended December 31, 2006, that have had or it is reasonable to think may have a material effect on internal control over financial reporting.

Henri-Paul Rousseau

President and Chief Executive Officer
/ **HENRI-PAUL ROUSSEAU**

March 12, 2007

I, **Ghislain Parent, Executive Vice-President, Finance, Treasury and Strategic Initiatives**, of the Caisse de dépôt et placement du Québec, certify that:

1 / I have reviewed the combined financial statements, the schedules (tables of returns), the press release announcing the annual results and the Annual Report (hereafter referred to as the "**Annual Filings**") of the **Caisse de dépôt et placement du Québec (the "Caisse")** for the year ended December 31, 2006.

2 / To the best of my knowledge, the Annual Filings do not contain any untrue statement of a material fact or omit to state a material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the fiscal year covered by the Annual Filings.

3 / To the best of my knowledge, the combined financial statements and the other financial information included in the Annual Filings fairly present in all material respects the financial position of the Caisse as at the closing dates of the fiscal years presented in the Annual Filings, as well as the results of its operations for those years.

4 / The President and Chief Executive Officer and I are responsible for establishing and maintaining disclosure controls and procedures for the Caisse, and we have:

a) Designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the Caisse, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which the Annual Filings are prepared;

b) Designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance that the financial information is reliable and that the combined financial statements have been prepared, with a view to publication of the financial information, in accordance with accounting principles generally accepted in Canada;

c) Evaluated the effectiveness of the disclosure controls and procedures as at the end of the fiscal year covered by the Annual Filings and ensured that the Caisse presents in the Annual Report 2006 our conclusions in accordance with our self-assessment.

5 / I have ensured that the Caisse presents in the Annual Report 2006 any material changes in internal control over financial reporting during the fiscal year ended December 31, 2006, that have had or it is reasonable to think may have a material effect on internal control over financial reporting.

Executive Vice-President Finance, Treasury and Strategic Initiatives
/ **GHISLAIN PARENT**, CA

March 12, 2007

CONCLUSIONS ABOUT THE DESIGN OF INTERNAL CONTROL OVER FINANCIAL REPORTING

In 2006, the Disclosure Committee reviewed work done to document and to evaluate the design of internal control over financial reporting for the Caisse's main financial processes.

The evaluation of the design of internal control over financial reporting was based on the framework usually adopted by North American companies, namely that of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The work done enabled management to conclude that internal control over financial reporting is designed to provide reasonable assurance that the financial information presented is reliable and that the combined financial statements of the Caisse were prepared in accordance with generally accepted accounting principles in Canada.

Caisse management also carried out work that enabled it to determine that, during the year ended December 31, 2006, no changes were made to internal control over financial reporting that would have had or that it is reasonable to think may have a material effect on internal control.

In the year to come, work will continue to ensure compliance with the last phase of implementation, namely evaluation of the effectiveness of internal control over financial reporting.

CONCLUSIONS ABOUT THE EFFECTIVENESS OF THE DISCLOSURE CONTROLS AND PROCEDURES

The disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and submitted in a timely fashion to senior management, in particular to the President and Chief Executive Officer and to the Executive Vice-President, Finance, Treasury and Strategic Initiatives, so that the appropriate decisions can be made regarding information disclosure.

In accordance with the Caisse's financial certification policy, the effectiveness of the disclosure controls and procedures relative to the 2006 Annual Filings was the subject of an assessment. The Annual Filings consist of the combined financial statements, the schedules (tables of returns), the press release announcing the annual results and the Annual Report.

On the basis of this assessment and the recommendation by the Disclosure Committee, the President and Chief Executive Officer and the Executive Vice-President, Finance, Treasury and Strategic Initiatives, concluded that the disclosure controls and procedures were applied effectively and provided reasonable assurance that material information pertaining to the Caisse, including its subsidiaries, was reported to them in a timely fashion, so that the Annual Filings provide complete, reliable information reflecting reality in its entirety.

The Board of Directors also reviewed or approved the 2006 Annual Filings before their public disclosure.

INFORMATION DISCLOSURE PROCESSES

TWO NEW POLICIES, ADOPTED BY THE BOARD OF DIRECTORS IN 2005, GOVERN THE CAISSE'S INFORMATION DISCLOSURE PROCESSES.

INFORMATION DISCLOSURE POLICY

This policy meets a requirement contained in the Act. It gives effect to the Caisse's undertaking to provide quality information and determines the rules to be followed to that end. It states the obligations under laws and regulations as well as the Caisse's disclosure practices, and specifies the disclosure forms and processes, thereby creating a framework conducive to disclosure of the information required.

In addition to the information disclosure policy, the Caisse has a financial certification policy that governs preparation and disclosure of financial information.

FINANCIAL CERTIFICATION POLICY

By adopting such a policy, the Caisse undertakes to respect the principles of good financial governance set out in Multilateral Instrument 52-109 of the Canadian Securities Administrators, although it is not a reporting issuer within the meaning of the regulation in effect.

This policy stipulates that the Caisse must at all times maintain internal financial controls and disclosure controls and procedures that are designed to produce and disclose reliable and complete information that accurately reflects the Caisse's financial position in all material respects. It ensures that financial information is recorded, processed, checked and presented in a timely manner.

Accordingly, on the basis of internal certificates signed by various officers and work relative to internal control over financial reporting and disclosure controls and procedures, the individual financial certificates of the President and Chief Executive Officer and of the Executive Vice-President, Finance, Treasury and Strategic Initiatives, are published in the Caisse's Annual Report in accordance with the sample certificate prepared by Canadian regulatory authorities.

The information disclosure policy and the financial certification policy can be consulted on the Caisse's website at the following address: www.lacaisse.com.

MARKET CONTEXT

THE GLOBAL GROWTH CYCLE CONTINUES AS THE NORTH AMERICAN ECONOMIES SLOW

The global economy recorded another year of rapid growth in 2006. In this context, all the major central banks raised interest rates to varying degrees. Even so, abundant capital continued to be available in all markets. After experiencing turbulence in May and June, the markets resumed rising on optimism fuelled by lower oil prices and calmed inflationary fears.

HIGHLIGHTS

/ After strong growth in the first quarter, the North American economy slowed. Europe and Asia took over, especially China and India, and the global economy expanded rapidly.

/ The central banks in the United States and Canada stopped raising interest rates at mid-year, but in the euro zone and the United Kingdom the central bankers maintained their restrictive bias all year long. The Bank of Japan abandoned the zero-interest policy it had adopted in 2001.

/ The pound sterling and the euro were up significantly against the greenback, while the Canadian dollar and the yen finished the year slightly below the level where they had started it.

/ After a sharp correction in May and June, the equity markets resumed rising and ended the year in positive territory. Private equity and real estate saw valuations increase significantly during the year.

/ The bond markets were characterized by low volatility, strong correlation between markets, narrow credit spreads and a flattening, if not an inversion, of the yield curves.

/ The commodity markets were highly volatile. Although the price of some industrial metals ended the year up, others underwent sharp corrections. As for energy, the price of natural gas was very volatile and lost ground, while the price of oil peaked in the summer but ended the year unchanged.

ANOTHER YEAR OF STRONG GLOBAL GROWTH, DESPITE A SLOWDOWN IN NORTH AMERICA

In the United States, the automotive and residential real estate sectors experienced difficulty. Contracting residential investment was the main constraint on growth. Despite the slight decrease in consumer spending, the current account deficit continues to be a risk factor for global economic growth. Correction of this deficit could ultimately cause a sharp depreciation of the U.S. dollar, higher interest rates and lower U.S. imports. After four hikes in the first half of the year, the Federal Reserve left its key rate at 5.25%. Despite the slowdown that began in the second quarter and the downward oil price trend that began in the summer, the central bank was still concerned about the risk of high inflation, notably because of large wage increases.

In Canada, economic growth was strong at the start of the year. Domestic demand was sustained by the vigorous job market, which saw the lowest unemployment rate since 1974, and by the residential real estate sector, which continued to rise. Later in the year, the economy lost speed, however. The slowdown in the United States, the strong Canadian dollar and intense trade competition from emerging markets weakened the external sector and slowed Canada's economy. For those reasons, the Bank of Canada decided, after hiking its key rate four times in the first half, to leave it at 4.25%, deeming inflation-related risks to be balanced.

Québec, like Ontario, saw economic growth that was much slower than in the provinces with resource-based economies. Job creation and housing starts were down in relation to the previous year. Rising domestic demand, especially household spending, was nevertheless the main engine of growth. Although more than 30,000 jobs were lost in the manufacturing sector, overall employment was up by almost 40,000 jobs. The unemployment rate averaged 8% in 2006, its lowest level in more than 30 years. The demanding international context continued to hit the manufacturing sector, although exports held steady. In this respect, Québec fared a little better than Ontario, which is experiencing significant difficulties in the auto industry. The external sector detracted from economic growth in Québec, however, as domestic demand and the strong Canadian dollar pushed imports up.

The European Central Bank (ECB) increased its key rate five times in 2006 to contain inflationary pressures. Domestic demand was vigorous, sustained in part by a strong performance from the job market. The euro was up sharply against the dollar and the yen in 2006, which could have an adverse impact on foreign trade in the euro zone. In the United Kingdom, the economic recovery, which started in 2005, continued on the strength of accelerating capital spending. The Bank of England therefore raised its key rate twice in the second half. Even so, the appreciation of the pound sterling and its impact on exports continue to represent a significant risk.

EQUITY MARKETS IN 2006

FIGURE 18
(MSCI indexes, January 1, 2006 = 100)

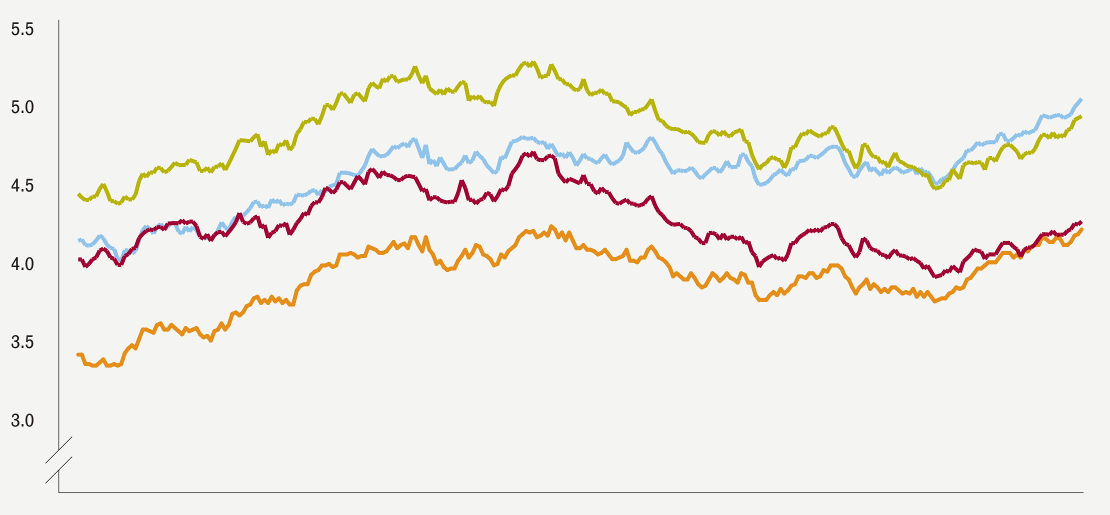
- Canada
- United States
- Europe ex United Kingdom
- Japan
- Emerging markets
- United Kingdom

Sources: Macroeconomic Analysis, Datastream

10-YEAR GOVERNMENT BOND YIELDS IN 2006

FIGURE 19
(in percentage)

- Canada
- United States
- United Kingdom
- Euro zone



Sources: Macroeconomic Analysis, Datastream

Despite a temporary slowdown in personal spending in the third quarter, Japan's economy continued the recovery that began a few years ago. Convinced that the country emerged from a long period of economic stagnation, Japan's central bank decreased the massive amounts of liquidity it was injecting into the system and set its key rate at 0.25% in July, abandoning the zero-interest policy it had adopted in 2001. Investors continued to borrow at ultra-low rates in Japan to purchase securities with a higher return elsewhere – a practice referred to as the carry trade – helping sustain the values of assets around the world. In this context, the yen gradually depreciated in relation to the U.S. dollar, starting in May. China's economy expanded by more than 10% for the fourth straight year, with almost half of the growth due to strong capital spending. The Chinese government and the People's Bank of China were concerned that the economy would overheat and tried to curb bank credit. India also recorded sustained economic growth, partially because of strong domestic demand.

STOCK MARKETS IN SYNC AROUND THE WORLD

The equity markets rose on strong global economic growth. Their progress was interrupted by a sharp correction in May and June, however. Risk tolerance fell rapidly as large numbers of investors grew concerned that the economic slowdown already under way might become more pronounced. Their concerns included excessive credit tightening by the U.S. Federal Reserve. Some were of the opinion that, to reiterate the Federal Reserve's commitment to price stability, its new Chairman, Ben Bernanke, would overdo the tightening begun by his predecessor. In this context, many actors believed the long stock market rally was drawing to an end.

The correction, which was especially pronounced in emerging markets, proved to be short-lived, however. Prices for crude oil and gasoline started to fall in August. With the end of monetary tightening in North America and the continued strength of the global economy, the markets took off again and, in the second half, more than regained their lost ground. In Canada, however, the stock market was shaken briefly in the fall by the federal government's decision to withdraw the tax benefits accorded to income trusts. With consolidation taking place in the materials sector, the market was also driven by major mergers and acquisitions (M&A).

In brief, all the equity markets posted strong returns in 2006, but the best results were recorded in emerging markets and Europe, where earnings growth was vigorous, and M&A activity reached record levels. The returns on the Canadian and U.S. stock markets were not quite so strong. Of the major markets, only Japan posted a performance below 10% (figure 18).

In the bond markets, the policy of monetary tightening applied by most of the world's major central banks in the first half pushed up government bond yields (figure 19). But the increase was more rapid in the United States than in Canada during that period, so that spreads between Canadian and U.S. yields, already negative at the start of the year, reached a historic low in May and then stabilized. The returns on Canadian bond portfolios therefore exceeded U.S. returns. Despite the stable interest rate spreads between the two countries, lower prices for various commodities caused the loonie to lose altitude in relation to the greenback during the latter portion of the year.

The ECB and the Bank of England maintained their restrictive bias all year long. The euro and the pound sterling therefore rose against the North American currencies. Although long-term North American rates fell in the second half, European rates ended the year up significantly.

In all cases, the yield curves flattened in the second half, or even inverted, partially because of unusually strong demand for medium- and long-term notes on the part of pension funds, insurance companies, central banks in some Asian countries and certain oil exporters with current account surpluses.

On the corporate bond market, abundant liquidity and low volatility kept the risk premium very low. The yield spreads for Canadian corporate bonds widened somewhat in the first half, but finally returned to square one, since the equity markets were performing well and the central banks had stopped raising their key rates.

The commodity markets saw quite a bit of turbulence, as the prices of several metals were highly volatile. The price of copper, for instance, underwent a strong correction: speculative positions that drove it to levels far higher than its extraction cost proved unsustainable. As for energy, the price of a barrel of crude oil peaked in the summer and then ended the year unchanged. The price of natural gas plummeted in North America during the winter of 2006, setting the stage for a period of strong volatility. Fluctuating energy prices pushed agricultural commodity prices up amid increasing demand for biofuels.

Lastly, the hedge fund industry generally recorded positive returns in 2006. These results are due above all to strong returns on the equity markets, especially in Europe. As well, the high level of M&A activity enabled funds using event-driven strategies to post strong returns. Although low volatility limited the returns of funds using arbitrage strategies, revaluations enabled managers who specialize in convertible bond arbitrage to earn strong returns.

CONTINUED ENTHUSIASM FOR PRIVATE EQUITY

The enthusiasm of institutional investors for non-traditional investments has caused a strong increase in disbursements since 2003, and capital flows into leveraged buyout funds continued in 2006. Moreover, the trend to privatization of publicly traded companies accelerated during the year. The average size of funds continued to increase with the proliferation of mega funds with assets of $10 billion or more. The return of strategic investors and the large amounts of capital waiting to be invested helped push up bidding in a low-interest-rate environment, contributing to greater use of leverage.

The venture capital market also took advantage of the strong demand for non-traditional investments. In the United States, the sustained rate of investment and the increase in disbursements confirmed that the recovery was on a sure footing. In Canada, the upturn continued although it lagged the United States somewhat, and fund-raising momentum slowed from the previous year. Activity was especially brisk in the U.S. life sciences sector, and the valuations of companies backed by venture capital (VC) were up, although there was no overheating. Moreover, VC-backed companies find takers more easily on the mergers and acquisitions market, which helps improve returns.

Finally, institutional investors also turned increasingly to infrastructure investments, creating a very competitive environment and boosting the available capital, thereby driving prices up.

DYNAMIC REAL ESTATE MARKET DRIVEN BY ABUNDANT CAPITAL

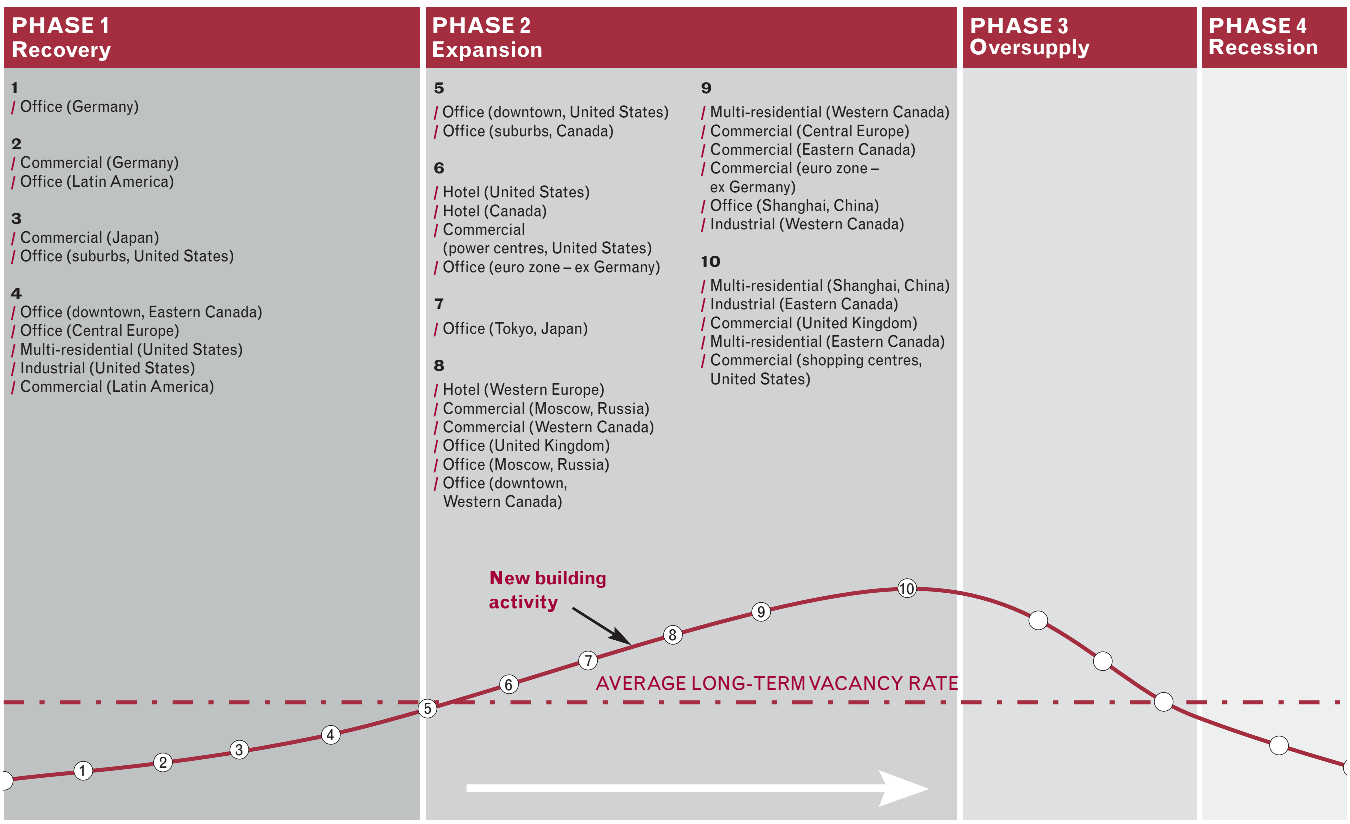
The impacts of solid global economic growth since 2004 finally accelerated leasing activity for most real estate markets and products, especially the office and hotel sectors. The significant improvement in the market indicators for these sectors neutralized the effects of moderate interest rate hikes in the first half of the year, to the extent that real estate investors used value-creation strategies. In the second half, however, long-term rates generally stabilized or even fell in North America, so that the real estate sector was able to maintain a positive premium, with the exception of certain markets. The sector therefore remained competitive in relation to fixed-income asset classes.

In this exceptional context, the real estate investment sector continued the progress of 2004 and 2005, as property prices posted remarkable gains. These increases were sustained by the real estate sector's appeal for institutional investors, but also by increasing globalization in organization of the sector and integration of the capital markets. The situation is similar in real estate debt; abundant capital decreased the rate spreads in relation to bonds, lowering the risk premium accordingly.

Figure 20 shows how several real estate sectors in various regions of the world were positioned in the real estate cycle at the end of 2006. The cycle consists of four phases: recovery, expansion, oversupply and recession. The markets have advanced throughout the cycle, but have remained sound, since most are at the end of the recovery phase or in the expansion phase. In these phases, vacancy rates fall and rents rise. This situation should continue in 2007.

POSITIONING OF CERTAIN REGIONS WITHIN THE GLOBAL COMMERCIAL REAL ESTATE CYCLE AT THE END OF 2006

FIGURE 20



PHASE 1	PHASE 2	PHASE 3	PHASE 4
• Declining vacancy rates • Rental rate growth below inflation rates • No new building activity	• Strong rental rate growth in tight markets • Rising rental rates justify building activity • Decline in vacancy rates below the long-term average rate	• Increase in rental rates but at slower pace • Increase in vacancy rates • New building activity, increase in development and redevelopment projects and/or contracting demand for space	• Decline in rental rates • Increase in vacancy rates • New building activity, excess supply, increased competition on the rental market

OUTLOOK 2007

According to the International Monetary Fund, the global economy should continue to grow at a sustained pace in 2007. With the slowdown in the United States, the global expansion will be driven more by growth in emerging markets, which should again be very strong, especially in China. The Chinese authorities are trying to curb investment growth by tightening credit, but their efforts will no doubt be offset by the boom associated with the 2008 Olympic Games in Beijing. The continuing recovery in Europe and Japan will also mitigate the impact of the U.S. downturn on the global economy. Canada will see more moderate economic growth in 2007 but will again face significant regional disparities. Under the combined effects of the slowdown in the United States and more intense competition from emerging markets, the economies of Québec and Ontario will continue to absorb the effects of restructuring in the manufacturing sector. Global growth will be vigorous enough to prevent commodity prices from sliding and will sustain the economies of the resource-rich provinces.

This economic scenario is subject to multiples risks, however. The slowdown in the United States could become more severe if the contraction in the real estate sector spreads to the overall economy, and if the job market sees a pronounced downturn. Moreover, a sudden intensification of geopolitical tensions involving major oil producers could drive crude oil prices up.

Interest rates and currency values should reflect this rebalancing of growth around the world. Generally speaking, interest rates and currencies in emerging markets, Europe, Japan and other countries with a current account surplus will tend to rise vis-à-vis North America. The Canadian dollar will therefore come under pressure in 2007, especially as the likelihood of a commodity price spiral is low and flows of net direct foreign investment into Canada, now negative, fell considerably in 2006. Lastly, unless an untoward event significantly reduces investors' appetite for risk, returns from stocks and private equity should continue to be relatively attractive in relation to returns provided by bonds. This situation is due to abundant capital, the prospect of mergers and acquisitions, and the strategies of major institutional investors, which will continue to move capital into non-traditional investments.

SUMMARY OF THE CAISSE'S OVERALL PERFORMANCE

THE CAISSE SIGNIFICANTLY EXCEEDED ITS OBJECTIVES IN 2006 WITH AN OVERALL RETURN OF 14,6 % AND $ 2,0 BILLION OF VALUE ADDED

All the investment groups created value in relation to their benchmark indexes or return thresholds, contributing to results that place the Caisse in the first quartile of large Canadian pension funds for the third straight year.

HIGHLIGHTS

/ The Caisse earned a 14.6% overall return and ranked in the first quartile of large Canadian pension fund managers for the third straight year.

/ The value added by active investment management was a record $2.0 billion.

/ Each of the investment groups contributed to value added.

/ The individual returns for the Caisse's main depositors range from 12.5% to 16.3%.

CAISSE'S RETURN

The overall return corresponds to the weighted average return on depositors' funds invested in the Caisse's 18 specialized portfolios.[1]

Four factors determine the return:

/ The depositors' investment policies (benchmark portfolios);

/ The behaviour of the markets;

/ Active management of each of the Caisse's specialized portfolios;

/ The weight of each depositor in the Caisse's overall portfolio.

[1] The returns on the specialized portfolios for periods of one year to 10 years are given in the *Annual Report – Additional Information 2006*.

SIMPLIFIED INVESTMENT PROCESS

FIGURE 21
(depositors, individual funds and specialized portfolios)

DEPOSITORS	The depositors transfer funds to or withdraw funds from the Caisse.
DEPOSITORS' INDIVIDUAL FUNDS AT THE CAISSE	The depositors have individual funds for their holdings at the Caisse. The depositors obtain a return on each fund. The 2006 returns for the main depositors range from 12.5% to 16.3%. The Caisse's 14.6% return for 2006 represents the weighted average return on depositors' funds.
CAISSE'S SPECIALIZED PORTFOLIOS	In accordance with the depositor's investment policy, each fund buys or sells units of the specialized portfolios. The 2006 returns on the 18 specialized portfolios are given in table 24.

RETURN ON THE OVERALL PORTFOLIO

The Caisse's overall return, or the weighted average return on depositors' funds, was 14.6% in 2006, for $17.8 billion of net investment results.

This return places the Caisse in the first quartile of large Canadian pension funds for the third straight year. Moreover, the 14.6% return exceeded by 188 b.p. (1.88%) the 12.7% return on the overall index of the benchmark portfolio, for $2.0 billion of value added, a record for the Caisse.

Over a three-year period, with returns of 14.6% in 2006, 14.7% in 2005 and 12.2% in 2004, the Caisse's overall average return is 13.8%, a result achieved by only 5% of large Canadian pension funds, according to a survey by RBC Dexia Investor Services.

For the same period, with 1.9% of value added in 2006, 1.8% in 2005 and 1.0% in 2004, the Caisse's total value added is $4.1 billion, net of operating expenses.

Table 22 shows the overall return and the value added, as well as the Caisse's rank among large Canadian pension funds for the period from 2004 to 2006.

DEPOSITORS' INDIVIDUAL RETURNS

The overall return consists of the individual returns earned for the Caisse's 22 depositors. The individual returns of the main depositors, which represent more than 98% of net assets, ranged from 12.5% to 16.3% in 2006. The returns ranged from 13.4% to 17.9% in 2005.

This spread reflects the depositors' different investment policies: some include a greater proportion of fixed income, while others include a larger proportion of equities and other investments.

Moreover, in 2006 all depositors with a diversified portfolio benefited from value added, namely a return that exceeds the benchmark indexes specified in their investment policies.

RETURN AND VALUE ADDED – 2004 TO 2006

TABLE 22
(for periods ended December 31)

	2004	2005	**2006**	3-year average	3-year total
Net investment results[1] (in billions of dollars)	10.8	15.2	**17.8**	14.6	43.8
Caisse's overall return (%)[2] (weighted average return earned on depositors' funds)	12.2	14.7	**14.6**	13.8	47.4
Return on the benchmark indexes (%)	11.2	12.9	**12.7**	12.2	41.4
Value added (%)[2]	1.0	1.8	**1.9**	1.6	5.9
Value added (in billions of dollars)[1]	0.6	1.4	**2.0**	1.4	4.1
Rank in relation to large Canadian pension funds	First quartile	First quartile	**First quartile**	Top 5%	

1 Net of operating expenses.
2 Before operating expenses.
Sources: Caisse de dépôt et placement du Québec, RBC Dexia Investor Services – pension funds of $1 billion or more.

RETURNS EARNED BY THE INVESTMENT GROUPS

Table 23 shows the net assets under management and the value added for each of the Caisse's investment groups.

All the investment groups contributed to value added in 2006. The Equity Markets, Private Equity and Real Estate groups generated $645 million, $600 million and $357 million of value added, respectively. Asset allocation operations alone added $377 million to depositors' net assets. Lastly, the value added by the Hedge Funds and Fixed Income groups was $15 million and $13 million, respectively.

The Caisse's 18 specialized portfolios, with the exception of the Real Return Bonds portfolio, generated a positive absolute return in 2006, and 13 of them outperformed their benchmark indexes. Moreover, the Investments and Infrastructures, Private Equity, Real Estate and Hedge Funds portfolios exceeded their return thresholds. Table 24 shows the spreads between the returns and the indexes for the investment groups and the specialized portfolios. It also shows the differences between the returns and the thresholds, as the case may be.

NET ASSETS AND VALUE ADDED

TABLE 23
(for periods ended December 31, 2006)

	2006				2005			
	Net assets		**Value added**		Net assets		Value added	
	$billion	**%**	**$million[2]**	**%**	$billion	%	$million[2]	%
Fixed Income	**42.9**	**30.0**	**13**	**0.6**	43.4	35.6	(4)	(0.3)
Equity Markets	**53.0**	**37.1**	**645**	**32.1**	44.8	36.7	(454)	(31.3)
Hedge Funds	**6.5**	**4.6**	**15**	**0.7**	5.5	4.5	190	13.1
Private Equity	**16.8**	**11.8**	**600**	**29.9**	10.9	9.0	1,049	72.4
Real Estate	**23.2**	**16.2**	**357**	**17.8**	17.2	14.1	666	46.0
Asset Allocation[1]	**0.4**	**0.3**	**377**	**18.8**	0.1	0.1	1	0.1
Total	**143.5[3]**	**100.0**	**2,006**	**100.0**	122.2 [3]	100.0	1,449	100.0

1 This result includes cash asset allocation results.
2 Net of operating expenses.
3 The net assets are those presented in the combined financial statements audited by the Auditor General of Québec.

SPECIALIZED PORTFOLIO RETURNS IN RELATION TO THE BENCHMARK INDEXES AND RETURN THRESHOLDS

TABLE 24
(for the period ended December 31, 2006 – in percentage unless otherwise indicated)

Investment group Specialized portfolio	*Index*	*Threshold*	Return[1]	Index	Spread	Index or threshold	Spread / Index or threshold
					b.p.		b.p.
Fixed Income							
Short Term Investments	*SC 91- Day Canadian T-Bill*		4.4	4.0	42	4.0	42
Real Return Bonds	*SC Real Return Bond*		(3.0)	(2.9)	(10)	(2.9)	(10)
Bonds	*SC Universe Bond*		4.2	4.1	11	4.1	11
Long Term Bonds	*SC Long Term Government Bond adjusted*		3.6	3.9	(23)	3.9	(23)
			4.0	3.9	11	3.9	11
Equity Markets							
Canadian Equity	*S&P/TSX capped*		22.0	17.3	473	17.3	473
U.S. Equity (hedged)	*S&P 500 hedged*		14.9	14.6	30	14.6	30
U.S. Equity (unhedged)	*S&P 500 unhedged*		15.6	15.4	28	15.4	28
Foreign Equity (hedged)	*MSCI – EAFE hedged*		18.7	18.2	52	18.2	52
Foreign Equity (unhedged)	*MSCI – EAFE unhedged*		26.5	25.9	66	25.9	66
Emerging Markets Equity	*MSCI – EM*		32.7	31.7	108	31.7	108
Québec International	*Québec International[3]*		16.7	16.9	(11)	16.9	(11)
			20.9	19.0	188	19.0	188
Hedge Funds[2]							
Hedge Funds	*Hedge Funds[3]*	*SC 91- Day Canadian T-Bill*	6.7	7.9	(122)	4.0	275
Commodities	*Commodity Financial Instruments[3]*		3.3	(0.9)	427	(0.9)	427
			5.7	5.0	68	2.4	328
Private Equity							
Investments and Infrastructures	*Investments and Infrastructures[3]*	*9%*	13.5	18.7	(524)	9.0	447
Private Equity	*Private Equity[3]*	*12%*	30.4	13.6	1,685	12.0	1,840
			22.0	16.2	583	10.6	1,146
Real Estate							
Real Estate Debt	*Real Estate Debt[3]*		6.5	5.1	135	5.1	135
Real Estate	*Aon – Real Estate[3]*	*9%*	30.5	27.1	341	9.0	2,146
			20.2	18.0	217	7.5	1,268
Asset Allocation (in millions of dollars)[4]			377	n.a.	n.a.	n.a.	n.a.
Caisse's overall return (weighted average return on depositors' funds)			14.6	12.7	188	10.4	415

1 Returns are presented before operating expenses.
2 Previously Investment Analysis and Optimization and Absolute Return.
3 The description of the indexes is given in the sections that analyze the investment groups' returns.
4 The results of these operations include those of cash asset allocation.
N.B.: The returns on the specialized portfolios for periods of one to 10 years are given in the *Annual Report 2006 – Additional Information*.

Spread versus index

Spread versus threshold

FIXED INCOME

The specialized portfolios of the Fixed Income group, whose value is $42.9 billion, generated a 4.0% return and 11 b.p. (0.11%) of value added, or $13 million. These portfolios ensure effective preservation of depositors' capital and offer excellent liquidity.

EQUITY MARKETS

During the year, the seven specialized portfolios of the Equity Markets group, totalling $53.0 billion, returned 20.9%, or 188 b.p. (1.88%) more than the benchmark index and generated $645 million of value added. The specialized Canadian Equity portfolio stands out with a 22.0% return that outperformed the 17.3% return on its index by 473 b.p. (4.73%).

HEDGE FUNDS

The specialized Hedge Funds and Commodities portfolios returned 5.7%, exceeding their benchmark index by 68 b.p. (0.68%), and creating $15 million of value added. With returns that are lower than for equities but higher than for bonds, these portfolios contribute to the Caisse's return and help diversify portfolio risk.

PRIVATE EQUITY

The two specialized portfolios managed by the Private Equity group, totalling $16.8 billion, continued their fine performances of recent years. With a 22.0% return, they outperformed the benchmark index by 583 b.p. (5.83%) and generated $600 million of value added. The Private Equity portfolio has the better return, at 30.4%, owing to a strong performance by leveraged buyouts.

REAL ESTATE

The Real Estate group's two specialized portfolios, valued at $23.2 billion, earned an excellent return of 20.2%, or 217 b.p. (2.17%) more than the benchmark index. The group generated $357 million of value added. This is the third straight year that the group has earned more than 20%, owing to its geographic allocation strategy, opportunistic acquisitions and foremost lending operations.

The specialized Real Estate portfolio returned 30.5%, or 341 b.p. (3.41%) more than its benchmark index. The specialized Real Estate Debt portfolio returned 6.5%, outperforming its benchmark by 135 b.p. (1.35%).

MANAGEMENT OF ASSET ALLOCATION

Active management of asset allocation generated $377 million. This result is due to two factors. First, tactical asset allocation operations were productive. Second, decreasing the weight of bonds and increasing the weight of equities in the overall portfolio proved profitable in the context of a rising stock market.

CURRENCY HEDGING

The variation in the Canadian dollar against other currencies did not significantly affect the Caisse's overall return. After generally rising in the first half, the loonie ended at almost the level where it began the year against the U.S. dollar. The return on the unhedged U.S. Equity portfolio was 15.6%, versus 14.9% for the hedged portfolio.

The difference of 784 b.p. (7.84%) between the return on the unhedged Foreign Equity portfolio (26.5%) and the return on the hedged portfolio (18.7%) is due mainly to the depreciation of the Canadian dollar against the euro (-10%) and the pound sterling (-12%).

PERFORMANCE OF THE PORTFOLIO MANAGERS

The returns on the Caisse's specialized portfolios are evaluated in comparison with benchmark indexes or predetermined return thresholds.

The managers of the Fixed Income and Equity Markets portfolios, as well as the Real Estate Debt and Commodities portfolios, have value-added objectives in relation to benchmark indexes relevant to their specialization. These managers build portfolios whose composition differs from that of their indexes to outperform over the short and long terms.

As for the managers of the Investments and Infrastructures, Private Equity and Real Estate portfolios, they construct their portfolios according to a long-term horizon, without reference to a short-term benchmark index.

The annual objective for these managers is to exceed a return threshold, or a predetermined level of absolute return, since no short-term benchmark indexes reflect the composition of their portfolios.

Generally speaking, the Investments and Infrastructures, Private Equity and Real Estate portfolios are more risky and less liquid than the Equity Markets portfolios. The returns expected of their managers are therefore significantly higher than those of the equity indexes over a long period. The return thresholds are established to reflect this risk premium in relation to the indexes.

A comparison of the returns on these portfolios with the annual return on the benchmark indexes is used for asset allocation within the overall portfolio.

The return threshold for the Hedge Funds portfolio is the Scotia Capital 91-Day T-Bill Index.

ESTABLISHMENT OF RETURN THRESHOLDS

In the case of the specialized Investments and Infrastructures, Private Equity and Real Estate portfolios, the return thresholds are based on three components.

1) Expected long-term rate of return on government bonds: This component is generally measured by the yield to maturity of 10-year Government of Canada bonds.

2) Equity risk premium: This component corresponds to the additional return expected from the equity markets, given the added risk assumed in comparison with holding long-term government bonds.

3) Risk premium related to the portfolios that are compared with return thresholds: Comparison parameters for the specialized portfolios, i.e. databases providing the distribution of returns earned by other managers, are used to calculate the third component. The average return drawn from these distributions provides information on the historical excess return from these operations in comparison with the equity markets. This return provides a point of reference for determining the short-term return expected on these portfolios, namely the return on equity markets plus a risk premium reflecting the additional systematic risks associated with these operations (lower liquidity, less diversification, additional leverage, manager risk and additional operational risks).

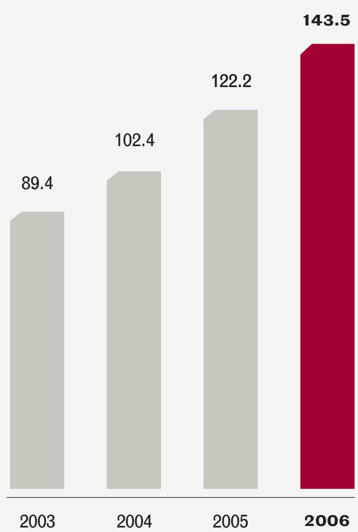
For example, the predetermined return threshold of the specialized Private Equity portfolio was 12.0% in 2006, namely:

/ Expected return on long-term government bonds: 4.3%;
/ Plus the equity risk premium: 2.7%;
/ Plus the additional risk premium related to private equity: 5.0%.

The private equity managers therefore have a mandate to construct a portfolio whose return exceeds the 12.0% threshold.

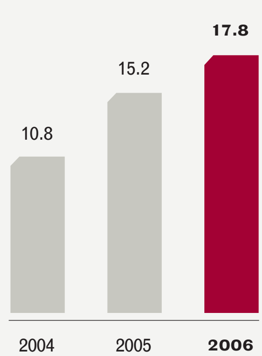
DEPOSITORS' NET ASSETS – 2003 TO 2006

FIGURE 25
(as at December 31 – in billions of dollars)



NET INVESTMENT RESULTS – 2004 TO 2006

FIGURE 26
(for periods ended December 31 – in billions of dollars)



CHANGES IN NET ASSETS

Depositors' net assets totalled $143.5 billion as at December 31, 2006, versus $122.2 billion in 2005, an increase of $21.3 billion (figure 25). Of that amount, $17.8 billion is net investment results and $3.5 billion is net deposits by the depositors (figure 26).

Depositors' net assets are up $54.1 billion since December 31, 2003. The net investment results from 2004 to 2006 are shown in figure 26.

Table 27 shows the changes in depositors' net assets from December 31, 2003, to December 31, 2006. For 2006, it shows $3.5 billion of depositors' net contributions, the main sources of the changes, namely the $15.8-billion return related to the composition of the overall benchmark portfolio, the $2.3-billion return resulting from active management and $0.3 billion of operating expenses for this period.

The subsections that follow describe these three sources of the change in depositors' net assets. Operating expenses are analyzed in the section "Analysis of operating expenses".

DEPOSITORS' NET CONTRIBUTIONS

Depositors' net contributions during the period from 2004 to 2006 totalled $10.3 billion, compared with $2.8 billion for the period from 2001 to 2003. The large difference between the two periods is due mainly to a substantial increase in contributions by one of the depositors.

ANALYSIS OF CHANGES IN DEPOSITORS' NET ASSETS

TABLE 27
(for the period from 2004 to 2006 – in billions of dollars)

	2004	2005	**2006**	**2004-2006**
Net assets at beginning	89.4	102.4	**122.2**	**89.4**
Depositors' net contributions	2.2	4.6	**3.5**	**10.3**
Income generated by the composition of the overall benchmark portfolio (depositors' investment policies)[1]	10.2	13.7	**15.8**	**39.7**
Value added by active management[2]	0.8	1.7	**2.3**	**4.8**
Subtotal	13.2	20.0	**21.6**	**54.8**
Operating expenses	(0.2)	(0.2)	**(0.3)**	**(0.7)**
Subtotal	13.0	19.8	**21.3**	**54.1**
Net assets at end	102.4	122.2	**143.5**	**143.5**

1 The main objective of investment policy management is to establish the allocation of depositors' assets among the Caisse's various specialized portfolios, according to their risk characteristics and return outlook, as a function of the needs and objectives of each depositor. The depositors take part in this management, with the Caisse providing a range of financial products as well as advisory services.
2 The objective of active management, which is the Caisse's exclusive responsibility, is to produce an optimal return on each specialized portfolio.

INCOME GENERATED BY THE COMPOSITION OF THE OVERALL BENCHMARK PORTFOLIO

The Caisse differs from other institutional fund managers in that it advises its depositors on their investment policies and proposes a benchmark portfolio consisting of several specialized portfolios. It aims to have the value added of its overall benchmark portfolio, which is the weighted result of the depositors' benchmark portfolios, place in the first quartile of large Canadian pension funds.

Income associated with the composition of the overall benchmark portfolio amounted to $15.8 billion in 2006, totalling $39.7 billion for the period from 2004 to 2006.

VALUE ADDED BY ACTIVE MANAGEMENT

Application of profitable investment strategies by each investment group in 2006 enabled the managers to add a return, net of expenses, that surpassed the index for the overall benchmark portfolio by 188 b.p. (1.88%). This value added resulted in a contribution of $2.3 billion ($2.0 billion net of operating expenses) to depositors' net assets.
For the period from 2004 to 2006, the value added by the Caisse's active management totals $4.8 billion ($4.1 billion net of operating expenses).

CHANGES IN THE OVERALL PORTFOLIO

IN 2006, WITH THE DEPOSITORS' AGREEMENT, THE CAISSE SIGNIFICANTLY INCREASED THE SIZE OF THE EMERGING MARKETS EQUITY, REAL ESTATE DEBT, AND INVESTMENTS AND INFRASTRUCTURES PORTFOLIOS

As for the increase in the size of the Real Estate portfolio, it is due to the return obtained. Meanwhile, the Caisse continued to reduce the percentage of the Fixed Income group's portfolios in the overall portfolio, given the prospect of lower returns on this asset class.

Table 28 shows the composition of the Caisse's benchmark portfolio as at December 31, 2006, as well as the effective allocation of the overall portfolio at year-end 2005 and 2006.

Each depositor determines the long-term return objective that will enable it to meet its financial obligations, specifying its risk tolerance. On the basis of that objective, the Caisse proposes various asset allocation scenarios, which reflect not only the expected return, but also a level of absolute risk related to market volatility. The experts at the Caisse then work closely with the depositor to define the scenario with the best risk-return ratio. This scenario becomes the depositor's benchmark portfolio, and specifies the upper and lower limits for each asset class to control active management of asset allocation. The overall benchmark portfolio is the weighted combination of the depositor's benchmark portfolios.

COMPOSITION OF THE BENCHMARK PORTFOLIO AND CHANGES IN THE CAISSE'S OVERALL PORTFOLIO

TABLE 28

Specialized portfolio	Caisse's overall portfolio as at December 31, 2006	Benchmark portfolio as at December 31, 2006			Caisse's overall portfolio as at December 31, 2005
		Lower limit	Benchmark portfolio	Upper limit	
	%	%	%	%	%
Fixed income					
Short Term Investments	1.9	0.3	2.2	9.6	3.3
Real Return Bonds	0.7	0.4	1.0	2.5	1.0
Bonds*	25.2	23.9	29.1	34.0	29.7
Long Term Bonds	2.2	1.9	2.5	3.4	1.6
Subtotal	**30.0**		**34.8**		**35.6**
Equity markets					
Canadian Equity	13.2	8.7	13.6	18.5	14.3
U.S. Equity	5.1	0.6	5.1	9.8	5.7
Foreign Equity	6.6	2.0	6.2	11.3	6.7
Emerging Markets Equity	3.0	0.2	2.3	3.5	1.1
Québec International	9.2	6.7	9.1	11.4	8.9
Subtotal	**37.1**		**36.3**		**36.7**
Other investments					
Investments and infrastructures	6.1	2.4	4.4	7.3	3.9
Private Equity	5.7	3.5	6.3	8.6	5.1
Real Estate Debt*	6.3	1.8	4.8	7.6	5.2
Real Estate	9.9	5.7	8.9	12.2	8.9
Commodities	1.6	0.0	1.7	3.1	1.3
Hedge Funds	3.0	0.2	2.8	5.0	3.2
Subtotal	**32.6**		**28.9**		**27.6**
Asset Allocation	0.3	–	0.0	–	0.1
Total	**100.0**		**100.0**		**100.0**

N.B.: The benchmark portfolio and its lower and upper limits are the result of the weighted average of the depositors' benchmark portfolios.
* In 2006, the Real Estate Debt portfolio was not separated from the Bonds portfolio with respect to one depositor.

RESPONSIBILITIES OF THE CAISSE AND ITS DEPOSITORS

Unlike organizations that both manage their funds and administer their pension or insurance plan, the Caisse and its depositors share these responsibilities according to conditions set out in various laws and as specified in service agreements.

RESPONSIBILITIES OF THE DEPOSITOR

Each depositor, through its pension committee, investment committee or board of directors, is responsible for its actuarial liabilities, namely the sum of its financial obligations. In co-operation with the Caisse, it develops and updates its investment policy as a function of its needs, investment horizon and risk tolerance.

The policy, which is revised at least every three years, specifies the plan's profile and characteristics, its benchmark portfolio, the return expected by the depositor and the level of risk it is prepared to assume.

RESPONSIBILITIES OF THE CAISSE

ADVISORY SERVICES

As an adviser, the Caisse provides advisory services to its depositors for the development or review of their investment policies. To that end, it prepares economic analyses and forecasts as well as risk, return and correlation forecasts for the specialized portfolios.

It also simulates various asset allocation scenarios that enable the depositors to optimize their benchmark portfolio. It designs and proposes new investment products to suit their changing needs. Lastly, it prepares studies and presentations on subjects related to their investment policies.

In conjunction with its advisory services, the Caisse offers depositors training and information sessions on portfolio management as well as on its own structures, processes and operations.

FUND MANAGEMENT

As a fund manager, the Caisse seeks an optimal return on capital in accordance with the investment policy of each depositor. It strives to offer its depositors a return that exceeds the return on their benchmark portfolio, with active management of portfolios that specialize in Fixed Income, Equity Markets and other investments (Investments and Infrastructures, Private Equity, Real Estate Debt, Real Estate, Commodities and Hedge Funds) as well as an Asset Allocation portfolio.

REPORTING

The Caisse periodically reports to each of its depositors on the return obtained and its source, the value added or subtracted in relation to the benchmark indexes, the risk assumed and the performance in comparison with other institutional fund managers. It also issues compliance certificates to attest that the managers have respected the depositors' investment policies as well as the investment policies of the specialized portfolios.

CHANGES IN THE RISK OF THE OVERALL PORTFOLIO

The active risk of the Caisse's overall portfolio increased in 2006 in relation to the previous year. This increase is due mainly to the assumption of greater risk in the Investments and Infrastructures and Asset Allocation portfolios.

Owing to their size and volatility, the Equity Markets portfolios continue to represent the greatest share of the absolute risk of the Caisse's overall portfolio. They account for 37% of depositors' net assets and 53% of absolute risk.

ABSOLUTE RISK AND ACTIVE RISK

The absolute risk of the Caisse's benchmark portfolio depends on the risk (volatility) of the benchmark indexes for the asset classes in the portfolio. For example, if the depositors generally decide to increase the proportion of equities in their benchmark portfolios, this risk would automatically increase, given the volatility of this asset class. The expected absolute risk would also increase.

Active risk represents the possibility that the Caisse, in managing its overall portfolio actively, will earn a return that differs from the return on its benchmark portfolio. The higher the active risk, the more the expected absolute return on the overall portfolio will differ from the return on the benchmark portfolio.

The absolute risk of the Caisse's benchmark portfolio and the active and absolute risk of the overall portfolio are measured regularly.

Figure 29 shows the components of the Caisse's risk and return in 2006. Figure 30 illustrates the contributions to absolute risk and absolute return by the various specialized portfolios. Figure 31 shows changes in the components of the Caisse's risk.

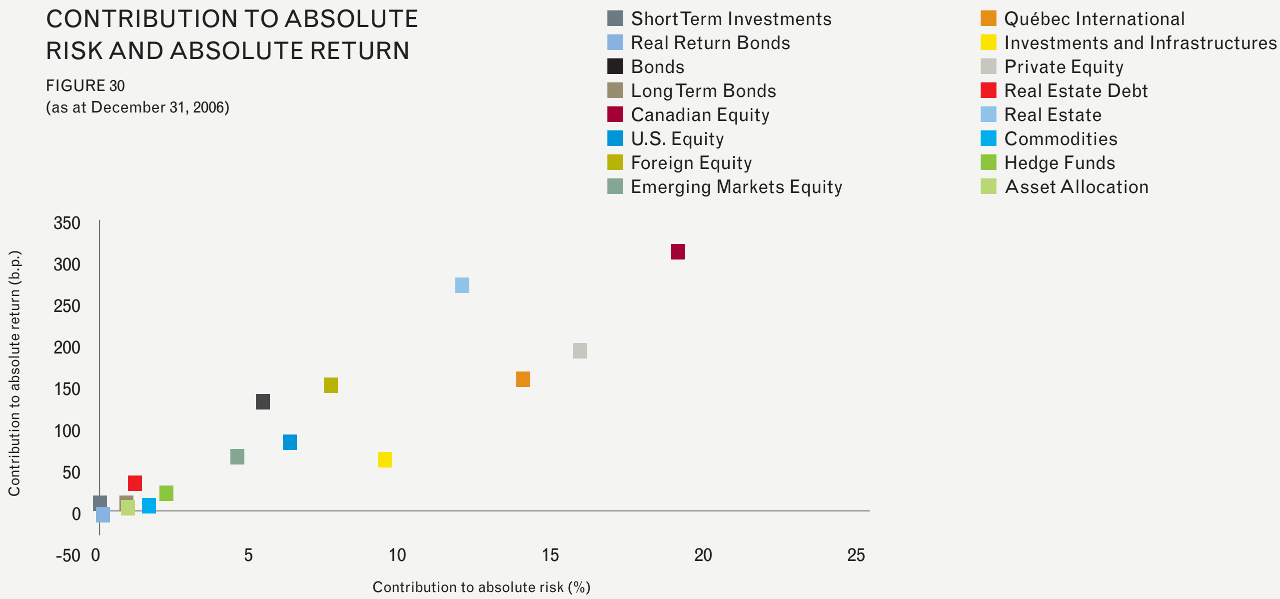
ACTIVE MANAGEMENT AND ACTIVE RISK

FIGURE 29

Caisse's benchmark portfolio	▶	Absolute risk of the Caisse's benchmark portfolio	▶	Return on market indexes Beta (β)
+				+
Active management	▶	Active risk	▶	Relative return Alpha (α)
=				=
Caisse's overall portfolio	▶	Absolute risk of the Caisse's overall portfolio	▶	Weighted average return on depositors' funds

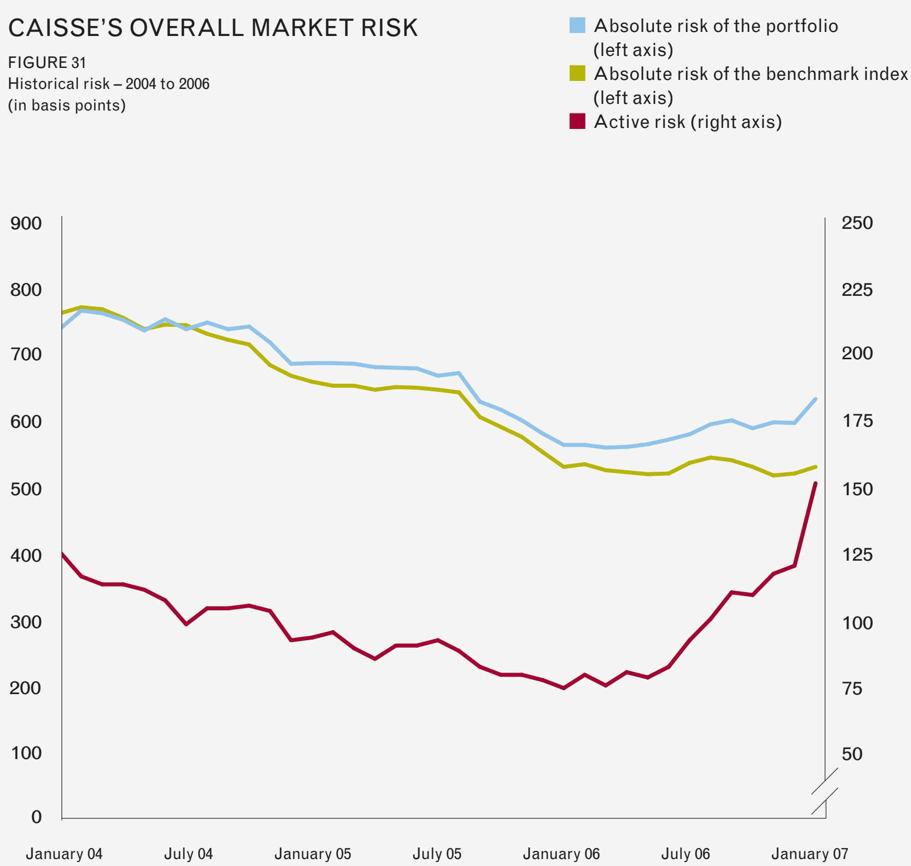
CONTRIBUTION TO ABSOLUTE RISK AND ABSOLUTE RETURN

FIGURE 30
(as at December 31, 2006)



CAISSE'S OVERALL MARKET RISK

FIGURE 31
Historical risk – 2004 to 2006
(in basis points)



N.B.: The increase in active risk at the end of 2006, shown in figure 31, is due in part to the use of a new risk measurement method.

DECISIONS THAT COUNT

CREATION OF THE INVESTMENT DIVISION

JACQUES POIRIER
Vice-President
Tactical Asset
Allocation

CHRISTIAN PESTRE
Executive
Vice-President and
Chief Strategist

RICHARD GUAY
Chief Investment
Officer

MICHEL MALO
Executive Vice-President
Hedge Funds

FRANÇOIS GRENIER
Executive
Vice-President
Equity Markets

JEAN-FRANÇOIS L'HER
Senior Vice-President
Research and
Investment Policy
Advising

INVESTMENT DIVISION

QUESTIONS AND ANSWERS

WITH RICHARD GUAY, CHIEF INVESTMENT OFFICER

Q

Why was the Investment Division created?

A

The Investment Division was created to gain a clearer vision of the Caisse's overall portfolio so as to optimize risk and return. Our new structure brings together all the resources needed to co-ordinate the main activities for optimization of the overall portfolio.

Q

What are these activities?

A

First, we conduct two types of research. The first type of research is used to develop depositors' investment policies, to select benchmark indexes and to set risk and return objectives in the investment policies of our 18 specialized portfolios. This research enables us to establish the main orientations of the Caisse's overall portfolio. We also conduct research to develop promising value-added investment strategies.

In addition to the specific activities of the investment groups on liquid markets, we have three other crucial fields of activity: asset allocation and currency management; investments by the Chief Strategist; and management of the overall portfolio's active risk. In these areas, the depositors give the Caisse leeway to make decisions that enhance the portfolio's overall return.

We have brought together within a single team all the expertise required to assist the liquid-market investment teams with monitoring and analysis of their portfolios and development of analytical platforms.

The Investment Division also co-ordinates the in-house partnerships being developed between the various investment groups to maximize the Caisse's competitive advantages. This co-ordination is done by the Investment Division Committee, which has a mandate to review and approve the Caisse's main investment orientations and new investment strategies.

Q

How do you explain the significant improvement this year in the returns earned by the Equity Markets group?

A

These results are the outcome of major changes made over the past three years as the group reviewed its investment philosophy and management strategies. For Canadian equities, emphasis has been placed on fundamental research. Active risk has been allocated among the various sectors and has been concentrated in fewer positions within each sector. For international equities, the selection of new external managers has also provided leading-edge expertise. The results are convincing: in 2006, each of the portfolios contributed to the results, with Canadian equities generating an outstanding return.

We will continue our optimization efforts in 2007 by gradually increasing active risk in the U.S. Equity, Foreign Equity and Québec International portfolios, while applying new management strategies. We also see great potential for the absolute return operations we will deploy in the Foreign Equity and Emerging Markets Equity portfolios.

Q

You continued to reduce the weight of bonds in the overall portfolio in 2006. Will this trend continue in the years to come?

A

We still believe that returns on bonds will be weak over the long term. In agreement with the depositors, the Caisse has begun gradually decreasing the weighting of these securities in the portfolio in favour of asset classes expected to generate higher returns, such as private equity and real estate.

Q

The bankruptcy of Amaranth and the difficulties encountered by other hedge funds during the year made headlines. How does the Caisse protect itself against such incidents and, generally speaking, how does it manage the risks inherent in the hedge fund industry?

A

First, the Caisse has a well-diversified portfolio of funds of hedge funds, so that the impact of a drop in value for one or more funds is significantly mitigated. Despite the incidents that shook the market, the Hedge Funds portfolio generated an appreciable 6.7% return in 2006. As a prudent investor, the Caisse closely monitors the hedge fund industry to further enhance the return on its portfolio and to develop the expertise of its in-house management teams. More specifically, in 2007, the Hedge Funds group will have the objective of increasing its operational capabilities to select hedge funds, while continuing to ensure they use good governance practices. The ability to assess operational risks developed by the group will eventually be incorporated into the Caisse's overall risk management framework.

Q

In the new structure, the currency team reports to the Chief Investment Officer. How do you envisage its role within your Division?

A

The Caisse is an international investor, so currencies are an important part of its portfolio management. Our team is currently focusing on foreign exchange operations and currency hedging for the investment groups. Its investment operations are still modest although the value-creation potential is high. For example, just think of the considerable revenues generated by the foreign exchange transactions of global macro hedge funds. Since we believe the Caisse has the required size to engage in this type of activity, strengthening our team of currency managers is one of our short-term priorities.

Q

What are the Investment Division's other priorities for 2007?

A

Essentially, we will do our utmost to continue to offer first-quartile investment policies to the Caisse's depositors and to apply profitable strategies arising from research. More specifically, we are positioning ourselves to be ready to act on innovative investment opportunities.

We also intend to raise the value-added objectives of several high-performance teams that contribute to the Caisse's results, in addition to developing a process to allocate risk among the Caisse's investment groups and managers. With respect to support for the managers, we will continue to optimize the services of the Quantitative Investment Information Support team – our middle office – by paying special attention to the evolution and exploitation of our integrated portfolio management system.

Lastly, early in the year we will apply the principles of our new approach to performance management – meritocracy, collaboration and transparency – and encourage our managers and all our employees to work together and to rise to new heights.

INVESTMENT DIVISION

THE NEW INVESTMENT DIVISION COMPRISES THE CHIEF STRATEGIST'S TEAM AS WELL AS THE FIXED INCOME, EQUITY MARKETS AND HEDGE FUNDS INVESTMENT GROUPS

It also includes the following teams: Research and Investment Policy Advising; Tactical Asset Allocation; Currency Management; and Analytical Support.

SPECIALIZED ASSET ALLOCATION PORTFOLIO MANAGEMENT

TABLE 32

INVESTMENT PHILOSOPHY

THE SPECIALIZED ASSET ALLOCATION PORTFOLIO AIMS TO ENHANCE THE CAISSE'S OVERALL RETURN BY MANAGING TOTAL AVAILABLE RISK THROUGH:

/ Overweighting or underweighting of cash asset classes;
/ Sources of value added that differ from those of the specialized portfolios;
/ Use of internal and external managers with different styles.

Specialized portfolio	**Asset Allocation[1]**				
Management mandate	Fixed Income Relative Value[2]	Currencies[2]	Tactical Asset Allocation		Research[3]
Management type	Active internal and parternship	Active internal	Active internal	Active external	Active internal
Management approach	Discretionary	Discretionary	Systematic	Discretionary and systematic	Systematic
Main analytical approach	Fundamental	Fundamental and technical	Top-down Econometric modelling and optimization	Top-down Relative evaluation of financial markets and risk premiums Econometric modelling and optimization	Quantitative
Investment horizon	0 to 18 months	0 to 12 months	0 to 18 months		0 to 18 months
Main management styles and investment strategies	Long-short	Directional	Global macro Long-short		Long-short

1 In 2006, the operations of the Global Macro Discretionary mandate were recorded in the Asset Allocation portfolio. In 2007, this mandate will be included in the Hedge Funds portfolio of the Hedge Funds group.
2 As at December 31, 2006, the operations of the Fixed Income Relative Value and Currencies mandates were recorded in the Hedge Funds portfolio of the Hedge Funds group. In 2007, these mandates will be included in the Asset Allocation portfolio.
3 The operations of the Research mandate will begin in 2007.

HIGHLIGHTS

/ The Caisse created the Investment Division with a focus on research, innovation and synergy.

/ The active management operations of the Asset Allocation portfolio and cash asset allocation decisions by the Division resulted in a total contribution of $377 million.

/ A new committee was created within the Investment Division and began its activities. It reviews and approves the Caisse's main investment orientations and new investment strategies, in addition to fostering co-operation between the investment groups.

/ The Investment Division substantially increased the weight of the Emerging Markets Equity portfolio in the Caisse's overall portfolio.

/ The Tactical Asset Allocation mandate reached its target of $2 billion of assets under external management. This mandate involves about 15 external managers.

/ Significant progress was made in 2006 with the implementation of a common analytical platform for the in-house hedge fund teams. The performance of this platform will benefit all the groups overseen by the Investment Division.

OVERALL RETURN AND SPECIALIZED PORTFOLIO ANALYSIS

SPECIALIZED ASSET ALLOCATION PORTFOLIO

The return on active management of Asset Allocation is $377 million.

Internal management of the Tactical Asset Allocation mandate generated a positive return as a result of the markets' considerable volatility. The managers responsible for this mandate stayed disciplined in executing their models. The positive results are due to a great extent to the accuracy of the economic forecasts modelled in the portfolio.

Lastly, the return earned by the external Asset Allocation managers was also positive. The scope of the market trends and turns tended to favour managers with a global macro style, which is the case for the majority of the external managers.

SELECTION OF BENCHMARK INDEXES

THE CAISSE AIMS FOR SUPERIOR RETURNS AND THEREFORE MEASURES ITS RESULTS AGAINST THE BEST BENCHMARK INDEXES. TO THAT END, IT CHOOSES ITS INDEXES WITH CARE AND WORKS CONSTANTLY TO IMPROVE THEM. SELECTION OF A BENCHMARK INDEX IS BASED ON TWO MAIN CONSIDERATIONS:

/ The representative nature of the investment universe or of the Caisse's strategic orientations in that universe; and
/ Reproducibility, namely the ability to replicate the index with comparable investments.

Each asset class involves specific challenges, starting with non-traditional assets. That is why, in addition to existing market indexes, the Caisse creates composite indexes that correspond more effectively to its operations.

These composite indexes are usually combinations of several benchmark indexes. They are used mainly for the portfolios managed by the Hedge Funds, Private Equity and Real Estate groups.

A detailed description of them is given in the *Annual Report 2006 – Additional Information*.

FIXED INCOME

SEEKING NEW SOURCES OF RETURN

THE FIXED INCOME GROUP EARNED A 4.0% RETURN, OR 11 B.P. (0.11%) OF VALUE ADDED IN RELATION TO THE BENCHMARK INDEX

The group obtained this result despite the convergence of short- and long-term rates and narrow rate spreads between corporate and government notes. In its efforts to obtain new sources of value added, the group developed an in-house partnership with the Private Equity group. This approach takes advantage of the Caisse's competitive edge – its expertise, size and liquidity – to enhance returns. The group also developed new strategies based on quantitative models and the use of derivatives on the global bond markets.

SPECIALIZED PORTFOLIO MANAGEMENT BY THE FIXED INCOME GROUP

TABLE 33

INVESTMENT PHILOSOPHY

THE INVESTMENT PHILOSOPHY OF THE FIXED INCOME GROUP IS TO CREATE VALUE IN AN EFFICIENT, SUSTAINED MANNER ACCORDING TO THE FOLLOWING PRINCIPLES:

- Exploitation of opportunities on all fixed-income markets;
- Diversification and selection of management styles and investment strategies;
- Diversification of value added;
- Rationalized control of potential losses with a rigorous risk management structure.

<table>
<tr><th>Specialized portfolio</th><th>Short Term Investments</th><th>Real Return Bonds</th><th>Bonds</th><th>Long Term Bonds</th></tr>
<tr><td>Management type</td><td>Active internal</td><td colspan="3">Active internal and external
Index internal</td></tr>
<tr><td>Management approach</td><td>Discretionary</td><td colspan="3">Discretionary</td></tr>
<tr><td>Main analytical approach</td><td>Fundamental
Top-down</td><td colspan="3">Fundamental
Top-down and bottom-up</td></tr>
<tr><td>Investment horizon</td><td>0 to 3 months</td><td colspan="3">0 to 18 months</td></tr>
<tr><td>Main management styles and investment strategies</td><td>Directional
Long-short with interest rate, credit, volatility and liquidity strategies</td><td colspan="3">Directional
Long-short with interest rate, credit, volatility and liquidity strategies
Event-driven</td></tr>
</table>

HIGHLIGHTS

/ The Strategic Investments mandate was created within the Bonds portfolio. The managers of this mandate use a macroeconomic strategy that is closely related to interest rate and currency fluctuations on an investment horizon of about 18 months.

/ The group intensified its in-house partnership with the Private Equity group. In addition to developing business loans, the two groups jointly undertook lending operations for infrastructure projects and distressed-loan funds.

/ The group developed a new method that allows all the portfolios to benefit from the same expertise, while minimizing the number of transactions. Initially, the value added for the various investment strategies used by all the bond managers will be combined. Thereafter, the value added will be broken down according to the various portfolios, with the exception of the Short Term Investments portfolio. Application will take place in 2007.

/ The managers will have higher target returns in 2007. To achieve these objectives, they will develop in-house partnerships and new investment vehicles.

ADVANTAGES OF THE PARTNERSHIP
BETWEEN FIXED INCOME AND PRIVATE EQUITY

The in-house partnership combining the assets and expertise of these two groups is intended to increase the size of and the return on business loans, infrastructure project loans and distressed loans. In addition to combining the credit-risk competencies of the two groups, the partnership makes greater use of the Private Equity teams' know-how for the development of debt products and the experience gained by the Fixed Income teams on the public credit markets.

The partnership shows that synergy between the two groups increases the Caisse's market capability. For example, the Caisse can now offer the infrastructure markets a comprehensive range of financing products, including equity and various types of loans, which sets it apart from other investors.

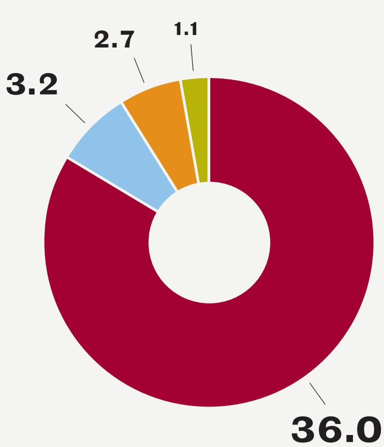
OVERALL RETURN AND SPECIALIZED PORTFOLIO ANALYSIS

The size of the assets was maintained in 2006 although the weight of the bond portfolios in the overall portfolio decreased. Depositors' net assets managed by the Fixed Income group totalled $42.9 billion as at December 31, 2006 (figure 34), whereas the amount was $43.4 billion at the end of the previous period. The group generated a 4.0% return in 2006, contributing $1.7 billion and 11 b.p. (0.11%) of value added in relation to its benchmark index.

The Bonds portfolio saw its assets decrease in favour of the Long Term Bonds portfolio, whose net assets were up $1.3 billion. This portfolio allows for better matching of depositors' assets and long-term financial commitments.

DEPOSITORS' NET ASSETS BY SPECIALIZED PORTFOLIO

FIGURE 34
(as at December 31, 2006 – in billions of dollars)



SPECIALIZED SHORT TERM INVESTMENTS PORTFOLIO

The Short Term Investments portfolio outperformed its index in 2006 by 42 b.p. (0.42%) with a 4.4% return. Over five years, the portfolio's return is 3.1%, versus 2.9% for the benchmark index.

RETURN ON SHORT TERM INVESTMENTS

TABLE 35
(for periods ended December 31, 2006)

	Return %	Index[1] %	**Spread b.p.**	Information ratio
1 year	4.4	4.0	**42**	n.a.
3 years	3.3	3.0	**33**	2.0
5 years	3.1	2.9	**28**	1.5

1 SC 91-Day Canadian T-Bill.

Value added came essentially from the duration of the portfolio, with emphasis on longer-date notes. The managers took positions based on volatility and very-short-term credit spreads, which also contributed to the return.

SPECIALIZED REAL RETURN BONDS PORTFOLIO

The Real Return Bonds portfolio returned -3.0% in 2006, underperforming its benchmark index by 10 b.p. (0.10%).

RETURN ON REAL RETURN BONDS[1]

TABLE 36
(for periods ended December 31, 2006)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	(3.0)	(2.9)	**(10)**	n.a.
3 years	9.6	9.6	**7**	0.1

1 Portfolio created January 1, 2004.
2 SC Real Return Bond.

Index management is used for the portfolio. Replication of the benchmark index was carried out within the limits specified in the investment policy. The portfolio will incorporate an active management strategy in 2007.

SPECIALIZED BONDS PORTFOLIO

The Bonds portfolio had $36.0 billion under management as at December 31, 2006, or $0.2 billion less than it did a year earlier. The Bonds portfolio's 2006 return was 4.2%, or 11 b.p. (0.11%) more than its index. Over five years, the portfolio's return exceeds the index by 44 b.p. (0.44%).

RETURN ON BONDS

TABLE 37
(for periods ended December 31, 2006)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	4.2	4.1	**11**	n.a.
3 years	6.0	5.9	**16**	0.8
5 years[1]	7.0	6.6	**44**	1.3

[1] Excluding private equity investments.
[2] SC Universe Bond.

The Canada and Corporate mandates added value in 2006. The managers of the Corporate mandate generated value, particularly through their partnership with the Private Equity group. Wise moves on the cash and derivatives markets as well as the arbitrage strategy used for the financial sector also contributed to the return. The managers of the Canada mandate adopted strategies based on rates, rate curves, inflation and country spreads. Several of the strategies proved to be profitable.

Non-indexed operations, especially in emerging markets, subtracted value. Finally, the decision to underweight corporate bonds did not produce the desired results.

SPECIALIZED LONG TERM BONDS PORTFOLIO

This portfolio had its first full year of activity in 2006. It returned 3.6%, or 23 b.p. (0.23%) less than the 3.9% recorded by the benchmark index in the same period.

RETURN ON LONG TERM BONDS[1]

TABLE 38
(for the period ended December 31, 2006)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	3.6	**3.9**	(23)	n.a.

[1] Portfolio created April 1, 2005.
[2] SC Long Term Government Bond.

The managers emphasized Canadian government bonds over provincial bonds. This strategy proved to be unproductive and subtracted value.

EQUITY MARKETS

VALUE ADDED UP SHARPLY

THE EQUITY MARKETS GROUP GENERATED AN OVERALL RETURN OF 20.9%, EXCEEDING ITS BENCHMARK INDEX BY 188 B.P. (1.88%)

This return contributed $9.2 billion to depositors' net assets. This substantial increase in value added is due to virtually the entire group and reflects the changes made over the past three years to most of its specialized portfolios. Security selection and increased risk taking proved very profitable. In fact, all of the group's portfolios generated value added, with the exception of the Québec International portfolio. The Canadian Equity and Emerging Markets Equity portfolios performed especially well.

SPECIALIZED PORTFOLIO MANAGEMENT BY THE EQUITY MARKETS GROUP

TABLE 39

INVESTMENT PHILOSOPHY

TO ACHIEVE ITS VALUE-ADDED OBJECTIVES IN RELATION TO THE BENCHMARK INDEXES, THE GROUP USES:

/ An analytical approach based on the intrinsic value of companies and their earnings outlook over the medium and long terms;

/ Optimization of the risk-return ratio, which favours construction of coherent, focused portfolios with the potential for excellent returns, in accordance with the limitations specified in the investment policies.

Market	Canadian	International			
Specialized portfolio	**Canadian Equity**	**U.S. Equity** (hedged and unhedged)	**Foreign Equity** (hedged and unhedged)	**Emerging Markets Equity**	**Québec International**
Management type	Active internal	Active internal and external Index internal	Active internal and external Index internal	Active internal and external	Active internal and external
Management approach	Discretionary	Discretionary and systematic (external)	Discretionary and systematic (external)	Discretionary and systematic (external)	Discretionary and systematic
Main analytical approach	Fundamental Bottom-up	Fundamental Bottom-up	Fundamental Bottom-up	Fundamental Bottom-up and top-down	Fundamental Bottom-up and Top-down
Investment horizon	0 to 3 years				
Main management styles and investment strategies	Core Long Long-short	Core Long Long-short	Core Long Long-short	Directional	Long-short (equity) Directional (bonds)

HIGHLIGHTS

/ The Canadian Equity portfolio stood out with an excellent return of 22.0%, or 473 b.p. (4.73%) more than its index in 2006. The integrated management mandate, which takes in the largest positions, all sectors combined, performed especially well.

/ The New York office began its operations by hiring staff members. Its six managers invest in the U.S. and foreign equity markets.

/ For in-house active management of the U.S. Equity portfolio, long strategies were abandoned in favour of long-short strategies. Similarly, in the Foreign Equity portfolio, long-short positions are becoming the dominant strategy for in-house management.

/ The size of the Emerging Markets Equity portfolio more than tripled as a result of substantial injections of funds by depositors as well as asset allocation decisions. The new strategy of selecting countries from the entire emerging markets universe yielded appreciable results.

/ Absolute return operations generated excellent results, especially for the Canadian and U.S. equity portfolios. The strategy of concentrating risk in a limited number of positions proved profitable, as did the new volatility operations. In 2007, the emphasis will be on development of absolute return operations in the Foreign Equity and Emerging Markets Equity portfolios.

/ In 2006, active risk was concentrated in the Canadian Equity and Emerging Markets Equity portfolios. In 2007, the managers of the U.S. Equity, Foreign Equity and Québec International portfolios will be asked to assume a higher level of active risk.

/ The Equity Markets group finished selecting external managers for all its portfolios. A specific team manages relations with the external managers and monitors their investments.

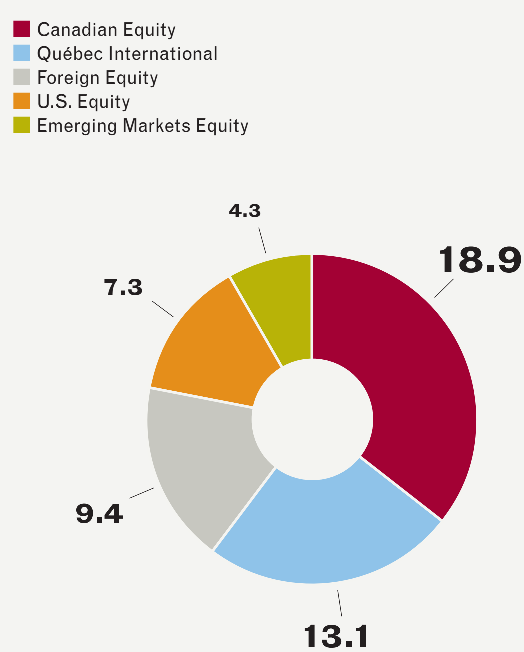
OVERALL RETURN AND SPECIALIZED PORTFOLIO ANALYSIS

The Equity Markets group posted excellent results and resumed adding value in 2006. The group's overall return was 20.9%, or 188 b.p. (1.88%) more than its benchmark index. Depositors' net assets in the group's portfolios totalled $53.0 billion (figure 40) as at December 31, 2006, up $8.2 billion from 2005.

This year, the return came from diversified sources, with almost all portfolios contributing to the results. The substantial increase in value added is the result of a new management approach put in place for the Canadian and international equity portfolios over the past three years. All the portfolios outperformed their benchmark indexes, with the exception of the Québec International portfolio. The Canadian Equity and Emerging Markets Equity portfolios stand out with their high returns. Absolute return operations also contributed to several portfolios.

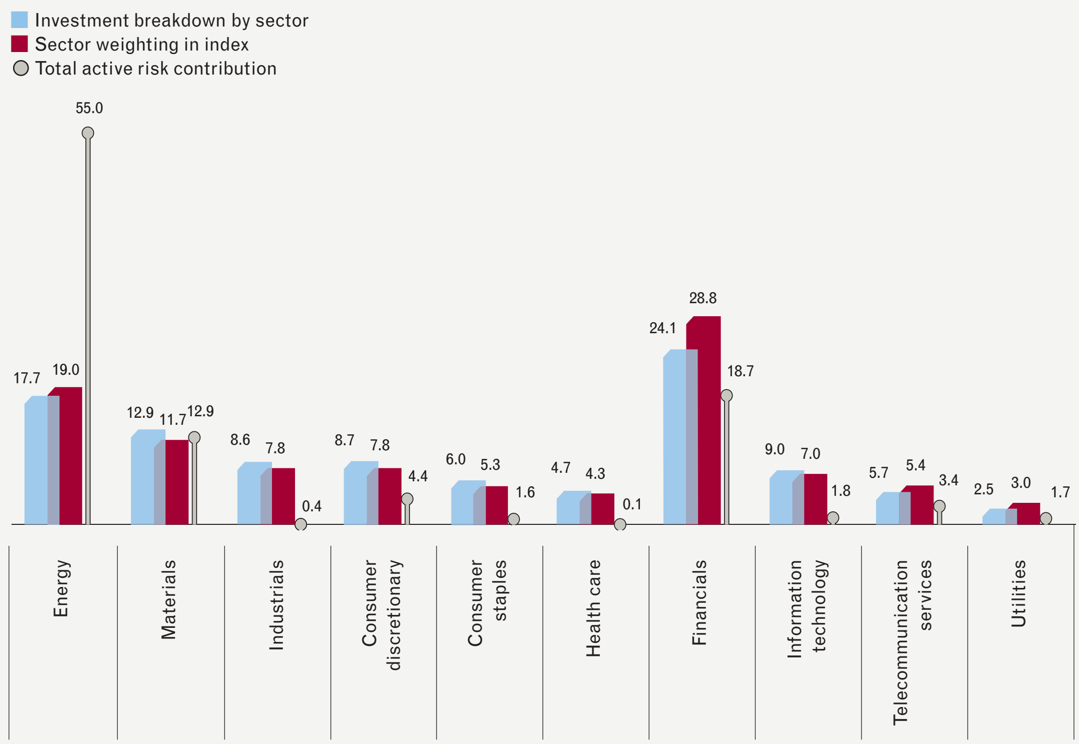
DEPOSITORS' NET ASSETS BY SPECIALIZED PORTFOLIO

FIGURE 40
(as at December 31, 2006 – in billions of dollars)



SECTOR BREAKDOWN OF ACTIVE RISK

FIGURE 41
(in percentage – as at December 31, 2006)



GEOGRAPHIC BREAKDOWN OF ACTIVE RISK

FIGURE 42
(in percentage – as at December 31, 2006)

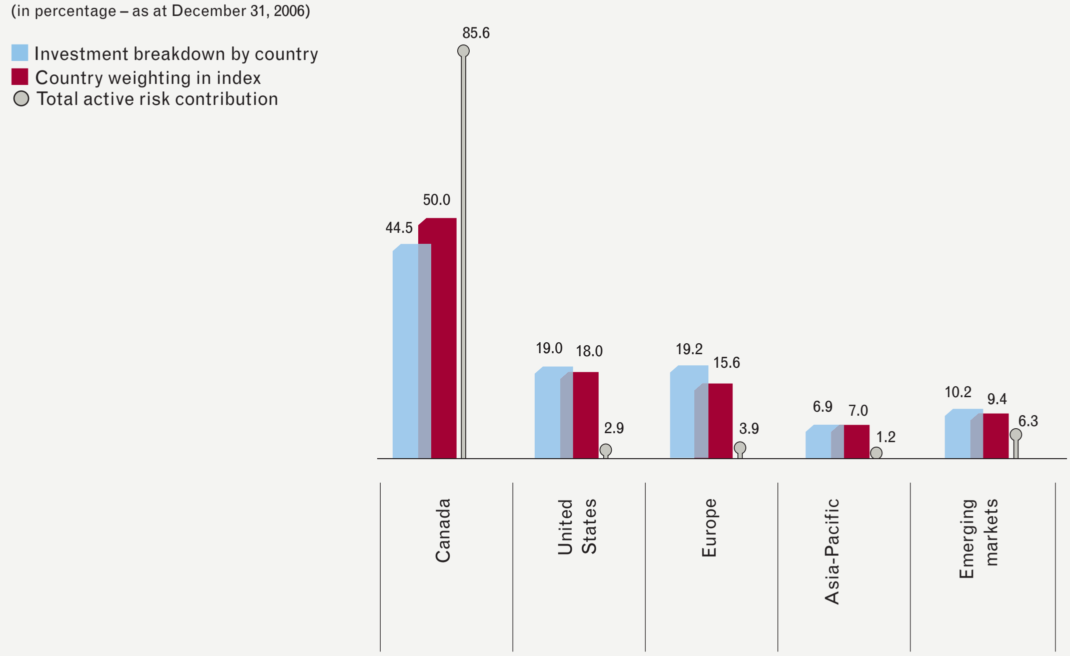


Figure 41 shows the sector breakdown of investments and the sector weighting in the Equity Markets group's index as well as the contribution to active risk by each sector. The main active risks assumed are related to the energy and financials sectors. In both cases, the share of risk is related to security selection rather than sector selection.

The active risk assumed by the managers can also be subdivided geographically. Figure 42 shows the investment breakdown and the contribution to active risk assumed by the managers of the group's specialized portfolios. The contribution to active risk by geographic market comes essentially from security selection in Canada.

SPECIALIZED CANADIAN EQUITY PORTFOLIO

The Canadian Equity portfolio's return for 2006 was 22.0%, or 473 b.p. (4.73%) more than the return on its index. Over five years, the portfolio has outperformed its index by 71 b.p. (0.71%).

RETURN ON CANADIAN EQUITY

TABLE 43
(for periods ended December 31, 2006)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	22.0	17.3	**473**	n.a.
3 years	19.4	18.6	**81**	0.5
5 years[1]	13.8	13.1	**71**	0.5

1 Excluding private equity investments.
2 S&P/TSX capped since January 1, 2003, S&P/TSX from May 1 to December 31, 2002, TSE 300 before.

Security selection was excellent for all management mandates, and all sectors of the index contributed to the return. The managers took advantage of the many takeovers in the materials sector. Investments in the technology sector also enhanced the return. In the energy sector, positioning the portfolio for an expected slowdown proved wise. The decision to underweight income trusts also proved to be profitable, and the portfolio was barely affected by the drop in the index after the announced withdrawal of the tax advantages enjoyed by these trusts. Lastly, absolute return operations also boosted the portfolio's return.

SPECIALIZED U.S. EQUITY PORTFOLIOS

The hedged U.S. Equity portfolio returned 14.9% in 2006, or 29 b.p. (0.29%) more than the 14.6% return on the index. Over five years, the return on the hedged portfolio underperformed the index by 70 b.p. (0.70%).

RETURN ON U.S. EQUITY (HEDGED)

TABLE 44
(for periods ended December 31, 2006)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	14.9	14.6	**29**	n.a.
3 years	10.2	10.1	**17**	0.3
5 years[1]	5.6	6.3	**(70)**	(0.8)

1 Excluding private equity investments.
2 S&P 500 hedged.

The unhedged U.S. Equity portfolio returned 15.6%, or 28 b.p. (0.28%) more than its benchmark index. The return on the unhedged portfolio exceeds that of the hedged portfolio because of the Canadian dollar's fluctuations against the U.S. dollar throughout the year.

The value added to the U.S. Equity portfolio comes from diversified sources. Internally, long-short positions added value to the portfolio, especially in the energy, industrials and information technology sectors. Absolute return operations, especially volatility transactions, also created value added. External management subtracted value from the portfolio, however, as a result of security selection.

SPECIALIZED FOREIGN EQUITY PORTFOLIOS

The hedged Foreign Equity portfolio returned 18.7% in 2006, outperforming its benchmark index by 53 b.p. (0.53%).

RETURN ON FOREIGN EQUITY (HEDGED)

TABLE 45
(for periods ended December 31, 2006)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	18.7	18.2	**53**	n.a.
3 years	19.3	19.7	**(40)**	(0.6)
5 years[1]	7.6	8.7	**(106)**	(1.3)

1 Excluding private equity investments.
2 MSCI EAFE hedged. The MSCI EAFE provisional index was used from October 2001 to May 2002.

The unhedged Foreign Equity portfolio returned 26.5%, or 66 b.p. (0.66%) more than its benchmark index. The difference in the return on this portfolio and the hedged portfolio is due to the depreciation of the Canadian dollar against the euro and the pound sterling.

The internal managers did well on the Continental Europe and Asia-Pacific markets, but had difficulty on the U.K. market. Generally speaking, internal management created little value added. External management generated excellent returns, however, mainly in the industrials and financials sectors.

SPECIALIZED EMERGING MARKETS EQUITY PORTFOLIO

The Emerging Markets Equity portfolio returned 32.7% in 2006, outperforming its benchmark index by 108 b.p. (1.08%). Over five years, the portfolio has underperformed the benchmark index by 12 b.p. (0.12%).

RETURN ON EMERGING MARKETS EQUITY

TABLE 46
(for periods ended December 31, 2006)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	32.7	31.7	**108**	n.a.
3 years	25.6	26.0	**(41)**	(0.3)
5 years[1]	18.7	18.8	**(12)**	(0.1)

1 Excluding private equity investments.
2 MSCI EM unhedged.

Internal management generated an excellent return, notably because of the new strategy of selecting countries across all emerging markets. The portfolio benefited from global growth and was well positioned to take advantage of promising markets, especially those related to commodities. External management subtracted value from the portfolio, however, as a result of country selection.

SPECIALIZED QUÉBEC INTERNATIONAL PORTFOLIO

The Québec International portfolio returned 16.7% in 2006, underperforming its benchmark index by 11 b.p. (0.11%). Over five years, the portfolio has the same return as the index.

RETURN ON QUÉBEC INTERNATIONAL

TABLE 47
(for periods ended December 31, 2006)

	Return %	Index[1] %	**Spread b.p.**	Information ratio
1 year	16.7	16.9	**(11)**	n.a.
3 years	17.5	17.4	**10**	0.5
5 years	11.4	11.4	**1**	0.0

1 The index consists of 20% Canadian treasury bills and 80% SC Provincial Québec Subindex plus a basket of equity futures contracts.

The internal management team generated substantial value added with its equity strategies but was less successful with its bond market strategies. For their part, the external managers subtracted value.

QUÉBEC INTERNATIONAL

The specialized Québec International portfolio has a hybrid structure. It consists of bonds denominated in Canadian dollars, which implicitly protects it against currency risk, as well as a basket of futures contracts based on world stock markets. The futures contracts produce a stock-index return in exchange for a return on short-term investments. The portfolio's objective is to increase the exposure of the Caisse's overall portfolio to foreign equity markets so as to increase diversification and obtain superior returns.

HEDGE FUNDS

REORGANIZATION OF THE IAO AND ABSOLUTE RETURN GROUPS LEADS TO THE CREATION OF THE HEDGE FUNDS GROUP

This group manages two specialized portfolios, Commodities and Hedge Funds, with net assets totalling $6.5 billion. The Hedge Funds portfolio is managed by two teams: the one is responsible for internal management, while the other manages external funds of hedge funds.

The Hedge Funds group generated a 5.7% return in 2006. The specialized Hedge Funds portfolio returned 6.7%, or 122 b.p. (1.22%) less than its benchmark index, while the Commodities portfolio returned 3.3%, or 427 b.p. (4.27%) more than its index.

SPECIALIZED PORTFOLIO MANAGEMENT BY THE HEDGE FUNDS GROUP

TABLE 48

INVESTMENT PHILOSOPHY

THE INVESTMENT PHILOSOPHY OF THE HEDGE FUNDS GROUP IS TO:

/ Identify market inefficiencies with continual analysis of fundamental factors likely to affect the returns on the different financial markets;
/ Use quantitative methods to identify investment opportunities;
/ Perform rigorous risk management in the design of each strategy and transaction.

Specialized portfolio	Hedge Funds[1]			Commodities
Management mandate	Quantitative Strategies	Global Macro Discretionary[2]	Hedge Funds of Funds	Management of value added Management of underlying currencies and real return bonds
Management type	Active internal and partnership	Active internal	Active external	Active internal and external Index internal and external
Management approach	Systematic	Discretionary and systematic	Discretionary	Discretionary
Main analytical approach	Fundamental	Top-down Relative evaluation of financial markets and risk premiums	Fundamental Top-down (selection of strategies) and bottom-up (selection of managers)	Fundamental and technical
Investment horizon	0 to 12 months	0 to 3 years	0 to 3 years	0 to 18 months
Main management styles and investment strategies	Long-short Market-neutral	Global macro Long-short	Arbitrage Event-driven Global macro	Long-short Directional

[1] The operations of the Fixed Income Relative Value and Currencies mandates for 2006 are recorded in the Hedge Funds portfolio. In 2007, these mandates will be included in the Asset Allocation portfolio of the Investment Division.
[2] As at December 31, 2006, the operations of the Global Macro Discretionary mandate are recorded in the Asset Allocation portfolio. In 2007, this mandate will be recorded in the Hedge Funds portfolio of the Hedge Funds group.

HIGHLIGHTS

/ With the reorganization of September 2006, the management mandates of the former Absolute Return and Investment Analysis and Optimization (IAO) groups were assigned to the new Investment Division and the new Hedge Funds group. The changes are reflected in tables 32 and 48. (This section covers the returns on the Hedge Funds and Commodities portfolios, as they existed before the reorganization, however.)

/ Active management of the Commodities portfolio produced outstanding returns, with 427 b.p. (4.27%) of value added.

/ The Quantitative Strategies mandate started its operations in 2006 on two of the 10 target geographic markets and will continue to expand in 2007.

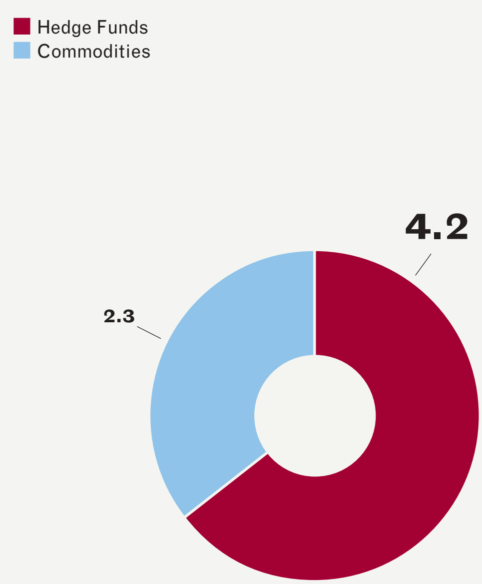
/ In the Funds of Hedge Funds mandate, the strategy used over the next two years will aim to reduce the number of external managers and to maintain a portfolio construction approach that ensures diversification.

OVERALL RETURN AND SPECIALIZED PORTFOLIO ANALYSIS

Depositors' net assets in the Hedge Funds and Commodities portfolios totalled $6.5 billion as at December 31, 2006 (figure 49), versus $5.5 billion at the end of 2005. The return earned by the Hedge Funds group was 5.7% in 2006, for a contribution of $0.3 billion and 68 b.p. (0.68%) of value added in relation to its benchmark index.

DEPOSITORS' NET ASSETS BY SPECIALIZED PORTFOLIO

FIGURE 49
(as at December 31, 2006 – in billions of dollars)



SPECIALIZED HEDGE FUNDS PORTFOLIO

The Hedge Funds portfolio returned 6.7% in 2006, or 122 b.p. (1.22%) less than its index. It exceeded its return threshold – the return on the Scotia Capital 91-Day T-Bill Index, which posted 4.0% – by 275 b.p. (2.75%).

RETURN ON HEDGE FUNDS [1]

TABLE 50
(for periods ended December 31, 2006)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	6.7	7.9	**(122)**	n.a.
3 years	6.8	4.0	**270**	0.7

[1] Portfolio created April 1, 2003.
[2] LSC 91-Day Treasury Bills since January 1, 2006, hedged S&P Hedge Fund from January 1, 2005, to June 30, 2006, SC 91-Day Treasury Bills previously.

During the year, the returns generated by the management mandates reflected the pronounced volatility of the markets. This was especially true for the Fixed Income Relative Value mandate, which had a positive return in the first half of the year, but subtracted value in the second when the global markets retreated. This mandate therefore ended the year with a slightly negative return. The strategy used by this mandate was predicated on increasing volatility and rising long-term rates, particularly in Japan and the United Kingdom.

The Quantitative Strategies mandate began its operations in March 2006. The forecasting power of the model was affected by the pronounced increase in and the volatility of certain commodity prices, and the target return was not reached. The managers have put in place a new platform to model and monitor risk factors, which will ensure the models are better adapted to such unusual events.

As for external management, the return earned by the Funds of Hedge Funds mandate comes mainly from managers who specialize in the event-driven style on North American, European and emerging markets. The managers also benefited from a favourable environment on the credit market. The return from this mandate was reduced by an investment in Amaranth, the fund that incurred substantial losses as a result of its exposure to the natural gas market.

SPECIALIZED COMMODITIES PORTFOLIO

The specialized Commodities portfolio returned 3.3% in 2006, or 427 b.p. (4.27%) more than the benchmark index, which returned -0.9%. This portfolio had $2.3 billion of assets under management as at December 31, 2006, versus $1.6 billion in 2005.

RETURN ON COMMODITIES [1]

TABLE 51
(for the period ended December 31, 2006)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	3.3	(0.9)	**427**	n.a.

[1] Portfolio created August 1, 2004.
[2] Index based 20% on the Merrill Lynch 3-month U.S. Treasury Bill Index and 80% on the Barclays U.S. Government Inflation-Linked Bond 1-10 Year Total Return Index, plus the unhedged Dow Jones-AIG Commodity Excess Return Index.

Active management of the portfolio had an outstanding year. The arbitrage strategy applied to futures contract rollover gave strong results. This strategy, combined with active management, offset the contraction of metals prices in the second half of the year. Effective management of futures contracts in the energy sector, especially for crude oil, also contributed significantly to the results. Active management is especially important as the level of commodity prices is higher than previously. This is due to the operations of large pension funds, which have invested almost US$160 billion in the indexes of this sector over the past two years.

Index management posted a negative return in 2006 because of the cost of replicating the index.

DECISIONS THAT COUNT

RECORD TRANSACTION VOLUME

LUC HOULE
Senior Vice-President
Manufacturing Sector

SYLVAIN GAREAU
Senior Vice-President
Funds and Investor Relations

DOMINIQUE BOIES
Senior Vice-President
Debt Sector

NORMAND PROVOST
Executive Vice-President
Private Equity

PAUL-HENRI COUTURE
Senior Vice-President
New Products and Natural Resources

GHISLAIN GAUTHIER
Senior Vice-President
Infrastructure and Energy

GILLES GODBOUT
Senior Vice-President
Financial Services

PRIVATE EQUITY

QUESTIONS AND ANSWERS

WITH NORMAND PROVOST, EXECUTIVE VICE-PRESIDENT, PRIVATE EQUITY

Q

Considering that the leveraged buyout sector has been regarded as overheated for several years, does the group's increasing exposure to it present a risk?

A

With all our transactions, we have taken the necessary precautions to cope with an overheating of the leveraged buyout sector. In our indirect investments, we have concentrated on first-quartile funds run by quality investors who have historically withstood economic slowdowns. In our direct investments, we have focused on senior debt to balance the portfolio risk. We have also placed considerable emphasis on infrastructures, a non-cyclical sector, as well as on restructuring and distressed-loan funds. These investments represent more than 80% of the investments authorized in 2006 and should enable us to cope with any overheating.

Q

The acquisition of BAA, the world's leading airport operator, made headlines in the business press in 2006. What are the immediate benefits of this transaction?

A

This acquisition, which generated a great deal of media coverage, came after intense competition with other large industry players. As a result of the publicity surrounding it, the Caisse is increasingly being asked to take part in major private equity transactions, not only by financial partners, but also by strategic operational partners, such as Ferrovial and HOCHTIEF. The Caisse's size and experience have enabled us to maximize our partnership strategy by joining forces with first-rate investors and gaining access to major deals for which the competition is intense. Moreover, the investment in BAA diversifies the Caisse's assets in the promising infrastructures market, which offers an attractive risk-return ratio and a long-term investment horizon compatible with that of our depositors.

Q

Is this acquisition indicative of the size of future transactions?

A

The £1.2-billion investment in BAA is exceptional, but is still in line with our strategy of seeking larger transactions. The group also carried out two other major transactions during the year: a US$500-million investment in Freescale in partnership with Blackstone and a $770-milllion agreement with National Bank to provide financing for the energy sector. In future, we will seek large transactions, from $200 million to $500 million, so that we can concentrate our expertise on fewer projects.

Q

What are the results of your venture capital investment strategy in Québec?

A

Our venture capital strategy was put in place in 2004 and essentially focuses on the information technology and biotechnology sectors. In two years, the Caisse has deployed almost $400 million to start up about a dozen private funds providing venture capital and start-up capital. In doing so, we have succeeded in attracting several foreign funds that have opened offices in Québec with a team of professionals. This first stage was completed more quickly than expected, and it is now up to these new funds to make investments. The Caisse will play a monitoring role and provide assistance with investment decisions.

PRIVATE EQUITY

EXCELLENT RETURN AND RECORD TRANSACTION VOLUME

THE PRIVATE EQUITY GROUP GENERATED EXCELLENT RESULTS WITH AN OVERALL RETURN OF 22.0% CONTRIBUTING $2.7 BILLION TO DEPOSITORS' NET ASSETS

The group had record transaction volume of $18.6 billion, an impressive increase that is due to the dynamic market for business loans, leveraged buyouts and infrastructures. In a context of abundant capital and intense competition, the group had to be highly disciplined in selecting its investments, refusing a number of deals because the price was too high. The managers were very quick to take advantage of attractive opportunities.

SPECIALIZED PORTFOLIO MANAGEMENT BY THE PRIVATE EQUITY GROUP

TABLE 52

INVESTMENT PHILOSOPHY

PRIVATE EQUITY INVESTMENT REQUIRES THOROUGH COVERAGE OF TARGET MARKETS AND COMPANIES. THE GROUP'S INVESTMENT PHILOSOPHY THEREFORE FEATURES:

/ An approach that is based mainly on proximity to markets (partnerships for distant markets) and is opportunistic, depending on market conditions;
/ Selection of the best corporate management teams and investment funds to maximize long-term returns on capital;
/ Risk management based on analysis and rigorous monitoring of investments, including exit strategies;
/ Investment diversification by industrial sector, geographic area, financial product and business maturity.

Specialized portfolio		Investments and Infrastructures				Private Equity			
Investment categories		Development capital	Debt	Infrastructures	Accumulation	Venture capital	Leveraged buyouts	Mezzanine debt	Restructuring
Management type		Active							
Management by geographic region	Québec	Direct or partnership	Direct	Direct	Direct	Indirect or partnership	Indirect or partnership	Direct	Indirect
	Canada – ex Québec	Direct or partnership	Direct or syndication	Direct or partnership	Direct	Indirect or partnership	Indirect or partnership	Direct or partnership	Indirect
	United States / Europe	–	Partnership or syndication (United States only)	Direct or partnership	Direct	Indirect or partnership	Indirect or partnership	Direct or partnership	Indirect
	Emerging markets	–	–	Indirect and market watch	–	–	Indirect and market watch	–	–
Main investment vehicles		Equity securities	Senior debt	Equity securities	Publicly traded equity securities	Funds	Funds	Funds and mezzanine debt	Funds
Management approach		Discretionary							
Main analytical approach		Fundamental Bottom-up							
Investment horizon		3 to 7 years							
Main management styles and investment strategies		Long Equity interest							

HIGHLIGHTS

STRATEGIC PARTNERSHIPS

/ The consortium formed by the Spanish group Ferrovial, the Caisse and the Government of Singapore Investment Corporation acquired BAA, the world's leading operator of airports. The Caisse's stake is £1.2 billion, or 29%. This is its largest investment in the infrastructure sector. BAA operates seven airports in the United Kingdom, including London's Heathrow, Gatwick and Stansted.

/ The Private Equity group partnered with Trio Capital to create a US$200-million investment fund. The fund provides external expertise in the telecom and new media sector, while diversifying the investment portfolio.

/ The group also furthered its existing partnerships. Several co-investments were made with AXA Private Equity, including one in France's Groupe Keolis. The Park Square mezzanine fund, created by the Caisse and its partners (Teachers' Private Capital and Partners Group), made substantial investments in subordinated debt on European markets.

/ A $770-million agreement was concluded with National Bank to provide financing to energy companies.

/ In house, the Private Equity group continued to work with the Fixed Income group. In addition to developing business loans, the two groups jointly undertook lending operations for infrastructure projects and distressed-loan funds.

NEW INVESTMENTS AUTHORIZED

/ The group's transaction volume almost tripled in 2006, going from $7.0 billion to $18.6 billion, mainly because of leveraged buyouts. The group selected its investments in anticipation of overheating in this sector. Thus $4.1 billion was invested in first-quartile funds, $4.7 billion in senior debt, $3.8 billion in infrastructures and $2.3 billion in restructuring and distressed-loan funds. Finally, direct transactions totalled $11.7 billion, while investments in funds amounted to $6.9 billion (table 53).

/ In partnership with a consortium led by Blackstone Group, the Caisse acquired Freescale, the world's 10th-largest microprocessor manufacturer. The transaction took the U.S. company private. The Caisse has a US$500-million stake in it.

INVESTMENTS AUTHORIZED IN 2006

TABLE 53

Investment category	Number	$B
Debt	36	4.7
Infrastructures	9	3.8
Venture capital	36	1.1
Leveraged buyouts and mezzanine debt	38	4.3
Development capital and accumulation	29	2.3
Restructuring	10	2.4
Total	**158**	**18.6**

Investment strategies		
First-quartile funds	51	4.1
Senior debt	36	4.7
Infrastructures	9	3.8
Restructuring and distressed-loan funds	9	2.3
Other	53	3.7
Total	**158**	**18.6**

Management type		
Direct transactions	94	11.7
Investment funds	64	6.9
Total	**158**	**18.6**

/ Several other transactions were authorized during the year in such diverse sectors as food (Orangina) and retail (The Sports Authority). Table 54 gives a summary of investments authorized in 2006.

/ Despite the large increase in international investments, the fair value of the private equity holdings in Québec reached a record $5.4 billion as at December 31, 2006, surpassing the previous record set in 2001 before the technology bubble burst. The Private Equity group's strategy for Québec is explained in detail in the section "Contribution to Québec's economic development" of the Annual Report.

/ In 2007, the Private Equity group will continue its risk-diversification strategy with investments in first-quartile funds, restructuring funds and distressed-loan funds, as well as non-cyclical sectors. The challenge will be to continue to find investment opportunities in a highly competitive environment.

SUMMARY OF AUTHORIZED INVESTMENTS IN 2006

TABLE 54

Targeted firm	Geographic region	Sector	Partners	Project
Dismed	Québec	Distribution of medical supplies	Solidarity Fund QFL Champlain Financial Corporation	Investment made through Accès Relève, a business solution that facilitates ownership transfers
Groupe Laperrière & Verreault	Québec	Liquid/solid separation technologies used in industrial, municipal and environmental processes	Banking syndicate led by National Bank Financial and JPMorgan Chase	Increase in credit facilities from $180 million to $320 million to finance expansion projects based on acquisitions
CTI Life Sciences Fund	Québec	Fund that invests in biotechnology, biopharmaceuticals and development of medical devices	Solidarity Fund QFL FIER Partners Régime de rentes du Mouvement Desjardins	$100-million venture capital fund
Rho Canada Ventures	Québec	Fund that invests in information technology and communications	Rho Capital Partners Solidarity Fund QFL RBC Technology Ventures	$100-million venture capital fund
ACH Limited Partnership	Canada	Electricity generation	Abitibi-Consolidated	Formation of a joint venture, with the Caisse owning 25%, and a loan of $250 million
MacDonald, Dettwiler and Associates (MDA)	Canada	Technology, software and service	None	$150-million loan for refinancing of credit facilities
The Sports Authority	United States	Sporting goods retailer	TCW/Crescent Mezzanine Leonard Green & Partners	US$69-million joint investment (leveraged buyout)
Orangina	Europe	Manufacture, marketing and distribution of carbonated and non-carbonated beverages	Lion Capital The Blackstone Group	€50-million joint investment (leveraged buyout)
Groupe Keolis	Europe	Private public-transport operator	AXA Private Equity	Acquisition of a 55% stake in partnership

OVERALL RETURN AND SPECIALIZED PORTFOLIO ANALYSIS

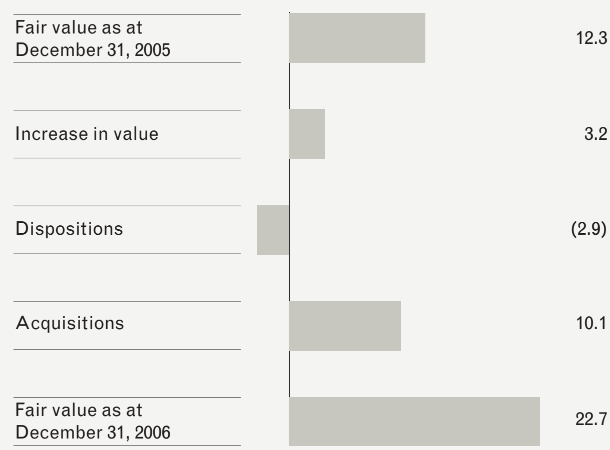
For the third straight year, favourable market conditions in the leveraged buyout sector enabled the Private Equity group to record excellent results. The group's overall return was 22.0% in 2006, or 1,146 b.p. (11.46%) more than its return threshold and 583 b.p. (5.83%) more than its benchmark index. In line with the partnership strategy, joint investments played a preponderant role.

As shown by table 55, depositors' net assets in the Investments and Infrastructures portfolio and the Private Equity portfolio totalled $16.8 billion, as at December 31, 2006, for a year-over-year increase of $5.9 billion. Depositors' total assets amounted to $23.4 billion and assets under management or administration, to $0.8 billion. Lastly, the group's total assets under management amounted to $24.2 billion at year-end.

As shown by figure 56, the fair value of the group's investments was $22.7 billion as at December 31, 2006, up $10.4 billion from 2005. This increase is due to the combined effect of $10.1 billion of acquisitions, including $3.0 billion of infrastructures, $2.9 billion of dispositions, with more than 40% involving leveraged buyouts, and a $3.2-billion increase in the value of investments.

CHANGES IN THE VALUE OF THE PRIVATE EQUITY GROUP'S INVESTMENTS

FIGURE 56
(in billions of dollars)



N. B.: Non-consolidated, before leverage and financial instruments.

TOTAL ASSETS UNDER MANAGEMENT BY THE PRIVATE EQUITY GROUP

TABLE 55
(fair value as at December 31, 2006 – in billions of dollars)

	Depositors' net assets	Depositors' total assets	Assets under management or under administration	Total assets under management	
Investments and Infrastructures portfolio	8.6	14.0	0.8	14.8	61.2%
Private Equity portfolio	8.1	9.4	–	9.4	38.8%
Total	**16.8**	**23.4**	**0.8**	**24.2**	**100.0%**

DECISIONS
THAT COUNT

As a global financial centre and an air transport hub, London is vital to trade globalization.

The investment in the airport operator BAA is a breakthrough in a promising sector offering long-term recurring returns. BAA operates seven airports in the United Kingdom, including London's Heathrow, Gatwick and Stansted. The acquisition, made in partnership with Ferrovial and the Government of Singapore Investment Corporation, is the Caisse's largest holding in the infrastructure sector.

SPECIALIZED INVESTMENTS AND INFRASTRUCTURES PORTFOLIO

The Investments and Infrastructures portfolio returned 13.5% in 2006, or 447 b.p. (4.47%) more than its 9.0% return threshold. This return was 524 b.p. (5.24%) less than its benchmark index, which advanced 18.7%. The fair value of the holdings in the Investments and Infrastructures portfolio was divided into 215 companies and funds as at December 31, 2006.

RETURN ON INVESTMENTS AND INFRASTRUCTURES[1]

TABLE 57
(for periods ended December 31, 2006)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	13.5	18.7	**(524)**	n.a.
3 years	14.3	16.5	**(222)**	n.a.

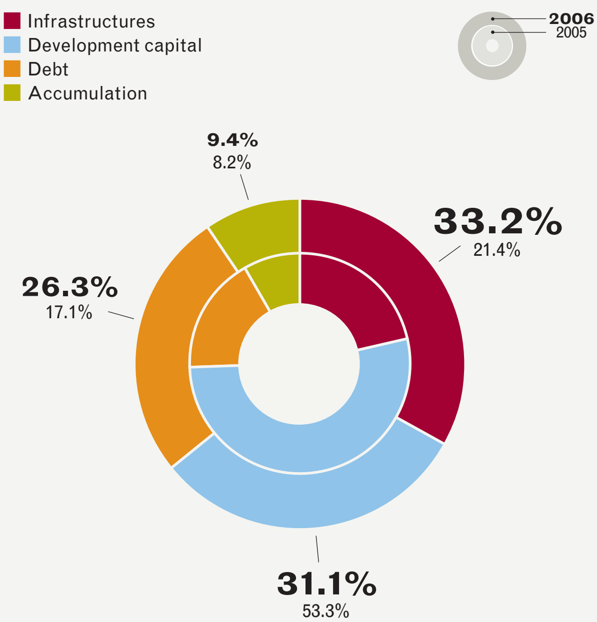
1 Portfolio created July 1, 2003.
2 The index has been based 50% on the S&P/TSX capped, 25% on the S&P 500 hedged and 25% on the MSCI EAFE hedged since October 1. S&P/TSX adjusted previously.

Development capital was the main source of return in 2006, primarily as a result of investments in the financials and materials sectors. The return on infrastructure investments was affected adversely by the large number of transactions, with disbursements totalling $3.0 billion. New investments are not especially profitable in the early years, since the capital invested in companies has to be put to work.

The acquisitions made in 2006, notably BAA, have considerably changed the composition of the portfolio. As shown by figures 58 and 59, infrastructure investments represent a preponderant portion with 33.2% of assets at year-end, followed closely by development capital. At the same time, European investments represent 31.0% of the portfolio as at December 31, 2006, whereas Québec holdings account for 25.0%. Figure 60 gives the portfolio's sector breakdown, with industrials predominating, followed by financials and energy.

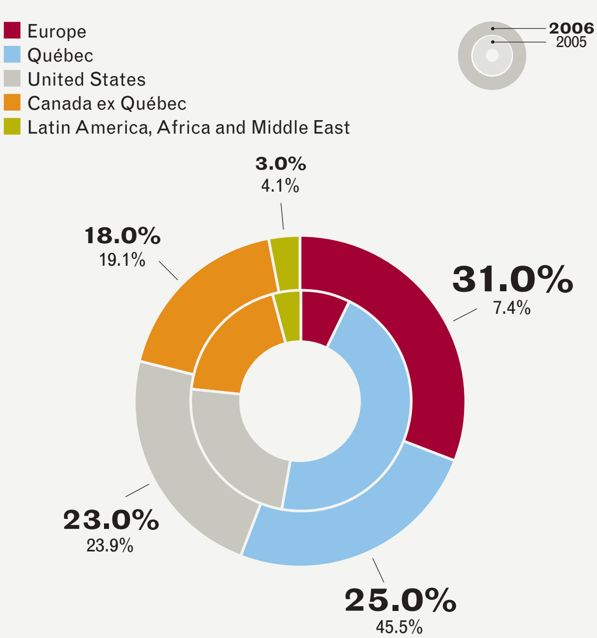
BREAKDOWN OF THE SPECIALIZED INVESTMENTS AND INFRASTRUCTURES PORTFOLIO BY INVESTMENT CATEGORY

FIGURE 58
(percentage of fair value – as at December 31, 2005 and 2006)



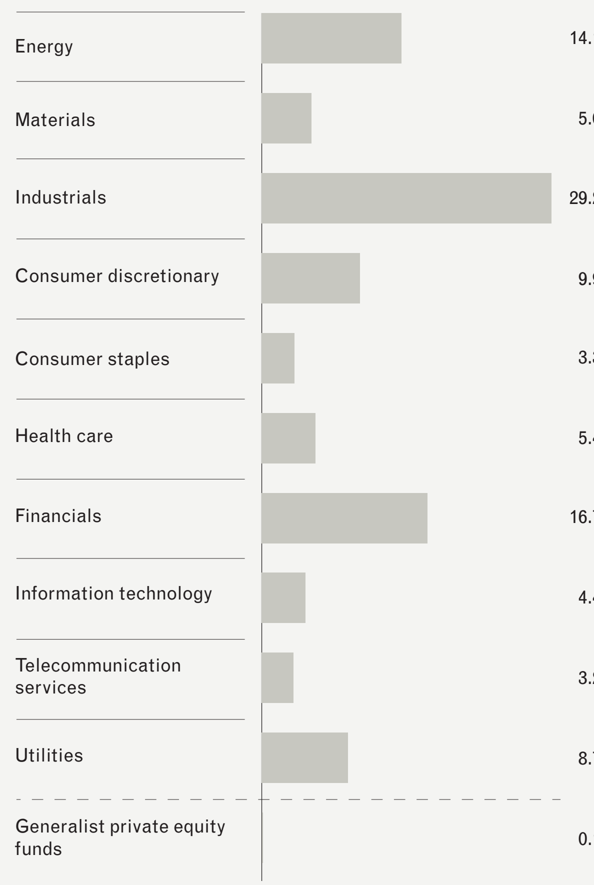
GEOGRAPHIC BREAKDOWN OF THE SPECIALIZED INVESTMENTS AND INFRASTRUCTURES PORTFOLIO

FIGURE 59
(percentage of fair value – as at December 31, 2005 and 2006)



SECTOR BREAKDOWN OF THE SPECIALIZED INVESTMENTS AND INFRASTRUCTURES PORTFOLIO

FIGURE 60
(percentage of fair value as at December 31, 2006)



N.B.: Investments held by generalist private equity funds have been broken down by sector.

SPECIALIZED PRIVATE EQUITY PORTFOLIO

The Private Equity portfolio posted a remarkable 30.4% return in 2006, essentially as a result of its investments in leveraged buyouts. The portfolio exceeded its 12.0% return threshold by 1,840 b.p. (18.40%) and also generated 1,685 b.p. of value added (16.85%) in relation to its benchmark index.

RETURN ON PRIVATE EQUITY[1]

TABLE 61
(for periods ended December 31, 2006)

	Return %	Index[2] %	**Spread b.p.**	Information ratio
1 year	30.4	13.6	**1,685**	n.a.
3 years	27.5	11.4	**1,607**	n.a.

1 Portfolio created July 1, 2003.
2 The index has been based 60% on the S&P 500 hedged and 40% on the MSCI EAFE hedged since October 1. S&P 600 adjusted previously.

The effervescent leveraged buyout market made it possible to generate an excellent return and to take considerable profits. In the current conditions, leveraged buyout funds can enhance the value of their investments and resell them more quickly than in the past. This highly dynamic market makes it difficult to increase the fair value of the portfolio, however. Acquisitions were offset by dispositions. The health care, industrials and consumer discretionary sectors produced the best gains.

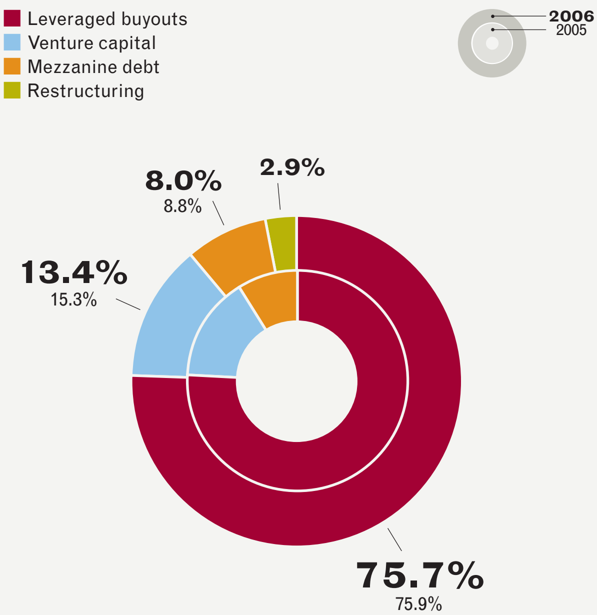
The fair value of the investments held by the Private Equity portfolio was divided among 377 companies and funds as at December 31, 2006. As shown by figure 62, leveraged buyouts accounted for three-quarters of the holdings in the portfolio.

The fair value of the investments in Canada totals more than $2.4 billion, or 26.3% of the portfolio, including $2.0 billion invested in Québec companies. Foreign investments represent 73.7% of the portfolio (figure 63).

As shown by figure 64, the portfolio companies are involved in many sectors of activity, but mainly the consumer discretionary sector. Venture capital investments are concentrated mainly in health care (life sciences) and information technology, however.

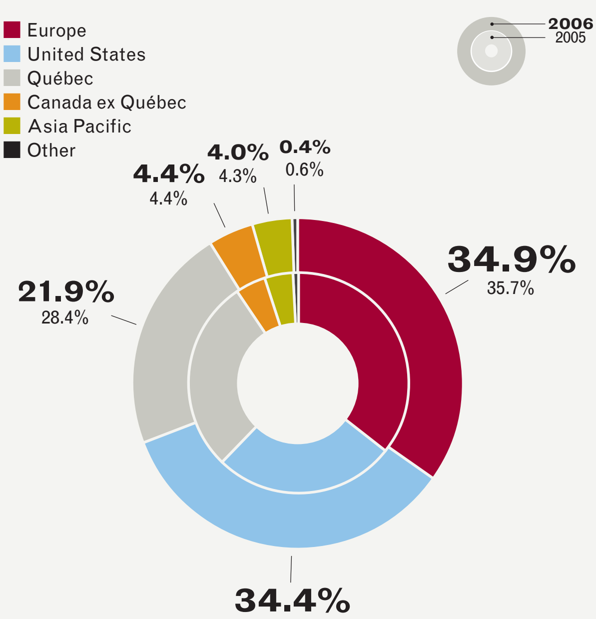
BREAKDOWN OF THE SPECIALIZED PRIVATE EQUITY PORTFOLIO BY INVESTMENT CATEGORY

FIGURE 62
(percentage of fair value – as at December 31, 2005 and 2006)



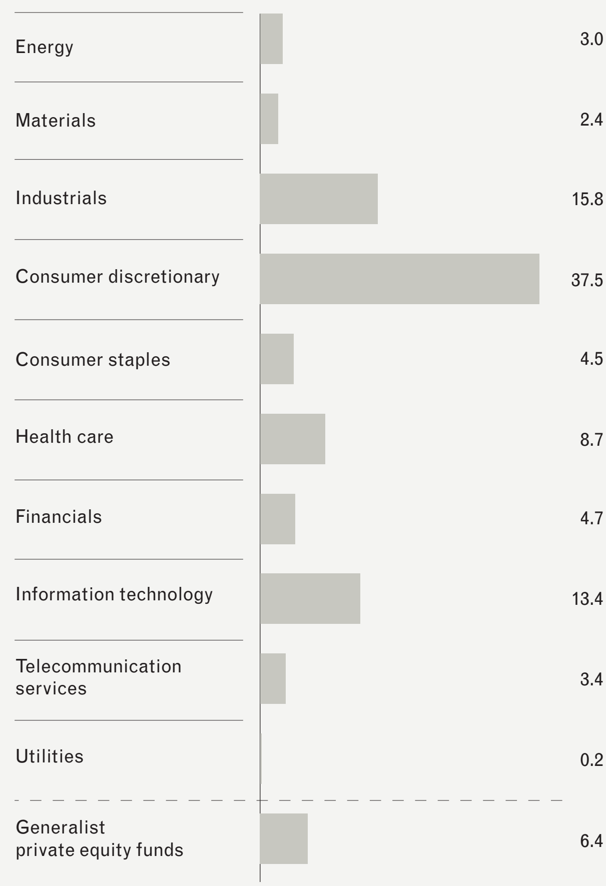
GEOGRAPHIC BREAKDOWN OF THE SPECIALIZED PRIVATE EQUITY PORTFOLIO

FIGURE 63
(percentage of fair value – as at December 31, 2005 and 2006)



SECTOR BREAKDOWN OF THE SPECIALIZED PRIVATE EQUITY PORTFOLIO

FIGURE 64
(percentage of fair value as at December 31, 2006)



N.B.: Investments held by generalist private equity funds have been broken down by sector.

DECISIONS THAT COUNT
PROMISING NEW MARKETS

RENÉ TREMBLAY
President and
Chief Executive Officer
Ivanhoé Cambridge

FERNAND PERREAULT
Executive
Vice-President
Real Estate

PAUL D. CAMPBELL
President and
Chief Executive Officer
SITQ

RICHARD DANSEREAU
President and
Chief Operating Officer
Cadim

REAL ESTATE

QUESTIONS AND ANSWERS

WITH FERNAND PERREAULT, EXECUTIVE VICE-PRESIDENT, REAL ESTATE

Q

The Real Estate portfolio managers have been interested in emerging markets for several years. What are the reasons for their interest?

A

Investments in emerging markets present a high risk-return ratio. In addition to attractive potential returns, such investments offer sound geographic diversification. They are also less affected by fluctuations in interest rates and inflation than developed markets are.

Investments in emerging markets present considerable risk, especially from legal and political standpoints. To mitigate these risks, the group joins forces with partners that have gained extensive experience on the target market. In this way, we share our managers' expertise and the risks. We are also very rigorous in conducting due diligence of investment opportunities as well as in selecting partners.

Q

Do you use the same strategy for all emerging markets?

A

We use two strategies simultaneously for emerging markets. In certain regions, the managers use an opportunistic strategy to take advantage of favourable real estate cycles. In other regions, the Caisse wants to establish a long-term presence in large markets where growth will be sustained in the decades to come, especially China. The Real Estate group is busy developing its networks of contacts in these areas. Our local presence is already giving us a deeper understanding of the Chinese market.

Q

Why do the Real Estate Debt portfolio managers not invest in these markets?

A

Unlike investments in properties, the risk-return ratio for financing operations is less attractive in emerging markets. Moreover, the real estate debt market is not very well developed, and the legal context makes real estate financing difficult. In the managers' opinion, these markets do not currently offer any attractive opportunities for the Real Estate Debt portfolio.

Q

The hotel sector is often considered a high-risk sector for real estate investment. Why is the Real Estate group interested in it?

A

The managers of the Real Estate Debt and Real Estate portfolios became interested in the hotel sector only recently. The group believes it offers a significant advantage in terms of sector diversification. Like investments in emerging markets, it offers sound risk diversification.

We are partial to a partnership strategy, notably with Westmont Hospitality Group, whose reputation and expertise are recognized. Various investments were made during the year and others are planned. Although investments in the hotel sector will not become a predominant position, they will increase significantly.

Q

The group made several major investments in 2006. Will this type of transaction be emphasized in the years to come?

A

Yes. Our size allows us to take part in major transactions of $500 million or more that are accessible only to a small number of large international investors. Over the years, the Real Estate group has attained a level of maturity and expertise that enables it to take part in transactions of this type and to carry them out rapidly.

Obviously, major transactions involve greater risk, since misreading a business opportunity can have a significant impact. The managers therefore perform due diligence and carefully monitor the investments throughout the holding period.

REAL ESTATE

SUSTAINED GROWTH AND RECORD TRANSACTION VOLUME FOR THE THIRD STRAIGHT YEAR, THE REAL ESTATE GROUP EARNED AN OVERALL RETURN EXCEEDING 20%

The group had record transaction volume totalling $14.6 billion. The managers of the Real Estate portfolio carried out various acquisitions and dispositions in the Americas and Europe. They used multiple investment strategies to position themselves advantageously for changes in the real estate cycles. As for the Real Estate Debt portfolio, it grew a remarkable $2.7 billion in one year to $9.1 billion as at December 31, 2006, as a result of greater interest in this vehicle on the part of depositors. Real estate financing vehicles are more stable than equities and less risky than traditional real estate investments, while their returns outperform bonds.

SPECIALIZED PORTFOLIO MANAGEMENT BY THE REAL ESTATE GROUP

TABLE 65

INVESTMENT PHILOSOPHY

TO ACHIEVE ITS GOALS, THE REAL ESTATE GROUP FAVOURS:

- Active management to create value with asset turnover and arbitrage between markets, holding vehicles and products according to the position in the real estate cycle;
- Partnership strategies to secure expertise on local markets, act on opportunities more effectively and reduce risk;
- Rigorous management of leverage and concentration risks for optimal profitability.

Specialized portfolio	Real Estate		Real Estate Debt
Investment categories	Investment Asset and portfolio management, financial engineering Development and construction Building operation Advisory services		Real estate financing Origination, underwriting, closing and servicing of real estate loans Securitization and issuance of real estate financing products Investment
Management type	Active internal and partnership		Active internal and partnership
Management approach	Discretionary		Discretionary
Main management styles and investment strategies	Conventional and prestige investments	Opportunistic investments	Underwriting of real estate financing Purchase of securities
Main analytical approach	Top-down and bottom-up	Top-down and bottom-up	Bottom-up
Investment horizon	More than 5 years	Less than 3 years	1 to 10 years

HIGHLIGHTS

SPECIALIZED REAL ESTATE PORTFOLIO

/ The managers completed several major deals in 2006, including the acquisition of a portfolio of buildings in Washington, D.C., in partnership with Tishman Speyer and the acquisition of The Mills' interests in three shopping centres in Canada, the United Kingdom and Spain.

/ The group continued its strategy on the German market, where it acquired office buildings and is spearheading shopping centre development projects.

/ The partnership with Westmont Hospitality Group resulted almost immediately in a $1-billion investment to acquire hotels in North America and Europe. The portfolio managers plan to invest an additional $1 billion in the years to come.

/ The managers pursued their strategy on emerging markets with many activities. Ivanhoe Cambridge created the shopping centre management company C2 Group in China. It also acquired three Brazilian shopping centres in partnership with Ancar, a local developer and manager. Lastly, Cadim made a co-investment in a residential project in China with a local developer, Shanghai Forte Land. In 2007, the managers will continue to monitor the BRIC markets, namely Brazil, Russia, India and China.

/ SITQ acquired a prestigious office building in the centre of Paris, 33 La Fayette, which it rented in its entirety to a multinational.

/ The managers will try to initiate more development projects in 2007. From the technological standpoint, priority will be placed on development of risk management tools.

SPECIALIZED REAL ESTATE DEBT PORTFOLIO

/ The managers made important inroads in Europe's real estate debt sector. A fine example is the financing of nine office buildings, mainly in London's City district.

/ In partnership, the managers financed a residential complex in Hawaii and were also involved in Maple Leaf Square, a mixed-use project developed by Cadillac Fairview in Toronto.

/ A number of complex structured-finance projects were created or acquired, including two types of collateralized debt obligation.

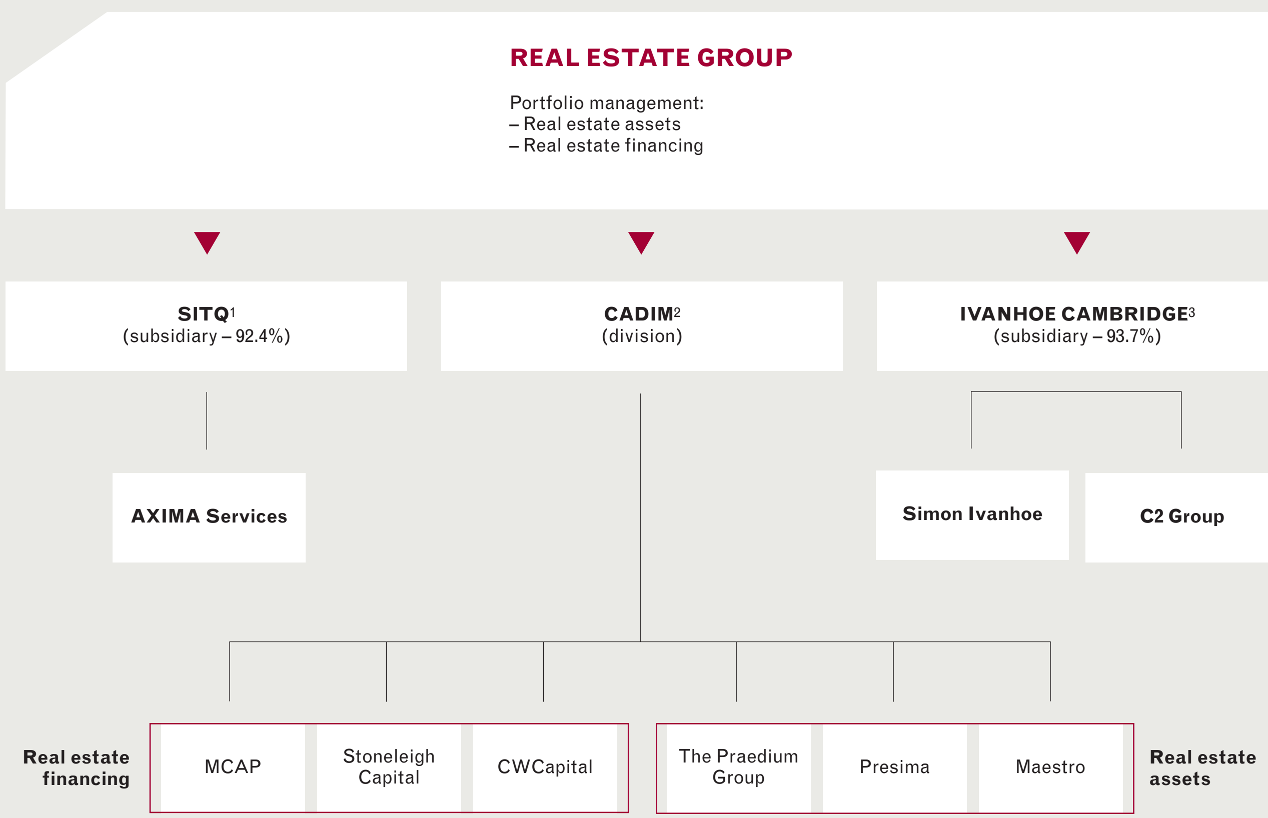
/ The managers will begin diversifying their partners beyond the existing affiliates in 2007. They will focus especially on the U.S. market to vary their sources of financing products. As with the Real Estate portfolio, the technological priority will be to develop risk management tools.

DECISIONS
THAT COUNT

The Real Estate group is investing in China with a long-term outlook. Invanhoe Cambridge is poised to take part in China's growth by offering its shopping centre management expertise. The creation of C2 Group, a Shanghai management company, places the subsidiary in an enviable position to take advantage of this rapidly growing economy.

REAL ESTATE GROUP ORGANIZATION CHART

FIGURE 66



1 Paul D. Campbell, President and Chief Executive Officer, SITQ.
2 Richard Dansereau, President and Chief Operating Officer, Cadim.
3 René Tremblay, President and Chief Executive Officer, Ivanhoe Cambridge.

TWO SPECIALIZED PORTFOLIOS: REAL ESTATE AND REAL ESTATE DEBT

The Real Estate group invests in equity and financing products in the office and business park, retail, hotel and residential sectors in the Americas, Europe and Asia. The group co-ordinates the operations of its Cadim division and its subsidiaries Ivanhoe Cambridge and SITQ, whose holdings are divided into two specialized portfolios, Real Estate and Real Estate Debt.

DIVISION AND MAIN SUBSIDIARIES

CADIM is involved in merchant banking and real estate investment management in Canada, the United States, Europe and Asia. Its investments include opportunistic products that are usually held for less than three years. Cadim also manages a large subordinated debt portfolio in addition to offering advisory and structured finance services. It had $36.3 billion of total assets under management as at December 31, 2006. Cadim is a division of the Caisse de dépôt et placement du Québec.

IVANHOE CAMBRIDGE owns, manages, develops and invests in shopping centres in urban areas of Canada, the United States, Europe, Brazil and Asia. The Company owns 73 centres shopping centres outright or in partnership, for total leasable area of more than 4.2 million square metres. Ivanhoe Cambridge had $15.3 billion of total assets under management as at December 31, 2006. The Caisse has a 93.7% stake in the Company, with the remainder held by four Canadian pension funds.

SITQ develops, invests in and manages office buildings and business parks owned outright or in partnership. Its portfolio consists of more than 100 properties in large urban centres of Canada, the United States, France, the United Kingdom and Germany, for more than 3.3 million square metres of leasable area. It had $11.7 billion of assets under management as at December 31, 2006. The Caisse owns 92.4% of SITQ. The five other shareholders are Canadian financial institutions and pension funds.

OTHER SUBSIDIARIES AND AFFILIATES

CANADA

AXIMA SERVICES specializes in technical management of office buildings. Its operations take in more than 2.3 million square metres in Québec.

MAESTRO is a real estate asset manager that specializes in residences for seniors and students. It has $0.8 billion of assets under management.

MCAP manages real estate debt assets in four main sectors: residential, commercial and construction mortgages as well as equipment leasing. It has $11.7 billion of assets under management or administration.

PRESIMA manages an international portfolio of publicly traded real estate securities. It has $1.3 billion of assets under management.

UNITED STATES

CWCAPITAL manages real estate debt assets in all sectors of the industry. It has $12.2 billion of assets under management or administration.

THE PRAEDIUM GROUP is a real estate asset manager that specializes in mid-sized unproductive and undervalued assets. It has $3.5 billion of assets under management.

EUROPE

SIMON IVANHOE is a shopping centre developer, owner and manager with $1.5 billion of assets under management or administration.

STONELEIGH CAPITAL is a manager that specializes in real estate financing products with $1.2 billion of assets under management.

CHINA

C2 GROUP offers specialized development, leasing, management and investment services to shopping centre owners, developers and investors in China.

OVERALL RETURN AND SPECIALIZED PORTFOLIO ANALYSIS

Despite excess liquidity, converging rates of return on the various markets and lower risk premiums, the Real Estate group managed to remain very active in the areas it covers. The year saw many transactions that were often carried out with high-calibre partners. The strategies employed led to the conclusion of many deals; some involved an opportunistic strategy, others used a strategy based on market growth and still others aimed to take advantage of a market at the bottom of the cycle. All the transactions were designed to enhance the group's ability to withstand the ups and downs of the market.

The Real Estate group earned a 20.2% overall return, adding $6.0 billion to depositors' net assets in 2006. The group's return is 217 b.p. (2.17%) above the benchmark index, which was up 18.0%. Over the past five years, the Real Estate group has an outstanding 18.2% return. It ranks in the first quartile of pension funds that invest in real estate. It is expected that the group's return will revert to a level closer to the historical average in the years to come.

As at December 31, 2006, depositors' net assets managed by the Real Estate group amounted to $23.2 billion and were divided into the Real Estate Debt and Real Estate portfolios, worth $9.1 billion and $14.1 billion, respectively.

The managers of the Real Estate Debt portfolio continued to make acquisitions during the year, with the result that the portfolio grew by more than 40%, increasing by $2.7 billion from 2005.

As for the Real Estate portfolio, depositors' net assets increased $3.3 billion, or 30%. Total assets under management saw less pronounced growth, because the assets of the subsidiary Bentall Capital have been removed from the portfolio's assets under management or administration. These assets were removed when the Caisse's stake in Bentall Capital fell below 50% when British Columbia Investment Management Corporation (bcIMC) became a shareholder in the company. Table 67 shows the breakdown of the total assets under management by the Real Estate group.

The Real Estate group's transaction volume in 2006 was $14.6 billion, with $6.6 billion of acquisitions and investments, $0.6 billion of construction, renovation and leasehold improvements, $2.7 billion of sales and $4.7 billion of real estate financing transactions.

BREAKDOWN OF TOTAL ASSETS UNDER MANAGEMENT BY THE REAL ESTATE GROUP

TABLE 67
(fair value as at December 31, 2006 – in billions of dollars)

	Depositors' net assets	Depositors' total assets	Assets under management or under administration	Total assets under management	
Real Estate Debt portfolio	**9.1**	**10.6**	**–**	**10.6**[1]	**16.7%**
SITQ		8.5	3.2	11.7	18.5%
Ivanhoe Cambridge		10.9	4.4	15.3	24.2%
Cadim		5.0	20.7	25.7[1]	40.6%
Real Estate portfolio	**14.1**	**24.4**	**28.3**	**52.7**	**83.3%**
Total	**23.2**	**35.0**	**28.3**	**63.3**	**100.0%**

1 The assets in the Real Estate Debt portfolio are managed by subsidiaries and affiliates in which Cadim holds an interest equal to or greater than 50%.
As at December 31, 2006, Cadim's total assets under management amounted to $36.3 billion.

SPECIALIZED REAL ESTATE DEBT PORTFOLIO

The total assets under management in the Real Estate Debt portfolio amounted to $10.6 billion as at December 31, 2006, up $3.7 billion from the previous year. The loan amounts ranged from $0.1 million to $637 million, and the transactions totalled $4.7 billion. Figures 69 and 70 show the portfolio's sector and geographic breakdowns at year-end.

The Real Estate Debt portfolio returned 6.5% in 2006, or 135 b.p. (1.35%) more than the return on its index. Over five years, the portfolio returned 10.0% and outperformed the index by 319 b.p. (3.19%).

RETURN ON REAL ESTATE DEBT

TABLE 68
(for periods ended December 31, 2006)

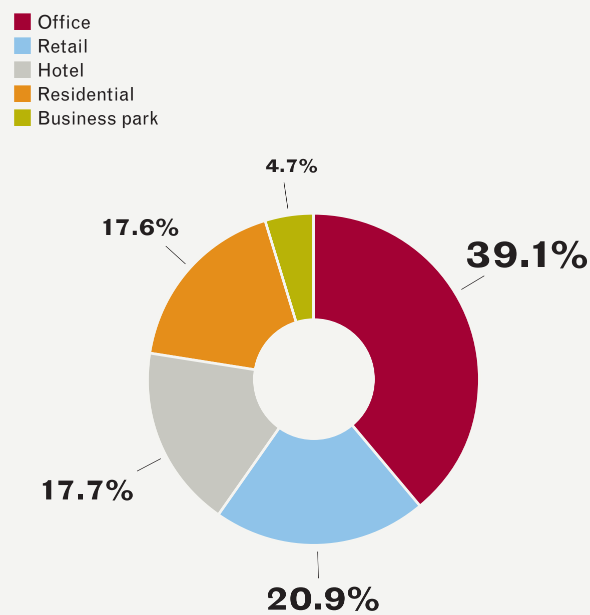
	Return %	Index[1] %	**Spread b.p.**	Information ratio
1 year	6.5	5.1	**135**	n.a.
3 years	9.8	6.3	**351**	3.0
5 years	10.0	6.8	**319**	3.3

[1] The index consists of 90% SC Universe Bond (SCU) and 10% Lehman Brothers CMBS B hedged since October 2005, SCU previously.

This result is due to smaller credit spreads than in previous years between real estate securities and corporate bonds. The narrowing of credit spreads began in 2005 and subtracted value in 2006.

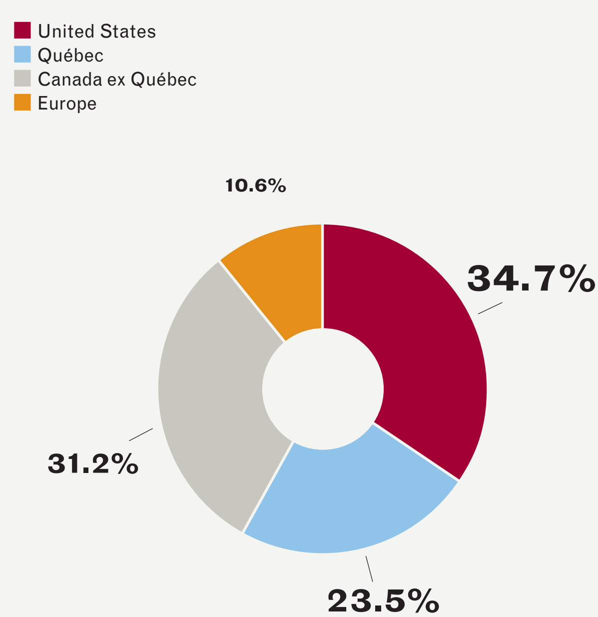
SECTOR BREAKDOWN OF THE SPECIALIZED REAL ESTATE DEBT PORTFOLIO

FIGURE 69
(percentage of fair value – as at December 31, 2006)



GEOGRAPHIC BREAKDOWN OF THE SPECIALIZED REAL ESTATE DEBT PORTFOLIO

FIGURE 70
(percentage of fair value – as at December 31, 2006)



SPECIALIZED REAL ESTATE PORTFOLIO

THE REAL ESTATE PORTFOLIO CARRIED OUT AN UNPRECEDENTED TRANSACTION VOLUME TOTALLING $9.9 BILLION IN 2006.

Depositors' net assets totalled $14.1 billion as at December 31, 2006. Table 71 gives the top 10 investments in this portfolio.

In the shopping centre sector, Ivanhoe Cambridge's transactions totalled $2.2 billion in 2006, with $0.4 billion of sales, $1.5 billion of acquisitions and $0.3 billion of leasehold improvements, construction and renovation projects.

In the office and business park sector, $1.3 billion of sales, $3.2 billion of acquisitions and $0.2 billion of leasehold improvements, construction and renovation projects brought SITQ's total transactions to $4.7 billion.

Lastly, in opportunistic products and residential buildings, Cadim's transactions totalled $3.0 billion, with $1.0 billion of sales, $1.9 billion of acquisitions and $0.1 billion of leasehold improvements, construction and renovation projects.

Figures 72 and 73 give the sector and geographic breakdowns at year-end.

TOP 10 REAL ESTATE PORTFOLIO INVESTMENTS

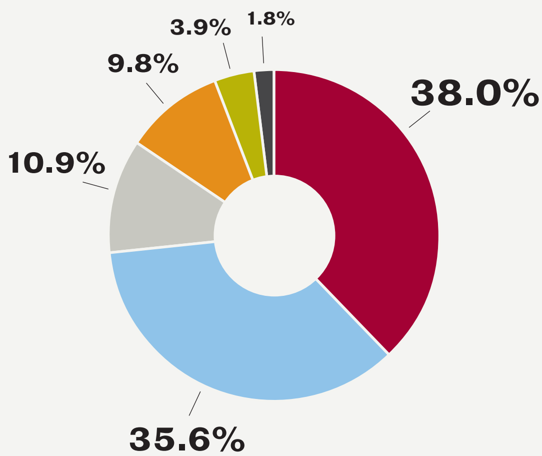
TABLE 71
(as at December 31, 2006)

11-13 Theresienhöhe, Munich, Germany	SITQ
151 Buckingham Palace Road, London, United Kingdom	SITQ
1515 Broadway, New York, United States	SITQ
Lone Star (Asia-Europe Fund)	Cadim
Madrid Xanadú, Madrid, Spain	Ivanhoe Cambridge
Metropolis at Metrotown, Burnaby, British Columbia	Ivanhoe Cambridge
Newport Corporate Center, Seattle, United States	SITQ
Paunsdorf Center, Leipzig, Germany	Ivanhoe Cambridge
St. Enoch Shopping Centre, Glasgow, United Kingdom	Ivanhoe Cambridge
Vaughan Mills, Vaughan, Ontario	Ivanhoe Cambridge

SECTOR BREAKDOWN OF THE SPECIALIZED REAL ESTATE PORTFOLIO

FIGURE 72
(percentage of fair value – as at December 31, 2006)

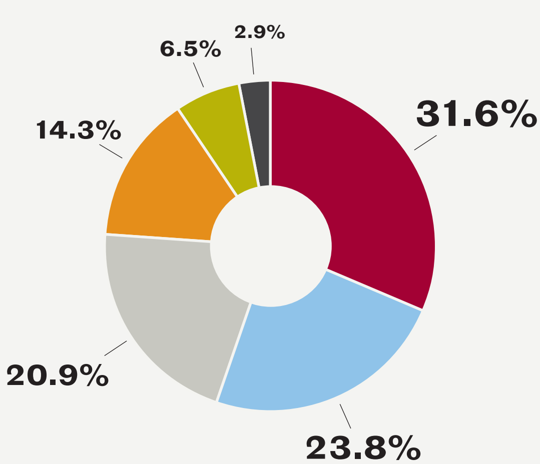
- Retail
- Offices and business parks
- Diversified funds and equities
- Residential and hotels
- Other real estate assets
- Mortgages



GEOGRAPHIC BREAKDOWN OF THE SPECIALIZED REAL ESTATE PORTFOLIO

FIGURE 73
(percentage of fair value – as at December 31, 2006)

- Canada ex Québec
- Europe
- United States
- Québec
- Emerging markets
- Asia and other



The Real Estate portfolio returned an exceptional 30.5% in 2006, or 341 b.p. (3.41%) more than the return on the Aon Index – Real Estate, which advanced 27.1%. The value added in relation to the return threshold is 2,146 b.p. (21.46%). The return over longer periods gives a better idea of the performance of the Real Estate portfolio managers, who have also surpassed the benchmark index. In fact, the 10-year return, at 19.5%, outperformed the index by 374 b.p. (3.74%). These results are quite remarkable.

RETURN ON REAL ESTATE

TABLE 74
(for periods ended December 31, 2006)

	Return %	Index[1] %	**Spread b.p.**	Information ratio
1 year	30.5	27.1	**341**	n.a.
3 years	32.7	25.7	**704**	n.a.
5 years	23.9	18.6	**526**	n.a.

1 Aon – Real Estate

Once again, the portfolio's return reflects investor enthusiasm for real estate products at the expense of other investment vehicles. The portfolio's performance is to a great extent due to generally lower capitalization rates for real estate assets, especially in the retail and office sectors. SITQ's occupancy rates and rents were generally up in North America and Europe, especially in large cities such as New York, London and Paris. In the case of shopping centres, Ivanhoe Cambridge reaped the benefits of an arbitrage strategy based on Europe's real estate cycles, while taking advantage of favourable economic conditions in 2006.

INTERNATIONAL ACTIVITIES

IN RECENT YEARS, FOREIGN INVESTMENTS HAVE INCREASED STEADILY, SO THAT THE CAISSE IS NOW ONE OF THE MAJOR CANADIAN INSTITUTIONAL FUND MANAGERS ON THE INTERNATIONAL MARKETS

Active on five continents and in all asset classes, the Caisse is a globally recognized and sought-after player. This international shift has not detracted from investments closer to home, quite the contrary in fact. The Caisse still has the majority of its assets in Québec and Canada, where its experience and expertise are greatest. In fact, the fair value of its private equity holdings in Québec recently reached a historic peak.

During the year, the Caisse made a number of foreign investments, which are very much in line with its strategy of diversifying into non-traditional assets and emerging markets.

HIGHLIGHTS

BAA, THE TIP OF THE ICEBERG

/ In seeking superior returns, the depositors have substantially increased the weighting of their investments in emerging markets. The size of the Emerging Markets Equity portfolio more than tripled during the year, going from $1.3 billion to $4.3 billion. The portfolio earned 32.7% in 2006, the highest return of all the portfolios.

/ The Caisse made headlines in 2006 when it acquired BAA in partnership with Spain's Grupo Ferrovial and the Government of Singapore Investment Corporation. This transaction has given it a high degree of visibility and consolidated its position as a leading investor on the international scene. The Caisse has a 29% stake in the world's leading airport operator, including three London airports.

/ In partnership with AXA Private Equity, the Caisse acquired a 55% interest in France's Groupe Keolis, a public-transport operator.

/ In partnership with a consortium led by the Blackstone Group, the Caisse acquired Freescale, the world's 10th-largest microprocessor manufacturer. The Caisse has a US$500-million stake.

/ The Park Square mezzanine fund, created by the Caisse and its partners (Teachers' Private Capital and Partners Group), made substantial investments in Europe's subordinated debt sector.

/ SITQ invested more than $2.3 billion in office buildings in Washington, London, Paris and several cities in Germany.

/ In China, Cadim invested in a large residential development project in Wuxi, in the province of Jiangsu, with its partner Shanghai Forte Land.

/ In partnership with the Westmont Hospitality Group, Cadim invested almost $1 billion in the hotel sector in North America and Europe, and another $1 billion of investments is planned.

/ Ivanhoe Cambridge invested more than $1 billion in shopping centres abroad, notably in Madrid and Glasgow.

/ Cadim put in place a European real estate financing platform, Stoneleigh Capital, in which it holds a majority interest.

GEOGRAPHIC BREAKDOWN

38% OF ASSETS INVESTED ABROAD

The geographic breakdown of the investments has changed significantly since the Caisse was created. In the mid-1980s, it began to diversify geographically so as to reduce concentration risks. It diversified first into the United States, then into the developed economies of Europe and Asia. Since 1998, it has also been active in emerging markets. This trend to diversification has accelerated in recent years with the trend to globalization, so that 38% of depositors' net assets is now invested outside Canada.

This diversification of assets is in line with the Caisse's mission to seek an optimal return. The increase in foreign investments has been made in consultation with the depositors. The Caisse is not unique in having international ambitions. The other major Canadian institutional fund managers are also increasing their international investments.

The geographic breakdown of depositors' total assets shows that the portfolio is still solidly anchored in North America, where 77% of the investments are concentrated, while about 20% is in the developed economies of Europe and Asia (figure 75). As at December 31, 2006, the Caisse held more than $2 billion of assets in each of the five following countries: the United States, the United Kingdom, Japan, Germany and France.

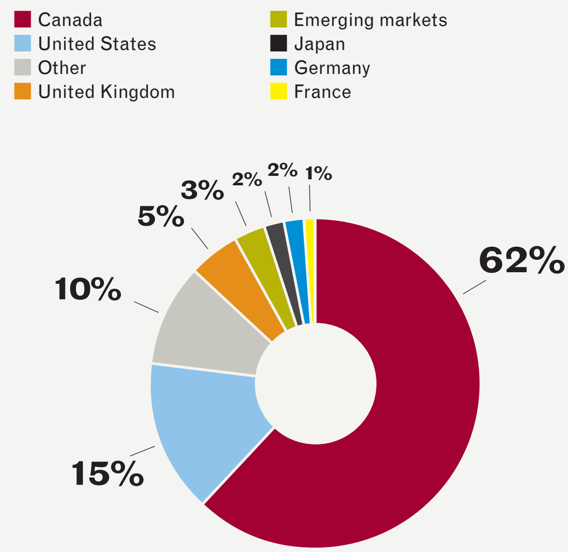
The rapidly increasing investments in emerging markets now exceed $5.9 billion, all asset classes combined, or 3% of depositors' total assets. As at December 31, 2006, more than $1.6 billion was invested in the BRIC markets, namely Brazil, Russia, India and China. The Caisse also held more than $1.5 billion in South Korea and more than $500 million in Taiwan and Poland (figure 76). About 65% of these investments were made on the equity markets and 30% in real estate.

SPECIFIC STRATEGIES FOR EACH ASSET CLASS

Each geographic market and each asset class requires a specific strategy. In the case of the equity markets, the start of activities at the New York office in 2006 provides access to a larger pool of expertise for management of U.S. and foreign equities. Six managers began investing from this office. The group also uses numerous external managers to complement the work of its teams in Montréal and New York. The managers of emerging markets equities assume a high level of active risk and the managers of U.S. and foreign equities will be expected to do likewise in the near future.

GEOGRAPHIC BREAKDOWN OF DEPOSITORS' TOTAL ASSETS

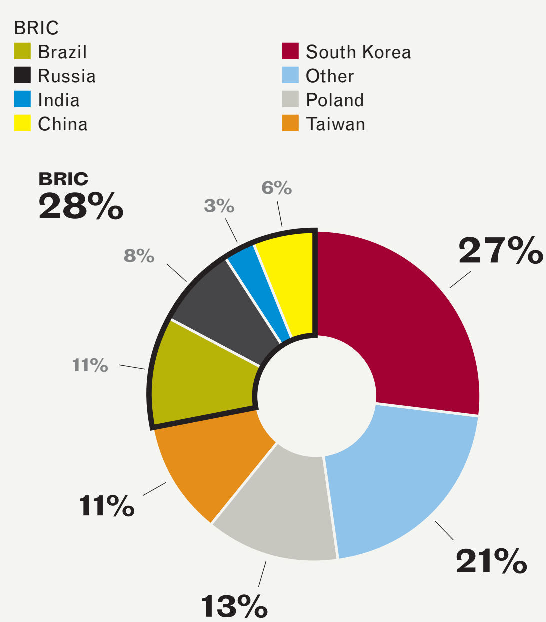
FIGURE 75
(in percentage – as at December 31, 2006)



N.B.: As presented as in the combined financial statements

GEOGRAPHIC BREAKDOWN OF DEPOSITORS' TOTAL ASSETS IN EMERGING MARKETS

FIGURE 76
(in percentage – as at December 31, 2006)



As for the Québec International portfolio, it uses futures contracts to reproduce the return on international equity markets with Québec bonds as the underlying asset.

In the case of private equity and real estate, partnership is the preferred approach for foreign investments. This strategy enables the Caisse to share knowledge and risks specific to each market. Over the years, the Caisse has developed ongoing relationships and has invested on more than one occasion with partners of quality, such as SL Green and AXA Private Equity. The strategy has proved itself; in about 15 years, the Caisse has become the leading Canadian investor in private equity and one of the 10 largest real estate asset managers in the world with 298 properties on three continents.

Finally, regardless of the asset class, outsourcing of management of the Caisse's investments represents 18% of net assets and is highly concentrated in foreign investments. Investments in specialized private equity and real estate funds, as well as the use of external managers, especially for international equities and hedge funds, ensure the appropriate expertise for less familiar environments.

COMMITMENT TO RESPONSIBLE INVESTMENT

As a shareholder in more than 3,000 companies around the world, the Caisse systematically exercises its voting rights to promote principles of good governance and is gradually introducing these criteria for due diligence of its investments. In its investments, the Caisse pays special attention to ethics, human rights, and protection of workers and the environment. To manage these concerns, the Caisse adopted a policy on responsible investment in 2005. One year later, it was one of the first signatories to the United Nations' Principles for Responsible Investment. In the same spirit, it endorsed the Carbon Disclosure Project, which will enable investors to ascertain the impact of corporate operations on climate change.

OUTLOOK AND PRESENCE ABROAD

OUTLOOK

In the years to come, the Caisse will continue to increase the weighting of non-traditional assets and investments in the international markets to meet its depositors' expectations of high returns. This international diversification will rise at a sustained rate, particularly in real estate and private equity. Moreover, investments in infrastructures will be emphasized, since they offer many advantages, such as steady income and protection from inflation. In the case of emerging markets, the Caisse will continue to use a co-ordinated approach, to develop knowledge as well as to identify business opportunities. These markets present specific risks (political, legal, safety, etc.), which call for especially active monitoring.

To achieve these objectives, the Caisse has various advantages, which have given it its edge thus far. With expertise acquired on many markets and in various asset classes, the Caisse has carved out an enviable place on the international scene. Its large size, in particular, makes it a sought-after investor and opens doors to major transactions accessible to only the largest players. The Caisse has achieved this status as a result of the pooling of depositors' funds and the increase in assets generated by its returns. The depositors' limited need for liquidity at present is an additional asset that enables the Caisse to take a long-term view and gives it greater risk tolerance than other investors. Finally, its AAA credit rating testifies to the Caisse's financial strength and provides access to financing on advantageous conditions, when it uses leverage for investments.

PRESENCE ABROAD

The Caisse has a Paris office, which concentrates mainly on real estate, and a New York office, which focuses on international equities. Through its real estate subsidiaries, the Caisse also has a network of foreign representations, namely the business offices operated by Ivanhoe Cambridge in Madrid, Luxembourg and Shanghai (C2 Group) and by SITQ in Brussels.

ANALYSIS OF COMBINED FINANCIAL STATEMENTS

The financial statements of the Caisse de dépôt et placement du Québec are combined, which means they include the accounts of the Caisse's subsidiaries, the General Fund, the Individual Funds and the specialized portfolios. Depositors' holdings presented in the Combined Statement of Net Assets reflect the combination of the net account value of each Caisse depositor.

The combined financial statements are prepared according to generally accepted accounting principles in Canada, as provided for by the *Act respecting the Caisse de dépôt et placement du Québec*.

As required by the Act, the Auditor General of Québec audited the Caisse's books in 2006, and his report accompanies the combined financial statements. Over all, the Auditor General reports on 48 financial statements, including the Caisse's combined statements, that of the General Fund, those of the depositors' 28 Individual Funds and those of the 18 specialized portfolios. He has issued unqualified opinions for all the financial statements.

FUTURE OF ACCOUNTING STANDARDS IN CANADA

The Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) developed a strategic plan in 2006 in which it calls for the adoption of International Financial Reporting Standards (IFRS) in Canada in five years, or starting in 2011. As a result of this decision, the Caisse has done an analysis to identify the main differences between generally accepted accounting principles (GAAP) in Canada and the IFRS. In the years to come, the Caisse will continue this analysis as a function of changes in the IFRS and will plan for their implementation.

NEW ACCOUNTING STANDARDS FOR 2007

In 2006, the CICA published Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3861 "Financial Instruments – Disclosure and Presentation," which took effect on January 1, 2007.
Only the provisions of Section 3855 regarding recognition, purchase or sale with standard delivery time and measurement of fair value apply to the Caisse's investments, given that the Caisse is defined as an "investment company" under Accounting Guideline No. 18. The considerations regarding transaction costs and measurement of fair value are those that will have the most impact on the Caisse's combined financial statements in 2007. More specifically, the impact will involve the fair value of investments traded on organized markets (equities and derivatives), for which the measurement will have to be based on the bid price for securities purchased long and the ask price for securities sold short. Until December 31, 2006, closing prices were used for both long and short positions.

This new requirement on the use of bid and ask prices gave rise to a strong reaction in the fund management industry, particularly because stock market indexes, with which managers compare their returns, will continue to use closing prices.

Also, with respect to U.S. accounting standards, the Financial Accounting Standards Board (FASB) responded to this debate with the publication of Financial Accounting Standard No. 157 in September 2006. This new standard will enable financial institutions to use a price between the ask price and the bid price for securities purchased long or sold short.

The Caisse will adopt these new standards as of January 1, 2007, but will pay special attention to the changes that the CICA may make to them as a result of pressure from various groups in the Canadian fund management industry, including the Caisse.

TOTAL ASSETS UNDER MANAGEMENT

The net assets belonging to the Caisse's various depositors total $143.5 billion as at December 31, 2006, an increase of $21.3 billion in relation to 2005. This increase is due to $17.8 billion of net investment results and $3.5 billion of depositors' net contributions. In 2005, the increase was $19.8 billion, with $15.2 billion due to net investment results and $4.6 billion to depositors' net contributions.

If assets financed primarily by borrowing (liabilities) totalling $64.4 billion in 2006, versus $57.5 billion in 2005, are added, depositors' total assets rise to $207.9 billion in 2006 compared with $179.7 billion in 2005, an increase of $28.2 billion.

In addition to the assets entrusted to it by depositors, the Caisse manages and administers assets for third parties, primarily through its Real Estate group. The total amount of assets under management or administration was $29.4 billion in 2006, versus $36.5 billion in 2005.

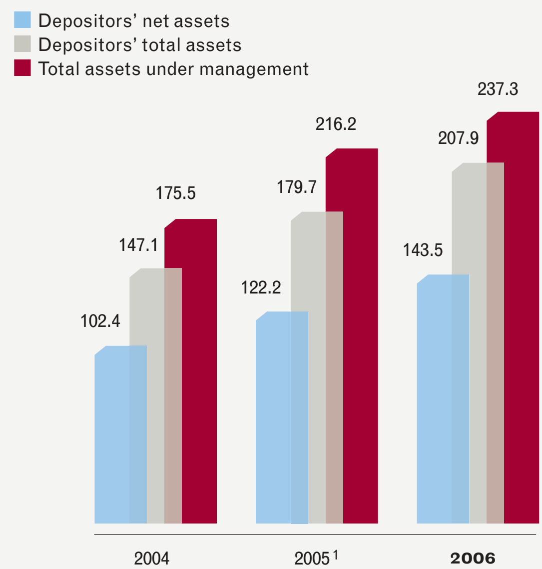
The sum of depositors' total assets and assets under management or administration for third parties gives the Caisse's total assets under management, namely $237.3 billion in 2006, versus $216.2 billion in 2005.

FAIR VALUE OF INVESTMENTS

Investments are recorded in the financial statements at fair value. In the case of liquid investments, or almost 81% of the total, the Caisse uses quoted market prices or methods recognized by organized financial markets to determine fair value. In the case of private equity and real estate, or about 19% of investments, fair value is determined according to a valuation process that corresponds to good practices used by these industries. This valuation process is reviewed annually as a function of the changing standards and practices of Canadian and international organizations.

CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

FIGURE 77
(as at December 31 – in billions of dollars)



[1] Certain figures have been revised to meet the new presentation guidelines adopted as at December 31, 2005.

INVESTMENT VALUATION PROCESS

LIQUID INVESTMENTS

The fair value of investments is established by means of valuation methods used in capital markets, such as discounting of future cash flows at the current interest rate, closing prices on major stock exchanges and data provided by securities brokers or other recognized specialist organizations.

On a quarterly basis, some of the portfolios and, at year-end, all portfolios of unlisted liquid products are subject to valuation by independent professionals. These products, which include mainly bonds and over-the-counter derivatives, are evaluated with respect to the valuation models and data used.

PRIVATE EQUITY

The fair value of private equity investments is established semi-annually as at June 30 and December 31. The valuation is based on a valuation policy adopted by the Caisse's Board of Directors. The policy is based on the industry's best practices.

The policy provides that the valuation of a private equity investment is first determined by the managers responsible for the investments concerned. It is then approved by the senior managers of the Private Equity group.

Investments for which the fair value is higher than a pre-established materiality threshold must be submitted to an independent valuation committee. Given the specialized nature of private equity investments, several valuation committees are used. These committees, which report to the Caisse's Audit Committee, are composed of independent valuation professionals. The Auditor General of Québec attends all the meetings of the independent valuation committees. The valuation process is supplemented internally by periodic individual valuations and as events occur.

REAL ESTATE

Valuation of the investments in the Real Estate portfolio is based on a valuation policy adopted by the Caisse's Board of Directors. The policy is based on the industry's best practices.

For the Real Estate portfolio, external chartered appraisers certify the fair value of real estate assets. For other real estate investments, fair value is usually determined by external managers and, for debt associated with real estate investments, by internal managers. Moreover, the real estate subsidiaries' external auditors compile the fair values when the audited financial statements are produced. Finally, in auditing the Caisse's books and accounts, the Auditor General of Québec relies on the work of external auditors and reviews all valuation reports.

In the case of the Real Estate Debt portfolio, the fair value of mortgage loans and securities is established according to the discounted value of future contractual cash flows at the market interest rate. This is the rate that can be obtained for loans or securities with similar conditions and maturity dates. In positions where cash flow spread cannot be estimated reasonably or reliably, the fair value corresponds either to the fair value of any asset given as collateral for the security, after deduction of foreseeable realization costs and any amount legally owed to the borrowers, or to the relevant market price for the security. The year-end valuation of the Real Estate Debt portfolio was reviewed by independent valuation professionals.

NET INVESTMENT RESULTS

Net investment results for 2006 totalled $17.8 billion compared with $15.2 billion in 2005. This performance is due to three sources: investment income net of operating expenses (mainly interest income, dividends, fees and rents), net gains from the sale of investments (gains or losses realized on the sale of investments) and net unrealized increases in the value of investments (appreciation or depreciation relative to changes in the fair value of the investments that the Caisse held as at December 31, 2006).

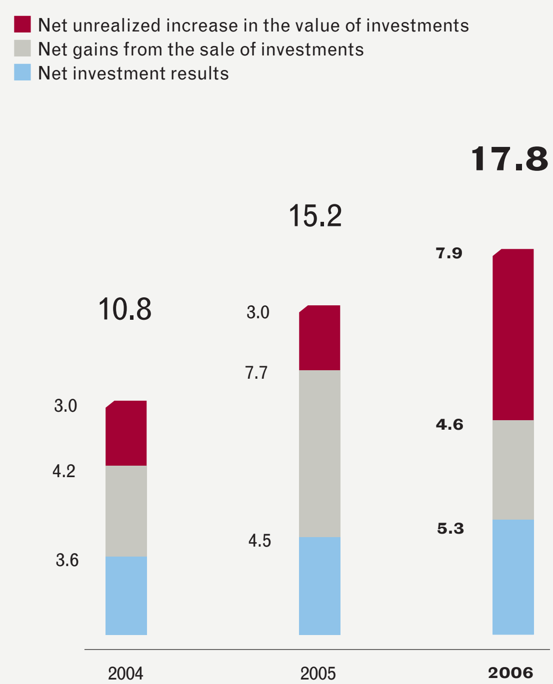
Investment income totalled $5.5 billion in 2006, versus $4.7 billion in 2005. If operating expenses are excluded, this net income totalled $5.3 billion in 2006 and $4.5 billion in 2005. Investment income came from fixed-income securities ($3.3 billion in 2006 versus $2.9 billion in 2005) and variable-income securities ($2.2 billion in 2006 versus $1.8 billion in 2005). The differences between 2005 and 2006 are mainly due to the upward variation in average investment volume.

Net gains from the sale of investments totalled $4.6 billion in 2006, or $4.8 billion for variable-income securities less $0.2 billion of losses for fixed-income securities. Net gains totalled $7.7 billion in 2005, or $6.6 billion for variable-income securities and $1.1 billion for fixed-income securities.

The net unrealized increase in the value of investments was $7.9 billion in 2006, including an increase of $7.4 billion for variable-income securities and $0.5 billion for fixed-income securities, including liabilities related to investments. In 2005, the net unrealized increase in the value of investments was $3.0 billion, including $3.5 billion for variable-income securities, offset by a decrease of $0.5 billion for fixed-income securities, including liabilities related to investments.

CHANGES IN NET INVESTMENT RESULTS

FIGURE 78
(for periods ended December 31 – in billions of dollars)



ANALYSIS OF OPERATING EXPENSES

The Caisse's operating expenses comprise management and administrative expenses related to institutional fund management.

These expenses totalled $262 million in 2006, up $23 million from the operating expenses for 2005. The increase in 2006 in relation to 2005 is due to an increase in salaries as a result of the larger number of employees and higher costs of external management mandates and securities custody as a result of the increase in investment value and volume and the growth of international investments. Since 2002, operating expenses have increased by $41 million, or an average of 4.5% a year.

OPERATIONAL EFFICIENCY

It is essential that the Caisse ensure efficient operations by periodically reviewing its procedures and maintaining strict control over operating expenses. The goal of the Caisse's management team is to keep operating expenses at a level comparable with those of institutional fund managers that are the same size and conduct similar operations. For many years, the Caisse has taken part in exercises to benchmark costs per asset class. Generally speaking, its costs are comparable to those of its peers.

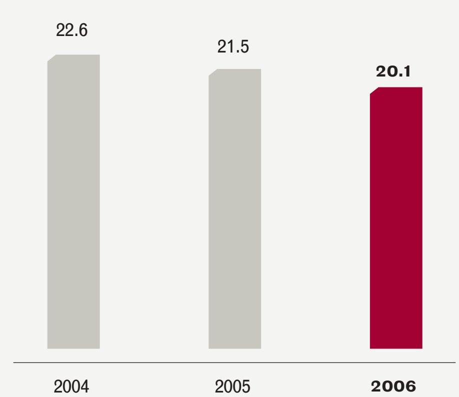
It is common practice for fund managers to express operating expenses in basis points, or the cost in cents to manage $100 of average net assets. Figure 79 shows operating expenses expressed in cents per $100 of depositors' average net assets for 2004, 2005 and 2006. Expressed in this way, the Caisse's operating expenses fell from 22.6 cents in 2004 to 20.1 cents in 2006. This favourable difference reflects the combined effect of the increase in depositors' average net assets and careful management of operating expenses.

Still, this measure is not ideally suited to the Caisse because the institution differs from other managers in that it assumes the cost of active management of investments financed by borrowing totalling $64.4 billion as well as management and administration, for clients, of portfolios of properties totalling $29.4 billion. Thus to monitor operating expenses related to its overall operations, the Caisse expresses its operating expenses as a function of average total assets under management.

Figure 80 shows operating expenses expressed in cents per $100 of average total assets under management for 2004, 2005 and 2006. Expressed in this way, the Caisse's operating expenses fell from 13.4 cents in 2004 to 11.5 cents in 2006. This favourable difference is due to the combined effect of the increase in average total assets under management and careful management of operating expenses.

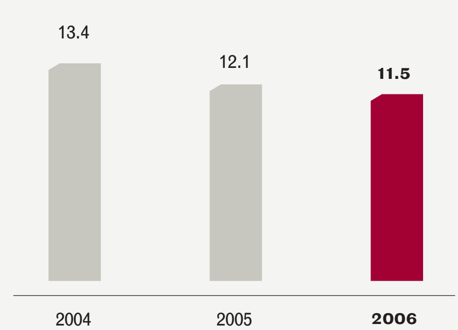
OPERATING EXPENSES EXPRESSED IN CENTS PER $100 OF DEPOSITORS' AVERAGE NET ASSETS

FIGURE 79
(for periods ended December 31)



OPERATING EXPENSES EXPRESSED IN CENTS PER $100 OF AVERAGE TOTAL ASSETS UNDER MANAGEMENT

FIGURE 80
(for periods ended December 31)



CDP FINANCIAL'S OPERATIONS

The mission of CDP Financial, a wholly owned subsidiary of the Caisse, is to meet the financing needs of portfolio managers seeking to increase the return on investments with financial leverage. To do so, it borrows on the financial markets, taking advantage of its high credit ratings.

CDP Financial's liabilities, or the amount of the notes outstanding, increased by $1.6 billion in 2006, going from $4.0 billion as at December 31, 2005, to $5.6 billion a year later. This level is still below the maximum set by the Board of Directors, namely 7.5% of depositors' net assets. CDP Financial's borrowing programs are guaranteed by the Caisse.

SHORT-TERM BORROWING

In 2006, the Caisse's Board of Directors authorized an increase in the short-term borrowing limits, which rose from $5.0 billion to $7.0 billion. This increase will make it possible to meet future financing needs of internal borrowers. The outstanding amount of short-term borrowing was $4.1 billion as at December 31, 2006, versus $2.5 billion a year earlier.

The demand for top-quality commercial paper was sustained throughout Canada, and more than 63% of the Caisse's offerings were purchased outside Québec, as shown by figure 81. Annual transaction volume was $31.2 billion, with a turnover rate of 9.8 times the average amount outstanding and an average maturity of 42 days.

MEDIUM-TERM BORROWING

CDP Financial did not issue any medium-term notes in 2006. The amount outstanding as at December 31, 2006, was $1.5 billion, a level equivalent to the year-earlier figure.

LETTERS OF GUARANTEE

The subsidiary continued to co-ordinate offerings of letters of guarantee, which provide interim support for certain investment operations. As at December 31, 2006, outstanding letters of guarantee amounted to $271 million, a 24% decrease from the $358 million outstanding a year earlier.

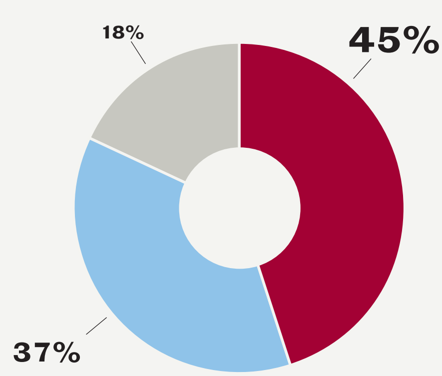
CREDIT RATINGS

Dominion Bond Rating Services (DBRS), Moody's Investors Services (Moody's) and Standard & Poor's (S&P) maintained their highest credit ratings for CDP Financial in 2006. These ratings are the highest assigned by these rating agencies.

GEOGRAPHIC BREAKDOWN
OF COMMERCIAL PAPER SALES

FIGURE 81
(as at December 31, 2006)

- Ontario
- Québec
- Other provinces



CDP FINANCIAL'S CREDIT RATINGS

TABLE 82

	Short-term	Long-term
DBRS	R-1 high	AAA
Moody's	Prime-1 (Aaa)	Aaa
S&P	A-1 + A-1 high	AAA

FINANCIAL LEVERAGE

Borrowing, or financial leverage, is used to increase the return on investments that receive regular cash flow. For example, in the case of income properties, the use of borrowing assumes regular payments that are offset by foreseeable income.

COMBINED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR COMBINED FINANCIAL REPORTING

Preparation and presentation of the combined financial statements of the Caisse de dépôt et placement du Québec (the "Caisse") are the responsibility of management. The combined financial statements were prepared in accordance with generally accepted accounting principles (GAAP) in Canada. We ensure that the financial data in the Annual Report are consistent with those in the combined financial statements.

The combined financial statements include amounts based on management's best estimates and judgment, with due regard for their relative importance. Moreover, in the preparation of the financial data, management has made decisions regarding the information to be presented, has made estimates and has made assumptions that affect the information presented. Future results may differ considerably from our current estimates, because of changes in the financial markets or other events that may have an impact on the fair value of the investments established as at December 31, 2006.

In our responsibility for the reliability of financial information, we use a sophisticated internal control mechanism applied systematically on all levels of the organization. This mechanism consists of organizational and operational controls, information disclosure controls and procedures, and internal control over financial information. The Caisse's internal control mechanism is based, among other things, on a clear definition of responsibilities, effective allocation of duties, delegation of powers, competent resources, appropriate procedures, information systems, tools and practices, relevant and reliable information whose adequacy enables all employees to fulfill their responsibilities, control, compliance and integrated risk management measures that are proportional to the issues specific to each process and designed to reduce risks likely to affect achievement of the Caisse's objects, and oversight of compliance with an extensive body of internal policies.

This control mechanism makes it possible to ensure that appropriate internal controls are in place as regards operations, assets and records. Moreover, the Caisse's internal audit group reviews the internal controls on a regular basis. These controls and audits are designed to provide reasonable assurance regarding the reliability of the accounting records used to prepare the combined financial statements and to ensure that assets are not used or disposed of in any unauthorized manner, that liabilities are recorded, and that we meet all the legal requirements to which the Caisse is subject, including the *Act respecting the Caisse de dépôt et placement du Québec*.

Each year, we certify that the design of the internal control regarding financial information is sufficient and that the design and functioning of the financial information disclosure controls and procedures are effective. We report any significant irregularity to the Audit Committee of the Board of Directors of the Caisse, as necessary.

The Auditor General of Québec has audited the combined financial statements of the Caisse, and his report covers the nature and scope of the audit and expresses his opinion. The Auditor General has unrestricted access to the Audit Committee to discuss any matter relating to his audit.

The Board of Directors and its committees supervise the manner in which management fulfills its responsibility for the establishment and presentation of financial information, maintenance of appropriate internal controls, compliance with the requirements of laws and regulations, management of and control over the main risks and evaluation of major transactions. Moreover, it approves the combined financial statements and the Annual Report.

The Board of Directors has approved the combined financial statements as at December 31, 2006. It is assisted in its responsibilities by the Audit Committee, of which all members are outside directors. This Committee meets with management and the Auditor General, examines the combined financial statements and recommends their approval to the Board of Directors.

President and Chief Executive Officer
/ **HENRI-PAUL ROUSSEAU**

Executive Vice-President Finance, Treasury and Strategic Initiatives
/ **GHISLAIN PARENT**, CA

Montréal, February 16, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the combined statement of net assets of the Funds of the Caisse de dépôt et placement du Québec as at December 31, 2006, along with the combined statement of income and changes in net assets for the year then ended. These financial statements are the responsibility of the Caisse's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Canada. These standards require that I plan and perform an audit in such a way as to obtain reasonable assurance that 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 the significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my opinion, these combined financial statements present fairly, in all material respects, the financial position of these Funds as at December 31, 2006, as well as the results of their operations and the changes in their net assets for the year then ended, in accordance with generally accepted accounting principles in Canada. As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), I report that in my opinion, these principles have been applied on a consistent basis with that of the preceding year.

Auditor General of Québec
/ **RENAUD LACHANCE**, CA

Québec City, February 16, 2007

COMBINED STATEMENT OF NET ASSETS

(as at december 31, 2006)

(in millions of dollars)	**2006**	2005
Assets		
Investments at fair value *(note 3a)*	**203,819**	177,108
Advances to depositors	**1,024**	941
Investment income, accrued and receivable	**1,098**	950
Transactions being settled	**1,277**	349
Other assets	**640**	391
	207,858	179,739
Liabilities		
Liabilities related to investments *(note 3b)*	**60,857**	51,632
Transactions being settled	**514**	3,718
Other liabilities	**1,534**	970
Non-controlling interests *(note 3c)*	**1,474**	1,260
	64,379	57,580
Depositors' Holdings *(note 4)*	**143,479**	122,159

Derivative Financial Instruments *(note 7)*

Commitments and Contingencies *(note 9)*

The accompanying notes are an integral part of the combined financial statements.

For the Board of Directors,

/ **HENRI-PAUL ROUSSEAU**

/ **CLAUDE GARCIA**

COMBINED STATEMENT OF INCOME AND CHANGES IN NET ASSETS

(for the year ended december 31, 2006)

(in millions of dollars)	**2006**	2005
Investment income *(note 5a)*	**5,516**	4,724
Less:		
Operating expenses *(note 6)*	**262**	239
Net investment income	**5,254**	4,485
Gains (losses) on the sale of investments *(note 5d)*	**4,594**	7,715
Total realized income	**9,848**	12,200
Unrealized increase (decrease) in the value of investments and liabilities related to investments *(note 5e)*	**7,920**	2,955
Total investment operations	**17,768**	15,155
Excess depositors' deposits over withdrawals	**3,552**	4,571
Increase in combined net assets	**21,320**	19,726
Combined net assets, beginning of year	**122,159**	102,433
Combined net assets, end of year	**143,479**	122,159

The accompanying notes are an integral part of the combined financial statements.

COMBINED FUNDS
NOTES TO FINANCIAL STATEMENTS
(as at December 31, 2006)

1
CONSTITUTION AND OPERATIONS

The Caisse de dépôt et placement du Québec, a legal person established in the public interest within the meaning of the Civil Code, is governed by the *Loi sur la Caisse de dépôt et placement du Québec* (R.S.Q., chapter C-2). It receives funds, the deposit of which is provided under the Act. Pursuant to both the federal and provincial income tax acts, the Caisse is not subject to income taxes.

GENERAL FUND (CONSOLIDATED STATEMENTS)
The General Fund comprises all treasury operations (management of demand and term deposits, and corporate financing).

INDIVIDUAL FUNDS
The individual funds are comprised of diversified investments, and each fund has only one depositor that exclusively makes participation deposits therein. The individual funds are for the use of the following depositors:

Fund 300: Fonds du Régime de rentes du Québec administered by the Régie des rentes du Québec;

Fund 301: Government and Public Employees Retirement Plan administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 302: Pension Plan for Management administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 303: Individual plans administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 305: Pension Plan for Elected Municipal Officers administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 306: Régime complémentaire de rentes des techniciens ambulanciers oeuvrant au Québec;

Fund 307: Fonds d'assurance automobile du Québec administered by the Société de l'assurance automobile du Québec;

Fund 311: Supplemental Pension Plan for employees of the Québec construction industry – general account – administered by the Commission de la construction du Québec;

Fund 312: Supplemental Pension Plan for employees of the Québec construction industry – retirees account – administered by the Commission de la construction du Québec;

Fund 313: Supplemental Pension Plan for employees of the Québec construction industry – supplementary account – administered by the Commission de la construction du Québec;

Fund 314: Fonds d'assurance-dépôts administered by the Autorité des marchés financiers;

Fund 315: Fonds d'assurance-prêts agricoles et forestiers administered by La Financière agricole du Québec;

Fund 316: Fonds d'amortissement du régime de retraite – RREGOP administered by the ministère des Finances, Government of Québec;

Fund 317: Fonds d'amortissement du régime de retraite – RRPE administered by the ministère des Finances, Government of Québec;

CONSTITUTION AND OPERATIONS (cont.)

Fund 318: Fonds d'amortissement des autres régimes de retraite administered by the ministère des Finances, Government of Québec;

Fund 326: Fonds d'assurance-récolte administered by La Financière agricole du Québec;

Fund 327: Fédération des producteurs de bovins du Québec;

Fund 328: Régime de rentes de survivants administered by the Conseil du trésor, Government of Québec;

Fund 329: Fonds d'assurance-garantie administered by the Régie des marchés agricoles et alimentaires du Québec;

Fund 330: Fonds de la santé et de la sécurité du travail administered by the Commission de la santé et de la sécurité du travail;

Fund 332: Fonds des cautionnements des agents de voyages – cautionnements individuels administered by the Office de la protection du consommateur;

Fund 333: Fonds d'indemnisation des clients des agents de voyages administered by the Office de la protection du consommateur;

Fund 341: Fonds réservé administered by the Autorité des marchés financiers;

Fund 342: Régime de retraite de l'Université du Québec administered by the Comité de retraite du Régime de retraite de l'Université du Québec;

Fund 343: Fonds d'assurance parentale administered by the Conseil de gestion de l'assurance parentale;

Fund 346: Fonds d'assurance parentale – Réserve administered by the Conseil de gestion de l'assurance parentale (created February 1, 2006);

Fund 347: Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec administered by the Groupe-conseil Aon (created January 1, 2006);

Fund 348: Régime complémentaire de retraite des employés syndiqués de la Commission de la construction du Québec administered by the Comité de retraite du Régime complémentaire de retraite des employés syndiqués de la CCQ (created July 1, 2006).

SPECIALIZED PORTFOLIOS

The specialized portfolios are pooled funds for participation deposits of the various funds. The specialized portfolios are the following:

- Short Term Investments (740)
- Real Return Bonds (762)
- Bonds (760) (consolidated statements)
- Long Term Bonds (764)
- Canadian Equity (720)
- U.S. Equity – hedged (731)
- U.S. Equity – unhedged (734)
- Foreign Equity – hedged (730)
- Foreign Equity – unhedged (733)
- Emerging Markets Equity (732)
- Québec International (761)
- Investments and Infrastructures (781) (consolidated statements)
- Private Equity (780) (consolidated statements)
- Real Estate Debt (750) (consolidated statements)
- Real Estate (710) (consolidated statements)
- Commodity Financial Instruments (763)
- Hedge Funds (770) (consolidated statements)
- Asset Allocation (771) (consolidated statements)

2
ACCOUNTING POLICIES

The preparation of the combined financial statements of the Caisse in accordance with generally accepted accounting principles in Canada requires that management make estimates and assumptions, which have an impact on the accounting of assets and liabilities, the presentation of contingent assets and liabilities at the date of the financial statements and the accounting of revenues and expenses during the financial year covered by the financial statements. Actual results may differ from such estimates.

A statement of cash flows is not presented as it would provide no further useful information for the comprehension of cash flows during the year.

A / COMBINED FINANCIAL STATEMENTS

The combined financial statements comprise the accounts of the Caisse's subsidiaries, along with those of the General Fund, the individual funds, and the specialized portfolios. The accounts of each fund and each portfolio are presented in financial statements audited by the Auditor General of Québec.

B / INVESTMENTS AND JOINT OPERATIONS

Investments and related assets and liabilities are accounted for at fair value, which is the estimated exchange value that would be agreed upon in an arm's-length transaction between competent, willing parties in conditions of full competition, established at year-end.

Fixed-income securities

Fixed-income securities comprise short-term investments, bonds and mortgages. These securities are recorded as at the commitment date, except mortgages, which are recorded as at the date of agreement.

i / *Valuation method*

The fair value of fixed-income securities is determined by means of valuation methods used in capital markets, such as the annualization of future cash flows at the current interest rate and the prices of the major stock exchanges as well as those provided by recognized financial institutions. In addition, certain valuations are made according to commonly used valuation methods or on the basis of similar arm's-length transactions.

ii / *Investment income and gains and losses on the sale of investments*

Investment income from fixed-income securities includes amortization of the premium and the discount, which makes it possible to maintain a constant real return until maturity. Income from mortgages are reduced by operating expenses, financial costs of CMBS and write-off of deferred charges and are recorded under Investment Income – Fixed-income securities.

Gains and losses on the sale of investments represent the difference between the unamortized cost and the net realizable fair value on the sale of investments. The unamortized cost corresponds to the acquisition cost and the costs inherent to the acquisition of investments, and is restated to take into account amortization of the premium or the discount.

ACCOUNTING POLICIES (cont.)

Variable-income securities

Variable-income securities comprise equities and convertible securities as well as real estate holdings. Equities and convertible securities are recorded as at the commitment date, whereas real estate holdings are recorded as at the date of agreement.

i / *Valuation method*

The fair value of equities traded on a stock exchange is determined from prices on major stock exchanges as well as those provided by recognized financial institutions. For equities not traded on a stock exchange and real estate holdings, valuations are made by independent valuators, while others are made according to commonly used valuation methods or on the basis of similar arm's-length transactions. The valuations of equities and convertible securities that are not publicly traded are reviewed biannually by an independent valuation committee.

ii / *Investment income and gains and losses on the sale of investments*

Dividend income is recognized on the ex-dividend date. Income from real estate holdings is reduced by operating expenses related to real estate holdings, operation expenses and loan financial expenses, and is recorded under the item Investment income – Variable-income securities.

Gains and losses on the sale of investments represent the difference between the cost and the net realizable value on the sale of investments. The cost corresponds to the acquisition cost and the costs inherent to the acquisition of investments, except for the costs of investments in joint ventures, which are recorded on an equity basis.

Derivative financial instruments

Pursuant to its investment management, the Caisse conducts transactions involving various derivative financial instruments to manage the risks associated with exchange rate, interest rate, and market fluctuations.

Derivative financial instruments whose fair value is favourable are recorded under the item Investments, whereas those whose fair value is unfavourable are recorded under Liabilities related to investments.

i / *Valuation method*

Derivative financial instruments are recorded at their fair value at year-end. These values are established from prices on the major stock exchanges as well as those provided by recognized financial institutions. In the case of unlisted instruments, certain valuations are made on the basis of similar arm's-length transactions, or according to recognized, commonly used models.

ii / *Investment income and gains and losses on the sale of investments*

Investment income from derivative financial instruments is included in income from fixed-income and variable-income securities, whereas gains and losses from derivative financial instruments are included in gains (losses) on the sale of investments on the basis of the underlying investments.

ACCOUNTING POLICIES (cont.)

Securities acquired under reverse repurchase agreements
The Caisse conducts security-borrowing operations involving short-term investments and bonds to cover short sales or to generate additional income from security-borrowing operations. These security-borrowing operations are recorded under Securities acquired under reverse repurchase agreements. Interest earned on reverse repurchase agreements is recorded as interest income under the item Investment income – Fixed-income securities.

Securities sold under repurchase agreements
The Caisse conducts security-lending operations involving short-term investments and bonds to generate cash flow liquidity or to generate additional income from security-lending operations. These security-lending operations are recorded under Securities sold under repurchase agreements. Interest paid on repurchase agreements is applied against Investment income – Fixed-income securities.

Short selling of securities
Short selling of securities represents the commitment by the Caisse to purchase securities from third parties to cover such positions. Interest related to commitments involving short selling of short-term investments and bonds are recorded under Investment income – Fixed-income securities, whereas costs related to commitments involving short selling of equities are recorded under Investment income – Variable-income securities.

Gains and losses on commitments related to short selling of short-term investments and bonds are recorded in Gains (losses) on the sale of investments – Fixed-income securities, whereas those related to short selling of equities are recorded in Gains (losses) on the sale investments – Variable-income securities.

C / ADMINISTERED PROPERTY AND PROPERTY UNDER MANAGEMENT
Some subsidiaries of the Caisse administer and manage property entrusted to them by clients and on their behalf. This property is not included in the combined statement of net assets of the Caisse. Some subsidiaries of the Caisse receive fees in return for such portfolio management services and administrative services, which include administration of real estate properties and management of securitized loans.

D / FOREIGN CURRENCY TRANSLATION
The fair value of investments and any other assets and liabilities denominated in foreign currencies is translated into Canadian dollars at the rate of exchange prevailing at year-end.

The cost of investments in equities and that of real estate holdings from integrated foreign operations and the unamortized costs of investments in bonds, mortgages, and short-term investments are translated at the rate of exchange prevailing on the acquisition date. The cost of investments from self-sustaining foreign operations is translated at the rate prevailing at year-end.

Income is translated at the rate of exchange prevailing on the transaction date, with the exception of income from the specialized real estate portfolio, which is translated at the average rate for the year.

ACCOUNTING POLICIES (cont.)

E / LOAN SECURITIZATION

The Caisse periodically securitizes loans by selling loans to a collateralized security entity, which then issues securities to investors. Such transactions are recorded as sales where the Caisse is deemed to have relinquished control over such assets and to have received compensation other than the beneficial rights attached to the assets disposed of, in accordance with Accounting Guideline AcG-12 "Transfers of receivables". At time of securitization, no beneficial right attached to the securitized loans is retained. Any gains and losses deriving from such transactions are recorded under Gains (losses) on sale of investments – Mortgages.

Companies under common control usually continue to manage loans after disposition. Since management fees are established on the basis of the market for such services, no assets or liabilities under management are recorded at the date of disposition.

F / OPERATING EXPENSES

Operating expenses cover all expenses related to investment operations, including expenses paid to external financial institutions, and are presented under a specific item, with the exception of those related to real estate management and operation expenses and real estate debt, which are deducted from real estate holdings investment income and mortgages investment income respectively.

G / FUTURE ACCOUNTING CHANGES

The Canadian Institute of Chartered Accountants (CICA) issued Sections 3855 "Financial instruments: Recognition and Measurement" and 3861 "Financial instruments: Disclosure and Presentation", which came into effect for financial statements for fiscal periods beginning October 1, 2006. As the Caisse qualifies as an investment company according to the Accounting Guideline AcG-18 "Investment companies", the only provisions in Section 3855 applying to Caisse investments are those concerning the accounting, regular-way purchase or sale and measurement at fair value. Considerations concerning valuation at fair value including specific requirements for the measurement at fair value, and provisions on the accounting of transaction costs will have an impact on the Caisse.

In addition, Section 3861 will impact the notes to financial statements of the Caisse. For example, the Caisse will be required to disclose a description of its objectives and policies with respect to the management of financial risks.

The Caisse will apply these new standards during the year 2007 and will follow up on any changes the CICA could make to such standards.

3

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

A / INVESTMENTS

(in millions of dollars)		**2006**		2005
	Fair value	**Cost**	Fair value	Cost
Fixed-income securities				
Short-term investments				
Canadian	**28,945**	**28,947**	29,738	29,741
Foreign	**4,609**	**4,558**	2,099	2,170
	33,554	**33,505**	31,837	31,911
Bonds				
Issued or guaranteed by:				
Canadian government	**18,213**	**17,794**	26,999	26,146
Province of Québec	**9,309**	**8,388**	9,391	8,372
Other Canadian provinces	**4,002**	**3,907**	1,898	1,815
Municipalities and other Canadian bodies	**1,535**	**1,505**	1,248	1,202
Canadian government corporations	**10,681**	**9,932**	9,883	9,073
U.S. government	**1,180**	**1,148**	1,807	1,886
Other foreign governments	**950**	**916**	1,842	2,116
Mortgage securities	**3,634**	**3,628**	1,887	2,025
Canadian corporations	**14,583**	**14,447**	9,551	9,418
Foreign corporations	**3,076**	**3,068**	2,040	2,184
Inflation-indexed securities				
Canadian	**1,054**	**978**	1,277	1,111
Foreign	**3,328**	**3,380**	1,858	1,958
Hedge funds	**1,899**	**1,806**	1,473	1,491
	73,444	**70,897**	71,154	68,797
Mortgages				
Canadian	**4,877**	**4,779**	4,402	4,288
Foreign	**2,036**	**2,057**	579	591
	6,913	**6,836**	4,981	4,879
Total fixed-income securities	**113,911**	**111,238**	107,972	105,587
Variable-income securities				
Equities and convertible securities				
Canadian	**17,615**	**14,610**	17,350	15,584
U.S.	**15,903**	**15,571**	13,987	15,205
Foreign and emerging markets	**24,595**	**19,175**	16,057	14,490
Hedge funds	**4,477**	**4,267**	3,754	3,739
	62,590	**53,623**	51,148	49,018
Real estate holdings[1]				
Canadian	**11,382**	**8,357**	9,247	7,490
Foreign	**7,422**	**6,638**	3,635	3,843
	18,804	**14,995**	12,882	11,333
Total variable-income securities	**81,394**	**68,618**	64,030	60,351

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

A / INVESTMENTS (cont.)

(in millions of dollars)	2006 Fair value	2006 Cost	2005 Fair value	2005 Cost
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements				
Canadian	**1,332**	**1,332**	675	675
Foreign	**3,975**	**3,931**	2,694	2,717
Amount pertaining to derivative instruments				
Canadian	**394**	**9**	416	10
Foreign	**2,813**	**1,105**	1,321	472
	8,514	**6,377**	5,106	3,874
Total investments	**203,819**	**186,233**	177,108	169,812

(1) Investments – Real estate holdings includes investments in joint ventures now reported on an equity basis. These investments at fair value were as follows :

(in millions of dollars)	2006	2005
Investments in joint ventures	**5,957**	5,643
Real estate holdings	**8,839**	9,167
Short-term investments	**6**	3
Investment income, accrued and receivable	**7**	5
Other assets	**250**	337
	9,102	9,512
Mortgage loans payable	**2,642**	3,439
Other liabilities	**488**	404
Non-controlling interests	**15**	26
	3,145	3,869

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

B / LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)		**2006**		2005
	Fair value	**Cost**	Fair value	Cost
Securities sold under repurchase agreements				
Canadian	**26,944**	**26,951**	25,458	25,462
Foreign	**3,650**	**3,615**	4,022	4,062
Commercial paper payable	**4,111**	**4,112**	2,519	2,519
Medium-term notes	**1,091**	**1,090**	1,215	1,206
Loans payable				
Canadian	**160**	**159**	113	110
Foreign	**361**	**359**	86	86
Canadian commercial mortgage-backed securities				
Canadian	**333**	**311**	356	327
Foreign	**847**	**843**	–	–
Short selling of securities				
Canadian	**13,395**	**12,249**	12,232	11,565
Foreign	**5,126**	**4,854**	3,560	3,559
Mortgage loans payable				
Canadian	**661**	**641**	640	612
Foreign	**954**	**958**	233	227
Amount pertaining to derivative instruments				
Canadian	**189**	**35**	243	38
Foreign	**3,035**	**857**	955	343
	60,857	**57,034**	51,632	50,116

C / NON-CONTROLLING INTERESTS

(in millions of dollars)		**2006**		2005
	Fair value	**Cost**	Fair value	Cost
Canadian	**1,209**	**1,021**	1,023	948
Foreign	**265**	**263**	237	183
	1,474	**1,284**	1,260	1,131

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

D / SUMMARY GEOGRAPHIC BREAKDOWN OF FAIR VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)			**2006**
	Canadian	**Foreign**	**Total**
Investments			
Fixed-income securities	**93,466**	**20,445**	**113,911**
Equities and convertible securities	**17,627**	**44,963**	**62,590**
Real estate holdings	**11,382**	**7,422**	**18,804**
Amounts receivable with respect to investments	**1,726**	**6,788**	**8,514**
	124,201	**79,618**	**203,819**
Liabilities related to investments	**46,884**	**13,973**	**60,857**
Non-controlling interests	**1,209**	**265**	**1,474**

(in millions of dollars)			2005
	Canadian	Foreign	Total
Investments			
Fixed-income securities	94,749	13,223	107,972
Equities and convertible securities	17,349	33,799	51,148
Real estate holdings	9,247	3,635	12,882
Amounts receivable with respect to investments	1,091	4,015	5,106
	122,436	54,672	177,108
Liabilities related to investments	42,776	8,856	51,632
Non-controlling interests	1,023	237	1,260

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

E / SUMMARY OF MATURITIES OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS AT PAR VALUE

(in millions of dollars)					2006		2005
	Less than 2 years	**2 to 5 years**	**More than 5 years**	**Total**	**Effective interest rate**	Total par value	Effective interest rate
Fixed-income securities							
Short-term investments							
Canadian	**28,826**	**247**	**71**	**29,144**	**4.5%**	29,834	3.3%
Foreign	**4,361**	**87**	**151**	**4,599**	**6.8%**	2,103	5.1%
	33,187	**334**	**222**	**33,743**	**4.8%**	31,937	3.5%
Bonds							
Securities issued or guaranteed by:							
Canadian government	**1,352**	**3,401**	**11,608**	**16,361**	**4.1%**	23,895	3.8%
Province of Québec	**70**	**1,744**	**5,526**	**7,340**	**4.8%**	7,988	4.9%
Other Canadian provinces	**112**	**431**	**3,062**	**3,605**	**4.6%**	1,711	4.3%
Municipalities and other Canadian bodies	**248**	**577**	**668**	**1,493**	**5.2%**	1,185	5.3%
Canadian government corporations	**1,205**	**4,583**	**3,638**	**9,426**	**4.6%**	8,972	4.5%
U.S. government	**–**	**7**	**1,173**	**1,180**	**4.7%**	1,719	4.0%
Other foreign governments	**–**	**92**	**858**	**950**	**3.9%**	1,884	2.0%
Mortgage securities	**6**	**127**	**5,546**	**5,679**	**11.4%**	3,384	13.1%
Canadian corporations	**1,094**	**3,382**	**9,819**	**14,295**	**5.0%**	9,279	4.9%
Foreign corporations	**172**	**490**	**2,405**	**3,067**	**6.3%**	2,099	5.8%
Inflation-indexed securities							
Canadian	**–**	**–**	**658**	**658**	**2.3%**	745	2.4%
Foreign	**116**	**596**	**2,439**	**3,151**	**1.9%**	1,671	1.7%
	4,375	**15,430**	**47,400**	**67,205**	**5.1%**	64,532	4.7%
Mortgages							
Canadian	**1,452**	**1,722**	**1,605**	**4,779**	**6.8%**	4,280	6.4%
Foreign	**745**	**1,280**	**32**	**2,057**	**7.9%**	589	8.2%
	2,197	**3,002**	**1,637**	**6,836**	**7.2%**	4,869	6.6%
	39,759	**18,766**	**49,259**	**107,784**	**5.1%**	101,338	4.4%
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements							
Canadian	**1,332**	**–**	**–**	**1,332**	**4.2%**	676	3.3%
Foreign	**4,010**	**–**	**–**	**4,010**	**3.9%**	2,704	3.6%
	5,342	**–**	**–**	**5,342**	**4.0%**	3,380	3.5%
Liabilities related to investments							
Securities sold under repurchase agreements	**30,826**	**–**	**–**	**30,826**	**4.2%**	29,530	3.2%
Commercial paper payable	**4,143**	**–**	**–**	**4,143**	**4.3%**	2,525	3.3%
Medium-term notes	**936**	**156**	**–**	**1,092**	**4.2%**	1,210	4.2%
Loans payable	**371**	**150**	**–**	**521**	**4.4%**	193	3.9%
Canadian commercial mortgage-backed securities	**8**	**280**	**807**	**1,095**	**13.3%**	335	6.9%
Short selling of securities	**1,419**	**1,565**	**8,126**	**11,110**	**5.3%**	10,818	4.0%
Mortgage loans payable	**689**	**137**	**773**	**1,599**	**6.7%**	839	8.1%
	38,392	**2,288**	**9,706**	**50,386**	**4.7%**	45,450	3.5%

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

The fair value of investments includes Canadian ad foreign private companies' securities for which no market price is available. The fair value of such securities details as follows:

(in millions of dollars)	**2006**	2005
Canadian securities		
Short-term investments	**1,303**	541
Bonds	**814**	528
Equities and convertible securities	**4,154**	3,478
	6,271	4,547
Foreign securities		
Short-term investments	**2,248**	729
Bonds	**751**	530
Equities and convertible securities	**13,898**	7,359
	16,897	8,618
	23,168	13,165

In addition, gains in the amount of $4,594 million ($7,715 million in 2005) on the sale of investments recorded in changes in net assets were reduced by foreign exchange losses of $3,383 million (increased by foreign exchange gains of $1,257 million in 2005).

4

DEPOSITORS' HOLDINGS

Demand and term deposits bear interest, and constitute indebtedness on the part of the Caisse toward the depositors.

During the year, the Caisse paid $6 million (recovered $2 million in 2005) in interests on demand and term deposits.

Participation deposits are expressed in units, and each unit gives its holder a proportionate share in the net equity and the net income of a particular fund. At the end of each monthly period for the General Fund and the individual funds, the net investment income and the gains and losses on the sale of investments are distributed to participation deposit holders. At the beginning of the following period, the amounts distributed are paid out to (recovered from) the depositors' demand deposit accounts.

During the year, the Caisse paid $8,724 million ($6,350 million in 2005) in net income to participation deposit holders.

(in millions of dollars)	**2006**	2005
Caisse's indebtedness toward depositors		
Demand deposits	**739**	220
Term deposits	**24**	14
Interest on demand and term deposits	**–**	(1)
Net income to be paid out to participation deposit holders	**782**	828
	1,545	1,061
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of year	**104,162**	93,317
Units issued	**12,119**	11,957
Units cancelled	**(334)**	(1,112)
Balance, end of year	**115,947**	104,162
Amount not allocated with respect to real estate holdings*	**29**	31
Unrealized increase (decrease) in value allocated after interfund transactions	**(1,080)**	(597)
Amount not allocated after gains and losses on the sale of investments in the specialized portfolios **	**13,465**	11,851
Unrealized increase (decrease) in value of investments and other related assets and liabilities	**13,573**	5,651
	141,934	121,098
Depositors' holdings	**143,479**	122,159

* Represents the restated amount of accumulated depreciation of real estate properties resulting from the recording of investments at fair value. This amount will be allocated upon the sale of the properties.

** Represents the gains and losses on the sale of investments in the specialized portfolios that are not distributed at year-end. This amount will be allocated upon the sale of the participation units in portfolios.

5

INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS, AND UNREALIZED INCREASE (DECREASE) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

A / INVESTMENT INCOME

(in millions of dollars)	**2006**	2005
Fixed-income securities		
Short-term investments	**489**	189
Bonds	**2,589**	2,440
Mortgages *(note 5b)*	**206**	259
	3,284	2,888
Variable-income securities		
Equities and convertible securities	**1,544**	1,370
Real estate holdings *(note 5c)*	**707**	527
	2,251	1,897
Other income	**57**	37
Non-controlling interests	**(76)**	(98)
	5,516	4,724

Investment income – Fixed-income securities were reduced of $1,003 million ($672 million in 2005) in net expenses related to securities sold (acquired) under repurchase (reverse repurchase) agreements.

B / NET INCOME FROM MORTGAGES

(in millions of dollars)	**2006**	2005
Income from mortgages	**332**	321
Less:		
Expenses related to real estate debt subsidiaries		
Operation expenses	**36**	13
Financial costs of CMBS	**79**	49
Write-off of deferred charges	**11**	–
	126	62
	206	259

INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS, AND UNREALIZED INCREASE (DECREASE) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

C / NET INCOME FROM REAL ESTATE HOLDINGS

(in millions of dollars)	**2006**	2005
Income from real estate holdings	**1,965**	1,746
Less:		
Expenses related to real estate subsidiaries		
Operating expenses related to real estate holdings	**952**	893
Operation expenses	**83**	73
Loan financial expenses	**238**	275
	1,273	1,241
Other income	**15**	22
	707	527

D / GAINS (LOSSES) ON THE SALE OF INVESTMENTS

(in millions of dollars)	**2006**	2005
Fixed-income securities		
Short-term investments	**31**	31
Bonds	**(195)**	1,041
Mortgages	**(2)**	24
	(166)	1,096
Variable-income securities		
Equities and convertible securities	**4,824**	6,577
Real estate holdings	**(45)**	68
	4,779	6,645
Non-controlling interests	**(19)**	(26)
	4,594	7,715

INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS, AND UNREALIZED INCREASE (DECREASE) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

E / UNREALIZED INCREASE (DECREASE) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)	**2006**	2005
Fixed-income securities		
Short-term investments	**200**	(142)
Bonds	**322**	2
Mortgages	**(23)**	(36)
Securities acquired under reverse repurchase agreements	**80**	29
	579	(147)
Variable-income securities		
Equities and convertible securities	**7,491**	2,335
Real estate holdings	**2,218**	1,150
	9,709	3,485
Total investments	**10,288**	3,338
Less:		
Liabilities related to investments		
Securities sold under repurchase agreements	**72**	50
Commercial paper payable	**(1)**	–
Medium-term notes	**(8)**	(20)
Loans payable	**–**	10
Commercial mortgage-backed securities	**(3)**	(26)
Short selling of securities	**750**	258
Mortgage loans payable	**(18)**	(135)
Derivative financial instruments	**1,515**	116
Non-controlling interests	**61**	130
	2,368	383
	7,920	2,955

6

OPERATING EXPENSES

(in millions of dollars)	**2006**	2005
Salaries and employee benefits	**116**	107
Professional services	**42**	42
Data services and subscriptions	**14**	12
Premises and equipment	**16**	17
Depreciation of fixed assets	**12**	13
Other	**16**	15
	216	206
External management and safekeeping of securities	**46**	33
	262	239

7
DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value fluctuates as a function of the underlying asset, and which do not require holding or delivering the underlying asset itself. This underlying value may be of a financial nature (interest rate, foreign currency, stock market security or index) or a commodity (precious metal, foodstuff or oil).

The notional amount of a derivative financial instrument represents the value of the notional principal to which a rate or a price applies to determine the exchange of future cash flows, and does not reflect the credit risk pertaining to the instrument.

The Caisse uses derivative financial instruments that include the following:

Forward contracts and futures contracts are undertakings that enable the purchase or sale of an underlying value, the quantity and price of which are determined in the contract, which includes a predetermined delivery date. A forward contract involves customized conditions negotiated directly between the parties on the over-the-counter market. A futures contract has terms and conditions determined by an organized market.

A swap is a transaction whereby two parties agree to exchange financial returns on predetermined conditions that include a notional amount and a term.

An option is a contract negotiated by mutual agreement or traded on an organized market that gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index or commodity, at a strike price stipulated in advance, either at a determined date or at any time before a specified maturity date.

Foreign exchange risk arises from investments and liabilities related to investments denominated in foreign currencies, as well as from related derivative financial instruments. To manage exchange risk, the Caisse uses instruments negotiated with banks; maturities generally range from one to 12 months in the case of forward contracts and options, and from one to two years for foreign currency swaps. Upon maturity, new derivative financial instruments are negotiated to maintain effective long-term management of foreign exchange risks associated with investments and liabilities related to investments in foreign currencies.

Derivative instruments that are traded on exchanges or with banks and securities dealers are used to manage the interest rate and market risks of the total investment portfolio, as well as to generate income from transactions, which is included in investment income from fixed-income and variable-income securities.

These transactions are negotiated with financial institutions whose credit rating is established by a recognized credit rating agency and whose operational limits are duly approved by management. Moreover, the Caisse has signed compensation agreements to limit credit risks.

DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

A / SUMMARY OF DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)				2006	2005
	Notional amount	Assets	Liabilities	Net amount	Net amount
Foreign exchange risk management					
Foreign currency swaps					
Sales	2,249	47	70	(23)	32
Forward contracts	40,189	35	635	(600)	34
Over-the-counter foreign currency options					
Purchases	–	–	–	–	5
Sales	–	–	–	–	(4)
	42,438	82	705	(623)	67
Interest rate and market risk management					
Interest rate and foreign currency swaps	110,213	785	699	86	151
Equity swaps	63,586	252	136	116	159
Credit risk swaps	8,784	35	61	(26)	(2)
Futures contracts	537,647	–	–	–	–
Forward contracts	56,398	815	748	67	10
Exchange-traded options					
Purchases	237,839	241	–	241	112
Sales	203,549	–	227	(227)	(97)
Over-the-counter options					
Purchases	57,891	997	–	997	375
Sales	37,476	–	648	(648)	(236)
	1,313,383	3,125	2,519	606	472
Total derivative financial instrument contracts	1,355,821	3,207	3,224	(17)	539

DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

B / SUMMARY OF DERIVATIVE FINANCIAL INSTRUMENT MATURITIES

(in millions of dollars)				**2006**	2005
	Notional amount – Maturity				
	Less than 2 years	**2 to 5 years**	**More than 5 years**	**Total**	Notional amount
Foreign exchange risk management					
Foreign currency swaps					
Sales	**612**	**1,292**	**345**	**2,249**	1,091
Forward contracts	**40,037**	**44**	**108**	**40,189**	26,776
Over-the-counter foreign currency options					
Purchases	**–**	**–**	**–**	**–**	33
Sales	**–**	**–**	**–**	**–**	15
	40,649	**1,336**	**453**	**42,438**	27,915
Interest rate and market risk management					
Interest rate and foreign currency swaps	**25,925**	**16,945**	**67,343**	**110,213**	69,150
Equity swaps	**45,821**	**14,043**	**3,722**	**63,586**	11,387
Credit risk swaps	**1,467**	**6,805**	**512**	**8,784**	3,220
Futures contracts	**503,904**	**33,743**	**–**	**537,647**	152,209
Forward contracts	**47,560**	**8,801**	**37**	**56,398**	12,596
Exchange-traded options					
Purchases	**226,890**	**10,949**	**–**	**237,839**	72,809
Sales	**195,403**	**8,146**	**–**	**203,549**	69,611
Over-the-counter options					
Purchases	**36,551**	**8,936**	**12,404**	**57,891**	53,238
Sales	**20,534**	**10,700**	**6,242**	**37,476**	32,601
	1,104,055	**119,068**	**90,260**	**1,313,383**	476,821
Total derivative financial instruments contracts	**1,144,704**	**120,404**	**90,713**	**1,355,821**	504,736

8

SECURITIZATION

In the course of Caisse securitization operations, commercial mortgage-backed securities and notes payable acquired by the Caisse over the last few years from a collateralized security entity, are recorded in the combined statement of net assets, under Mortgages securities. As at December 31, 2006 these securities amounted to $293.6 million ($314.8 million in 2005). Securitization operations have allowed companies under common control to generate management fees representing $2.1 million in 2006 ($1.9 million in 2005). No losses are expected owing to the nature and quality of such loans.

9

COMMITMENTS AND CONTINGENCIES

Given the nature of its operations, the Caisse has a number of commitments.

Commitments to buy investments mean the Caisse is committed to buying investments that will be settled in the coming financial years, in accordance with the terms and conditions in each agreement.

For the Caisse, collaterals and loan guarantees consist in securing future income deriving from the sale of investments and transactions on derivatives as well as the reimbursement of loans made by investee companies to financial institutions and corporations. Collaterals related to the reimbursement of loans have no specific maturity date, except in some cases, where terms vary between one and four years.

(in millions of dollars)	**2006**	2005
Commitments to buy investments	**20,741**	8,859
Collaterals and loan guarantees (maximum amount)	**567**	737
	21,308	9,596

10

COLLATERALS

In the normal course of business, the Caisse conducts transactions involving the lending and borrowing of securities in exchange for collaterals or assets, with various counterparties, with which clearing agreements have been signed to limit credit risk. In its securities lending operations, the Caisse received assets as collateral. As at December 31, 2006, the Caisse had pledged and received as collateral securities and other assets for amounts of $39,460 million ($31,411 million in 2005) and $8,318 million ($6,769 million in 2005) respectively. The amount of the assets pledged as collateral consists of assets with a value of $764 million ($688 million in 2005), which were pledged with depositaries to participate in clearing and payment systems.

11

COMPARATIVE FIGURES

Certain figures from the 2005 financial statements have been reclassified to conform to the presentation adopted in 2006.

SUMMARY FINANCIAL STATEMENTS FOR THE SPECIALIZED PORTFOLIOS

(in millions of dollars)

	Bonds (760)		Real Return Bonds (762)		Long Term Bonds (764) (created 05-04-01)		Commodity Financial Instruments (763)		Quebec International (761)	
CONSOLIDATED NET ASSETS AS AT DECEMBER 31	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
ASSETS										
Investments at fair value										
Bonds	**52,995.7**	52,143.8	**1,053.9**	1,264.1	**3,001.8**	2,622.9	**1,983.4**	1,574.2	**10,756.4**	9,284.0
Equities and convertible securities	**–**	–	**–**	–	**–**	–	**939.6**	240.4	**1,302.5**	710.1
Mortgages	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Mortgage securities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Real estate holdings	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Short-term investments	**5,826.1**	2,686.6	**–**	–	**–**	–	**500.0**	392.7	**2,641.8**	2,174.7
Securities acquired under reverse repurchase agreements	**11,044.9**	2,108.2	**–**	–	**27.5**	–	**–**	–	**925.7**	2,577.5
Demand deposits in the General Fund	**5,775.0**	18,507.7	**310.1**	–	**1,251.2**	–	**2.1**	–	**5,002.1**	–
	75,641.7	75,446.3	**1,364.0**	1,264.1	**4,280.5**	2,622.9	**3,425.1**	2,207.3	**20,628.5**	14,746.3
Other assets	**1,349.4**	1,497.1	**24.9**	4.5	**235.2**	83.9	**113.1**	51.7	**152.8**	125.9
	76,991.1	76,943.4	**1,388.9**	1,268.6	**4,515.7**	2,706.8	**3,538.2**	2,259.0	**20,781.3**	14,872.2
LIABILITIES										
Advances from the General Fund	**–**	–	**–**	18.0	**–**	42.8	**–**	48.5	**–**	1,267.2
Securities sold under repurchase agreements	**26,556.8**	29,199.5	**328.6**	–	**1,279.2**	–	**–**	–	**6,249.7**	612.2
Short selling of securities	**13,372.1**	10,976.8	**–**	–	**41.7**	–	**–**	–	**854.1**	1,861.8
Loans and notes payable	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Mortgage loans payable	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Commercial mortgage–backed securities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Derivative financial instruments	**659.3**	328.2	**–**	–	**–**	–	**893.1**	194.6	**49.4**	4.0
Other liabilities	**654.2**	350.3	**0.1**	–	**13.6**	733.6	**332.4**	454.7	**559.5**	292.2
Non-controlling interests	**4.3**	–	**–**	–	**–**	–	**–**	–	**–**	–
	41,246.7	40,854.8	**328.7**	18.0	**1,334.5**	776.4	**1,225.5**	697.8	**7,712.7**	4,037.4
NET HOLDINGS OF FUNDS	**35,744.4**	36,088.6	**1,060.2**	1,250.6	**3,181.2**	1,930.4	**2,312.7**	1,561.2	**13,068.6**	10,834.8
STATEMENT OF CONSOLIDATED INCOME FOR THE YEAR ENDED DECEMBER 31										
INCOME										
Investment income										
Bonds	**1,527.8**	1,515.0	**32.4**	47.7	**130.6**	45.0	**54.9**	58.5	**426.4**	354.5
Equities and convertible securities	**–**	–	**–**	–	**–**	–	**–**	–	**12.5**	8.1
Mortgages	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Mortgage securities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Real estate holdings	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Short-term investments	**178.9**	65.1	**–**	–	**–**	–	**20.2**	8.2	**101.2**	54.2
Demand deposits in (advances from) the General Fund	**(26.8)**	(77.8)	**–**	(0.2)	**2.6**	(0.4)	**(3.4)**	(0.9)	**(25.0)**	(6.7)
	1,679.9	1,502.3	**32.4**	47.5	**133.2**	44.6	**71.7**	65.8	**515.1**	410.1
Other income	**3.9**	0.5	**–**	–	**–**	–	**–**	–	**–**	–
	1,683.8	1,502.8	**32.4**	47.5	**133.2**	44.6	**71.7**	65.8	**515.1**	410.1
Operating expenses	**27.4**	27.0	**0.6**	0.6	**1.1**	1.0	**6.0**	2.3	**7.2**	6.5
INCOME BEFORE THE FOLLOWING ITEMS	**1,656.4**	1,475.8	**31.8**	46.9	**132.1**	43.6	**65.7**	63.5	**507.9**	403.6
Interest on notes payable	**2.4**	–	**–**	–	**–**	–	**–**	–	**–**	–
Non-controlling interest	**0.1**	–	**–**	–	**–**	–	**–**	–	**–**	–
NET INVESTMENT INCOME (LOSS)	**1,653.9**	1,475.8	**31.8**	46.9	**132.1**	43.6	**65.7**	63.5	**507.9**	403.6
CHANGES IN CONSOLIDATED NET ASSETS FOR THE YEAR ENDED DECEMBER 31										
INVESTMENT OPERATIONS										
Net investment income (loss)	**1,653.9**	1,475.8	**31.8**	46.9	**132.1**	43.6	**65.7**	63.5	**507.9**	403.6
Gains (losses) on sale of investments	**430.1**	830.1	**21.5**	16.2	**(8.0)**	40.0	**15.2**	100.6	**1,472.4**	1,357.2
Unrealized increase (decrease) in value of investments and liabilities related to investments	**(645.1)**	(142.7)	**(91.4)**	101.3	**9.7**	46.6	**(0.4)**	31.2	**(95.4)**	(4.5)
Total investment operations	**1,438.9**	2,163.2	**(38.1)**	164.4	**133.8**	130.2	**80.5**	195.3	**1,884.9**	1,756.3
Participation units issued (cancelled)	**(129.2)**	2,669.2	**(120.5)**	47.2	**1,249.1**	1,843.8	**736.7**	422.7	**856.8**	1,314.4
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(1,653.9)**	(1,475.8)	**(31.8)**	(46.9)	**(132.1)**	(43.6)	**(65.7)**	(63.5)	**(507.9)**	(403.6)
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	**(344.2)**	3,356.6	**(190.4)**	164.7	**1,250.8**	1,930.4	**751.5**	554.5	**2,233.8**	2,667.1
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	**36,088.6**	32,732.0	**1,250.6**	1,085.9	**1,930.4**	–	**1,561.2**	1,006.7	**10,834.8**	8,167.7
CONSOLIDATED NET ASSETS, END OF YEAR	**35,744.4**	36,088.6	**1,060.2**	1,250.6	**3,181.2**	1,930.4	**2,312.7**	1,561.2	**13,068.6**	10,834.8
INVESTMENTS AND LIABILITIES AT COST AS AT DECEMBER 31										
ASSETS										
Investments										
Bonds	**51,183.9**	49,935.8	**981.4**	1,100.2	**2,946.1**	2,576.3	**2,051.8**	1,676.2	**10,637.7**	8,933.2
Equities and convertible securities	**–**	–	**–**	–	**–**	–	**198.1**	74.4	**1,164.5**	688.6
Mortgages	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Mortgage securities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Real estate holdings	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Short-term investments	**5,728.3**	2,652.5	**–**	–	**–**	–	**500.0**	392.8	**2,641.8**	2,174.5
Securities acquired under reverse repurchase agreements	**11,029.8**	2,104.4	**–**	–	**27.5**	–	**–**	–	**908.1**	2,577.5
Demand deposits in the General Fund	**5,775.0**	18,507.7	**310.1**	–	**1,251.2**	–	**2.1**	–	**5,002.1**	–
	73,717.0	73,200.4	**1,291.5**	1,100.2	**4,224.8**	2,576.3	**2,752.0**	2,143.4	**20,354.2**	14,373.8
LIABILITIES										
Securities sold under repurchase agreements	**26,545.4**	29,210.5	**328.7**	–	**1,279.5**	–	**–**	–	**6,251.1**	612.2
Short selling of securities	**13,372.2**	11,034.1	**–**	–	**42.1**	–	**–**	–	**844.4**	1,823.2
Loans and notes payable	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Mortgage loans payable	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Commercial mortgage-backed securities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Derivative financial instruments	**194.6**	108.0	**–**	–	**–**	–	**150.1**	61.3	**17.9**	–
Non-controlling interests	**4.3**	–	**–**	–	**–**	–	**–**	–	**–**	–

Canadian Equity (720)		Hedge Funds (770)		U.S. Equity Hedged (731)		U.S. Equity Unhedged (734)		Emerging Markets Equity (732)		Foreign Equity Hedged (730)		Foreign Equity Unhedged (733)		Real Estate Debt (750)	
2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
–	–	**1,656.3**	2,624.0	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
12,369.1	13,338.6	**4,698.1**	3,791.7	**7,603.7**	7,324.1	**–**	–	**4,187.5**	1,557.8	**10,065.1**	9,236.8	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**6,700.4**	4,810.1
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**3,579.1**	1,837.9
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**1.1**	2.3
11,606.3	8,091.9	**752.2**	417.3	**26.7**	–	**5,459.0**	5,191.1	**66.6**	11.1	**5.1**	110.1	**6,195.5**	5,796.3	**–**	–
–	–	**1,595.3**	241.3	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
151.9	–	**–**	–	**–**	26.9	**64.1**	1.8	**–**	–	**–**	–	**26.6**	54.8	**35.8**	159.9
24,127.3	21,430.5	**8,701.9**	7,074.3	**7,630.4**	7,351.0	**5,523.1**	5,192.9	**4,254.1**	1,568.9	**10,070.2**	9,346.9	**6,222.1**	5,851.1	**10,316.4**	6,810.2
72.4	59.3	**44.0**	28.4	**565.5**	8.0	**7.9**	6.0	**56.6**	1.0	**162.7**	26.6	**4.6**	2.0	**295.4**	85.4
24,199.7	21,489.8	**8,745.9**	7,102.7	**8,195.9**	7,359.0	**5,531.0**	5,198.9	**4,310.7**	1,569.9	**10,232.9**	9,373.5	**6,226.7**	5,853.1	**10,611.8**	6,895.6
–	673.7	**501.3**	144.4	**159.1**	–	**–**	–	**8.8**	285.3	**731.1**	1,061.6	**–**	–	**–**	–
71.6	–	**1,102.2**	1,747.4	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
4,785.3	3,121.0	**1,596.6**	509.9	**695.6**	354.4	**–**	–	**–**	1.7	**82.4**	16.0	**–**	–	**–**	–
25.6	–	**64.2**	–	**5,422.6**	5,186.0	**–**	–	**–**	–	**6,149.9**	5,788.2	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**1,236.0**	427.9
48.1	28.8	**699.4**	435.0	**113.3**	35.7	**–**	0.1	**0.3**	–	**93.0**	29.6	**26.2**	50.7	**220.4**	8.8
455.5	265.8	**17.8**	13.7	**35.5**	110.5	**5.5**	4.9	**8.8**	2.4	**15.2**	14.3	**2.0**	–	**81.0**	144.1
–	–	**542.9**	343.0	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
5,386.1	4,089.3	**4,524.4**	3,193.4	**6,426.1**	5,686.6	**5.5**	5.0	**17.9**	289.4	**7,071.6**	6,909.7	**28.2**	50.7	**1,537.4**	580.8
18,813.6	17,400.5	**4,221.5**	3,909.3	**1,769.8**	1,672.4	**5,525.5**	5,193.9	**4,292.8**	1,280.5	**3,161.3**	2,463.8	**6,198.5**	5,802.4	**9,074.4**	6,314.8
–	–	**(0.4)**	8.5	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
463.6	330.9	**2.4**	0.7	**150.6**	124.5	**–**	–	**60.4**	26.8	**374.2**	396.0	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**485.4**	522.5
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
388.4	191.9	**2.7**	1.3	**0.6**	–	**105.5**	92.5	**2.1**	0.7	**0.2**	(0.1)	**227.2**	248.6	**–**	–
(34.2)	(31.1)	**(11.5)**	(8.1)	**(8.2)**	0.8	**0.2**	0.2	**1.5**	(0.6)	**(24.5)**	(32.7)	**0.2**	0.4	**7.6**	(1.8)
817.8	491.7	**(6.8)**	2.4	**143.0**	125.3	**105.7**	92.7	**64.0**	26.9	**349.9**	363.2	**227.4**	249.0	**493.0**	520.7
2.3	1.5	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**13.3**	5.2
820.1	493.2	**(6.8)**	2.4	**143.0**	125.3	**105.7**	92.7	**64.0**	26.9	**349.9**	363.2	**227.4**	249.0	**506.3**	525.9
33.5	37.0	**24.4**	32.4	**8.1**	5.6	**23.3**	15.5	**16.3**	11.4	**11.4**	8.3	**23.2**	17.9	**12.1**	10.9
786.6	456.2	**(31.2)**	(30.0)	**134.9**	119.7	**82.4**	77.2	**47.7**	15.5	**338.5**	354.9	**204.2**	231.1	**494.2**	515.0
0.6	–	**1.4**	–	**105.7**	92.5	**–**	–	**–**	–	**238.8**	248.5	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**3.3**	–
786.0	456.2	**(32.6)**	(30.0)	**29.2**	27.2	**82.4**	77.2	**47.7**	15.5	**99.7**	106.4	**204.2**	231.1	**490.9**	515.0
786.0	456.2	**(32.6)**	(30.0)	**29.2**	27.2	**82.4**	77.2	**47.7**	15.5	**99.7**	106.4	**204.2**	231.1	**490.9**	515.0
2,670.7	2,391.8	**(268.8)**	585.6	**(546.6)**	222.0	**535.3**	200.6	**163.5**	193.2	**(693.9)**	297.0	**1,050.3**	210.9	**(33.4)**	112.2
138.2	347.8	**543.8**	(282.6)	**761.5**	(167.7)	**115.6**	(119.3)	**702.1**	73.0	**1,067.0**	201.7	**69.7**	86.2	**33.3**	(117.1)
3,594.9	3,195.8	**242.4**	273.0	**244.1**	81.5	**733.3**	158.5	**913.3**	281.7	**472.8**	605.1	**1,324.2**	528.2	**490.8**	510.1
(1,395.8)	(646.8)	**37.2**	801.3	**(117.5)**	(1,806.9)	**(319.3)**	115.6	**2,146.7**	75.9	**324.4**	(720.0)	**(723.9)**	137.5	**2,759.7**	2,045.1
(786.0)	(456.2)	**32.6**	30.0	**(29.2)**	(27.2)	**(82.4)**	(77.2)	**(47.7)**	(15.5)	**(99.7)**	(106.4)	**(204.2)**	(231.1)	**(490.9)**	(515.0)
1,413.1	2,092.8	**312.2**	1,104.3	**97.4**	(1,752.6)	**331.6**	196.9	**3,012.3**	342.1	**697.5**	(221.3)	**396.1**	434.6	**2,759.6**	2,040.2
17,400.5	15,307.7	**3,909.3**	2,805.0	**1,672.4**	3,425.0	**5,193.9**	4,997.0	**1,280.5**	938.4	**2,463.8**	2,685.1	**5,802.4**	5,367.8	**6,314.8**	4,274.6
18,813.6	17,400.5	**4,221.5**	3,909.3	**1,769.8**	1,672.4	**5,525.5**	5,193.9	**4,292.8**	1,280.5	**3,161.3**	2,463.8	**6,198.5**	5,802.4	**9,074.4**	6,314.8
–	–	**1,512.0**	2,712.8	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
8,648.5	10,240.7	**4,484.8**	3,830.5	**6,834.4**	7,496.8	**–**	–	**3,203.7**	1,275.2	**7,973.5**	8,393.0	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**6,596.8**	4,678.1
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**3,473.7**	1,900.4
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**3.5**	5.2
11,599.7	8,081.3	**683.3**	442.5	**25.4**	–	**5,347.8**	5,195.4	**65.7**	11.0	**5.1**	12.1	**5,885.7**	5,531.6	**–**	–
–	–	**1,578.1**	262.5	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
151.9	–	**–**	–	**–**	26.9	**64.1**	1.8	**–**	–	**–**	–	**26.6**	54.8	**35.8**	159.9
20,400.1	18,322.0	**8,258.2**	7,248.3	**6,859.8**	7,523.7	**5,411.9**	5,197.2	**3,269.4**	1,286.2	**7,978.6**	8,405.1	**5,912.3**	5,586.4	**10,109.8**	6,743.6
–	–	**1,088.8**	1,778.6	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
3,631.4	2,427.2	**1,573.6**	527.5	**638.3**	345.4	**–**	–	**–**	1.4	**71.7**	17.0	**–**	–	**–**	–
25.4	–	**64.2**	–	**5,352.9**	5,195.5	**–**	–	**–**	–	**5,885.6**	5,531.6	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**1,210.6**	399.3
12.9	13.7	**485.6**	194.9	**50.5**	27.2	**–**	–	**–**	–	**0.1**	–	**–**	–	**103.0**	1.4
–	–	**500.4**	315.4	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–

(in millions of dollars)

	Real Estate (710)		Short Term Investments (740)		Asset Allocation (771)		Private Equity (780)		Investments and Infrastructures (781)	
CONSOLIDATED NET ASSETS AS AT DECEMBER 31	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
ASSETS										
Investments at fair value										
Bonds	**32.0**	–	**–**	–	**2,255.7**	1,468.5	**605.6**	510.4	**960.5**	549.5
Equities and convertible securities	**4,445.9**	3,414.9	**–**	–	**866.4**	1,824.2	**8,460.7**	5,539.2	**9,732.3**	5,094.3
Mortgages	**375.8**	340.9	**–**	–	**–**	–	**–**	–	**–**	–
Mortgage securities	**125.1**	124.1	**–**	–	**–**	–	**–**	–	**–**	–
Real estate holdings	**18,881.1**	12,994.7	**–**	–	**–**	–	**–**	–	**–**	–
Short-term investments	**82.0**	139.0	**27,493.9**	27,521.7	**528.2**	196.2	**310.6**	275.5	**3,242.9**	996.5
Securities acquired under reverse repurchase agreements	**–**	–	**21,002.5**	22,216.0	**966.2**	393.3	**–**	–	**–**	–
Demand deposits in the General Fund	**–**	–	**–**	–	**–**	–	**–**	65.3	**–**	–
	23,941.9	17,013.6	**48,496.4**	49,737.7	**4,616.5**	3,882.2	**9,376.9**	6,390.4	**13,935.7**	6,640.3
Other assets	**428.7**	352.2	**732.5**	280.7	**17.6**	8.1	**27.8**	48.8	**57.9**	42.7
	24,370.6	17,365.8	**49,228.9**	50,018.4	**4,634.1**	3,890.3	**9,404.7**	6,439.2	**13,993.6**	6,683.0
LIABILITIES										
Advances from the General Fund	**500.5**	20.1	**7,176.4**	12,999.0	**1,993.1**	1,486.1	**912.8**	–	**856.8**	133.3
Securities sold under repurchase agreements	**–**	–	**24,423.1**	21,700.0	**895.2**	387.5	**–**	–	**–**	–
Short selling of securities	**55.3**	43.5	**16.1**	–	**1,227.4**	582.3	**81.4**	84.6	**43.4**	59.3
Loans and notes payable	**5,695.5**	3,996.1	**14,787.7**	8,435.6	**–**	1,227.3	**89.2**	–	**3,853.7**	1,313.0
Mortgage loans payable	**1,776.9**	1,041.7	**–**	–	**–**	–	**–**	–	**–**	–
Commercial mortgage–backed securities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Derivative financial instruments	**390.4**	108.4	**8.2**	5.0	**92.9**	15.7	**70.2**	52.1	**113.5**	21.2
Other liabilities	**1,166.3**	753.7	**128.4**	2,839.3	**32.8**	29.7	**17.3**	74.6	**54.5**	33.5
Non–controlling interests	**939.9**	738.9	**–**	–	**4.4**	–	**98.1**	82.7	**427.4**	438.4
	10,524.8	6,702.4	**46,539.9**	45,978.9	**4,245.8**	3,728.6	**1,269.0**	294.0	**5,349.3**	1,998.7
NET HOLDINGS OF FUNDS	**13,845.8**	10,663.4	**2,689.0**	4,039.5	**388.3**	161.7	**8,135.7**	6,145.2	**8,644.3**	4,684.3
STATEMENT OF CONSOLIDATED INCOME FOR THE YEAR ENDED DECEMBER 31										
INCOME										
Investment income										
Bonds	**1.4**	–	**–**	–	**25.0**	8.9	**28.3**	55.4	**55.4**	53.4
Equities and convertible securities	**114.5**	40.6	**–**	–	**9.1**	15.3	**169.6**	191.8	**187.0**	234.7
Mortgages	**38.3**	43.5	**–**	–	**–**	–	**–**	–	**–**	–
Mortgage securities	**8.8**	7.1	**–**	–	**–**	–	**–**	–	**–**	–
Real estate holdings	**500.2**	398.8	**–**	–	**–**	–	**–**	–	**–**	–
Short-term investments	**31.0**	26.3	**392.7**	155.5	**8.4**	3.4	**34.4**	30.2	**111.9**	52.6
Demand deposits in (advances from) the General Fund	**(6.5)**	(1.3)	**197.2**	173.6	**(82.9)**	(40.8)	**(3.1)**	7.6	**(19.4)**	(2.0)
	687.7	515.0	**589.9**	329.1	**(40.4)**	(13.2)	**229.2**	285.0	**334.9**	338.7
Other income	**–**	–	**–**	–	**–**	–	**14.6**	10.5	**25.3**	21.0
	687.7	515.0	**589.9**	329.1	**(40.4)**	(13.2)	**243.8**	295.5	**360.2**	359.7
Operating expenses	**8.4**	8.0	**2.8**	1.6	**10.0**	8.1	**31.6**	31.9	**30.9**	27.1
INCOME BEFORE THE FOLLOWING ITEMS	**679.3**	507.0	**587.1**	327.5	**(50.4)**	(21.3)	**212.2**	263.6	**329.3**	332.6
Interest on notes payable	**–**	–	**425.0**	207.7	**30.2**	31.9	**2.2**	–	**110.5**	40.0
Non-controlling interest	**49.9**	39.7		–	**–**	–	**(0.1)**	–	**23.2**	58.4
NET INVESTMENT INCOME (LOSS)	**629.4**	467.3	**162.1**	119.8	**(80.6)**	(53.2)	**210.1**	263.6	**195.6**	234.2
CHANGES IN CONSOLIDATED NET ASSETS FOR THE YEAR ENDED DECEMBER 31										
INVESTMENT OPERATIONS										
Net investment income (loss)	**629.4**	467.3	**162.1**	119.8	**(80.6)**	(53.2)	**210.1**	263.6	**195.6**	234.2
Gains (losses) on sale of investments	**420.9**	1,041.1	**(8.5)**	(16.8)	**198.2**	186.4	**(64.6)**	523.4	**(265.8)**	224.6
Unrealized increase (decrease) in value of investments and liabilities related to investments	**2,233.7**	1,497.5	**(1.7)**	2.6	**14.6**	(82.9)	**1,682.5**	709.3	**910.1**	(13.8)
Total investment operations	**3,284.0**	3,005.9	**151.9**	105.6	**132.2**	50.3	**1,828.0**	1,496.3	**839.9**	445.0
Participation units issued (cancelled)	**527.8**	445.3	**(1,340.3)**	1,702.9	**13.8**	(166.5)	**372.6**	(185.0)	**3,315.7**	600.5
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(629.4)**	(467.3)	**(162.1)**	(119.8)	**80.6**	53.2	**(210.1)**	(263.6)	**(195.6)**	(234.2)
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	**3,182.4**	2,983.9	**(1,350.5)**	1,688.7	**226.6**	(63.0)	**1,990.5**	1,047.7	**3,960.0**	811.3
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	**10,663.4**	7,679.5	**4,039.5**	2,350.8	**161.7**	224.7	**6,145.2**	5,097.5	**4,684.3**	3,873.0
CONSOLIDATED NET ASSETS, END OF YEAR	**13,845.8**	10,663.4	**2,689.0**	4,039.5	**388.3**	161.7	**8,135.7**	6,145.2	**8,644.3**	4,684.3
INVESTMENTS AND LIABILITIES AT COST AS AT DECEMBER 31										
ASSETS										
Investments										
Bonds	**32.0**	–	**–**	–	**2,141.7**	1,465.9	**637.5**	582.2	**981.3**	570.5
Equities and convertible securities	**2,903.0**	2,272.2	**–**	–	**803.7**	1,825.0	**10,370.5**	9,055.4	**8,195.3**	4,519.2
Mortgages	**388.6**	354.9	**–**	–	**–**	–	**–**	–	**–**	–
Mortgage securities	**122.6**	124.6	**–**	–	**–**	–	**–**	–	**–**	–
Real estate holdings	**14,834.4**	11,167.3	**–**	–	**–**	–	**–**	–	**–**	–
Short-term investments	**82.0**	139.7	**27,499.0**	27,524.5	**494.1**	198.1	**295.4**	278.5	**3,217.8**	997.4
Securities acquired under reverse repurchase agreements	**–**	–	**20,984.4**	22,219.5	**958.0**	398.1	**–**	–	**–**	–
Demand deposits in the General Fund	**–**	–	**–**	–	**–**	–	**–**	65.3	**–**	–
	18,362.6	14,058.7	**48,483.4**	49,744.0	**4,397.5**	3,887.1	**11,303.4**	9,981.4	**12,394.4**	6,087.1
LIABILITIES										
Securities sold under repurchase agreements	**–**	–	**24,405.2**	21,701.5	**889.8**	391.2	**–**	–	**–**	–
Short selling of securities	**52.1**	44.1	**16.1**	–	**1,111.4**	586.1	**54.4**	71.5	**25.6**	42.1
Loans and notes payable	**5,692.4**	3,988.1	**14,787.7**	8,435.6	**–**	1,231.0	**89.3**	–	**3,853.3**	1,311.4
Mortgage loans payable	**1,749.1**	992.9	**–**	–	**–**	–	**–**	–	**–**	–
Commercial mortgage-backed securities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Derivative financial instruments	**4.3**	8.5	**3.1**	1.5	**0.8**	0.2	**–**	–	**0.3**	0.6
Non-controlling interests	**737.7**	660.9	**–**	–	**4.4**	–	**88.5**	23.2	**449.5**	446.4

ECONOMIC DEVELOPMENT

THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC CONTRIBUTES TO QUÉBEC'S ECONOMIC DEVELOPMENT IN VARIOUS WAYS

It does so mainly through:

/ The financial return it earns on depositors' capital

/ Its impact as an investor in proximity to Québec

/ Its impact on Québec's real estate market

/ The benefits of its operations for Québec's financial marketplace

/ Its social commitment and that of its employees

HIGHLIGHTS 2006

/ The Private Equity group's investments in Québec totalled a record $5.4 billion as at December 31, 2006.

/ The Caisse continued to act as a catalyst for Québec's venture capital industry, primarily by creating new funds and attracting funds from outside the country.

/ The Caisse and the Business Development Bank of Canada renewed their partnership with a second fund to provide $300 million for small business financing.

/ The Québec Manufacturing Fund was created in October with $100 million of initial funding.

/ In New York, the Caisse signed the Principles for Responsible Investment developed by the United Nations and endorsed the Carbon Disclosure Project.

/ The Collège des administrateurs de sociétés, of which the Caisse is a founding member, honoured its first graduates.

/ The Caisse and its subsidiary SITQ provided funding for two new chairs at the Université de Montréal, the Bell-CDPQ Chair on Experimental Economics and the Observatoire SITQ du développement urbain et immobilier.

/ The Caisse, its subsidiaries and their employees contributed more than $950,000 to the Centraide/United Way fund-raising campaign.

FINANCIAL RETURN ON DEPOSITORS' CAPITAL

The Caisse's foremost contribution to Québec's economic development is to obtain the best possible return on its depositors' capital, in accordance with their investment policies.

The depositors are mainly public and private pension funds and insurance plans whose funds are managed by the Caisse. The funds consist of contributions and premiums paid by Quebecers who are members of the plans. The present value of current and future contributions and of the expected returns constitutes a plan's actuarial assets. The assets should ideally cover current and forecast benefits. In the context of a rapidly aging population, the financial returns that the Caisse earns for its depositors are increasingly important to the financial health of the plans.

A recurring increase in the Caisse's return facilitates not only matching of a plan's financial resources and obligations, but could also enable the depositor to lower contributions or to increase benefits. With all else being equal, if the return generated by the Caisse is in line with a depositor's return assumptions, the plan will be able to pay retirement or insurance benefits and maintain contributions at the forecast level. But if the return generated by the Caisse exceeds a depositor's return assumptions, the plan will have an actuarial surplus. In this case, the plan could eventually lower the level of contributions, or increase retirement or insurance benefits. Finally, if the return falls short of the depositor's return assumptions, the plan will have an actuarial deficit. The plan could then eventually have to increase the level of contributions or decrease the retirement or insurance benefits.

In economic terms, this means that when the Caisse generates returns that exceed depositors' actuarial assumptions, it contributes directly to Québec's economic development by ultimately increasing the disposable income of the various plans' contributors or beneficiaries, whether they are individuals or businesses. Conversely, if the Caisse generates returns that are lower than their actuarial assumptions, this will have an adverse impact on contributors or beneficiaries and on Québec's economic development. In this case, the shortfall could take the form of higher contributions, or lower pension and insurance benefits, or both.

This analysis clearly shows that a value-added return is a good way to contribute to Québec's economic development. To obtain the expected returns, larger amounts must be allocated to non-traditional investments such as private equity, infrastructure and real estate, which present an attractive risk-return profile.

The Caisse has the size and the talent to carry out this type of transaction, although it often does so in partnership with international investors. The Québec companies the Caisse does business with can use this international network to seek out business opportunities as part of their expansion plans, which gives additional impetus to Québec's economic development.

THE CAISSE AS AN INVESTOR IN PROXIMITY TO QUÉBEC: BUSINESS FINANCING AND ASSISTANCE

In Québec, the Caisse has the advantage of proximity. Throughout its history, it has used its knowledge of the Québec market to identify and act on profitable business opportunities that other investors have overlooked or undervalued. In so doing, the Caisse has earned competitive returns on its Québec investments and, by offsetting the inadequacies of the market, has had a sustainable positive impact on our economy. In this way, it has helped improve the functioning of the financial markets. Quite apart from its financial return, the impacts of the Caisse's investment operations have made a fine contribution to Québec's economic development for more than 40 years.

Québec's financial markets have become more efficient, and business opportunities that are undervalued by the markets are scarcer and more limited. Even so, Québec's financial markets and businesses still benefit from the structuring impacts of the Caisse's investment activities in the province. This contribution to Québec's economic development is made mainly through the Caisse's private equity investments and it is adapted to the current economic and financial context, namely intense competition in the financial markets, abundant capital in Québec and elsewhere in the world, and profound structural changes in the global economy with the advent of new economic powers.

In these new market conditions, the Caisse has changed its approach to private equity investment in Québec in recent years.

/ The Caisse intends to continue to provide business-financing leadership by emphasizing those industries where it enjoys the advantage of proximity.

/ The Caisse wants to be a catalyst for change by increasing the capital available to the various sectors of Québec's economy where the available funds are still insufficient. Although such situations are rare today, they still exist on Québec's financial markets, notably in venture capital, SME financing and transition capital for business succession.

/ The Caisse wants to act on undervalued opportunities, but will strive to do so in partnership. In this way, the Caisse can increase the investment opportunities for its depositors.

/ The Caisse strives to provide leadership in market monitoring to assist Québec's mid-sized businesses with their transition to the global economy. The new global configuration provides opportunities for growth and diversification, but requires a great deal of capital, since businesses must focus on value added, innovation and investments in productivity.

This approach to private equity in Québec applies to five segments of the market: venture capital, small business, mid-sized business, succession financing and large corporations. The Private Equity group's investments in these five segments of the Québec market totalled a record $5.4 billion as at December 31, 2006, even exceeding the amount reached in 2001 before the technology bubble burst. If investment commitments are included, the amount rises to $6.7 billion at year-end.

VENTURE CAPITAL

In 2004, the Caisse adopted a four-pronged approach to venture capital that is designed to be more profitable for depositors and more constructive for Québec's economy. Rather than investing directly in technology companies in the start-up or growth phases, the Caisse invests in local and foreign venture capital funds that are active in Québec, selecting the best-performing funds. In this way, the Caisse contributes to a stronger and more competitive venture capital industry in Québec, and it increases the sources of financing for local companies. Moreover, the Caisse has a substantial leverage effect on the venture capital available by attracting new investors. It also helps organize specialized seminars to disseminate the industry's best practices. Lastly, it diversifies its risk as a manager by using the services of investment teams with different approaches.

Deployment of this new four-pronged approach to venture capital continued in 2006.

/ **Strategy of partnering with Québec funds positioned effectively in technology venture capital.** With commitments totalling $230 million, the objective of investing $200 million over three years has already been exceeded. The Caisse has acted as a catalyst by stimulating the creation of funds.

/ **Strategy of making joint investments to finance growth projects of technology companies.** The Caisse wanted to invest $150 million over three years through joint-investments with partner funds, but only $24 million has been disbursed to date. The Caisse intends to work with its U.S. partners to penetrate this market, which is dominated by a few large players.

/ **Strategy of supporting funds specializing in Québec technology start-ups.** The objective of investing $20 million over three years has already been exceeded, with $30 million of investments. Moreover, the Caisse has commissioned a study that will assist with its positioning in the biotechnology sector, especially the pre-start-up phase.

/ **Strategy of attracting foreign venture capital.** Several funds from outside Québec have set up operations here, injecting new capital and enabling local technology companies to benefit from the Caisse's international network.

In short, the Caisse has acted as a catalyst for the industry. It has contributed to the creation of several Québec funds, including Agechem, CTI Life Sciences, Garage, Novacap Technology and Propulsion, as well as three funds that specialize in start-ups, Capital ID, Go Capital and MSBI. It has also encouraged six foreign funds to set up in Québec, namely Brightspark, J.L. Albright, Proquest, Rho Canada, SAM and Vantage Point.

The Caisse's venture capital investments and commitments in Québec totalled almost $400 million as at December 31, 2006.

SMALL BUSINESS

In the small business segment, the Caisse has adopted a partnership strategy. This segment of the market is well served by tax-advantaged funds, banks, the Desjardins Group and several government players, including Investissement Québec and Société générale de financement. These institutions often manage vast regional networks that enable them to cover this market effectively. Rather than deploy its own regional network alongside these well-established institutions, the Caisse formed a strategic partnership with the Business Development Bank of Canada (BDC) in 2003 to create a $300-million investment fund that is owned equally. BDC manages the fund and distributes the products through its network of regional offices.

This approach has proved beneficial. First, it has provided additional capital to small businesses in Québec and increased the Caisse's investments in the province. Moreover, it offers potentially high returns for depositors, as a result of BDC's special expertise in this sector. Lastly, the partnership has introduced an effective element of diversification into the small business niche, since the fund also covers the Canadian market. The partnership with BDC is so effective in meeting demand in this market that the Caisse and BDC have renewed it with a second small business fund that will provide $330 million in the form of subordinated debt.

The Caisse's small business investments and commitments in Québec totalled more than $300 million as at December 31, 2006.

SUCCESSION FINANCING WITH ACCÈS RELÈVE

In the years to come, many Québec companies will face the challenge of succession. The inadequacy of the solutions available to finance the transfer of profitable companies from one generation to another prompted the Caisse, in 2000, to launch the first financial product designed especially for this market. The product, Accès Relève, proposes a comprehensive, multidisciplinary approach to meet the many needs of businesses faced with the transition challenge. It was improved in 2003 to correspond to the new market conditions and to include a partnership component. Thus far, two financial institutions, National Bank and Royal Bank, have partnered with the Caisse to distribute this product to their commercial customers. Others have followed in the Caisse's footsteps: the Desjardins Group, the Solidarity Fund QFL, Fondaction CSN, BDC and Investissement Québec have all created their own succession products. In this way, the Caisse has acted as a catalyst in this niche.

The Caisse's investments and commitments in this area amounted to almost $50 million as at December 31, 2006. Very few transactions were carried out in 2006 in the succession-financing industry. The business-transfer cycle will intensify in the years to come as many business leaders from the baby-boom generation retire.

MID-SIZED BUSINESS

In 2003, the Caisse created a team that focuses exclusively on the needs of mid-size businesses. The team assists companies with effective monitoring of markets and provides capital adapted to current economic conditions. Mid-sized Québec companies, especially manufacturers, are operating in an increasingly difficult environment. The rise of the large emerging markets has obliged them to review their business models and to invest in productivity. In this context, the Québec Manufacturing Fund was created in October 2006 with a focus on investments that improve the operational efficiency of plants. The Caisse, which has provided all of the $100 million of initial capital, intends to open the fund to other investors. It also concluded a partnership agreement in December with Novacap, a successful Québec leveraged buyout fund with a strategy that complements that of the main players in Québec. The agreement calls for a $100-million investment by the Caisse.

During the year, the Caisse organized two seminars that attracted many Québec business leaders. These meetings on emerging markets made the participants aware of the opportunities and risks presented by these new markets. Events like these enable entrepreneurs to share their experience and to expand their networks of business contacts. Lastly, the Caisse took part in a study on the impact of China on Québec's manufacturing sector, in partnership with BDC, Société générale de financement, Investissement Québec and Québec's Ministère du Développement économique, de l'Innovation et l'Exportation.

The Caisse's investments and commitments in this segment of the Québec market amounted to $250 million as at December 31, 2006.

LARGE BUSINESS

Large businesses can obtain financing on the Canadian and international markets on advantageous, flexible credit conditions in terms of interest rates and repayment terms alike. In this context, the Caisse is positioning itself as a complementary player and is maintaining the special relationships it has developed over the years with large Québec companies so that it can respond during periods of credit tightening. In the meantime, it is involved in major complex transactions and offers distinctive products when business opportunities arise. Moreover, in the international arena the Caisse is forming major partnerships that offer investment opportunities for large Québec businesses. Lastly, it is also forming in-house partnerships that unite the expertise of the Private Equity group with that of Caisse's other teams to serve large local businesses even more effectively.

The Caisse's investments and commitments in this segment of the Québec market totalled $5.7 billion as at December 31, 2006.

SIGNIFICANT IMPACT ON THE REAL ESTATE MARKET

The Caisse is a major investor in Québec's real estate sector and occupies a dominant position in Montréal's office market. Its high-quality portfolio of properties was valued at more than $4 billion at the end of 2006 and includes Place Ville Marie, the Eaton Centre, 1000 de la Gauchetière, the Centre CDP Capital and Place Laurier in Québec City.

The Caisse was involved in many development projects in 2006. It also made acquisitions and investments to enhance the value of its properties. Investments totalled $83.6 million, while the operating expenses for the real estate portfolio came to $257.2 million.

The Caisse also holds a mortgage loan portfolio totalling more than $2 billion, thereby contributing to major projects in most regions of Québec, such as business parks, hotels, residential complexes and office buildings.

The benefits of its real estate operations are substantial. For instance, the economic spinoffs of the development of the Quartier international de Montréal, of which the Caisse was one of the main developers, are estimated at several hundred million dollars. The various public and private projects led to a major restructuring of this downtown area. The link between historic Old Montréal and the business district was re-established, attractive public spaces were created and a wide range of activity now takes place in new or restored buildings.

The Caisse's involvement always reflects its desire to enhance the immediate environment, to respect the heritage value of buildings and to save energy. SITQ was the first company in Québec to earn the Go Green Plus environmental designation, for the Centre CDP Capital, the Caisse's Montréal business office. This certification, awarded by the Building Owners and Managers Association, is Canada's only national standard for existing buildings.

In becoming one of the 10 largest real estate asset managers in the world, the Caisse has always had a significant impact on the economy through direct employment but also the unique expertise developed within the organization and by its suppliers of services. Québec also benefits from the Caisse's network of international partners. Various foreign investments have been made as a result.

BENEFITS OF THE CAISSE'S OPERATIONS ON QUÉBEC'S FINANCIAL MARKETPLACE AND OTHER TYPES OF CONTRIBUTION

The Caisse contributes to the development of the financial sector by creating specialized jobs, acquiring services and organizing major events. It also supports universities by funding chairs related to its investment operations, including the Bell-CDPQ Chair on Experimental Economics and the Observatoire SITQ du développement urbain et immobilier at the Université de Montréal since 2006, as well as the SITQ Real Estate Chair at the Université du Québec à Montréal, UQAM's Raoul Dandurand Chair and the Omer DeSerres Commerce Chair at HEC Montréal. Moreover, it provides fellowships and awards to encourage quality business and financial journalism.

It also organizes the Journées Claude-Prieur, an annual strategy session where the Caisse's managers, depositors' representatives and industry experts focus on investment issues. This year's theme was emerging markets.

Another current issue is the social responsibility of institutional investors. The Caisse is in the forefront of this trend and was one of the first organizations to endorse the United Nations' Principles for Responsible Investment in 2006. Signatories who endorse these principles make a commitment to take environmental, social and governance issues into account in their investment policies and practices. They also undertake to incorporate these concerns into the exercise of their responsibilities as shareholders. The Caisse is gradually applying the principles and is an agent of change in this area in Québec and elsewhere in the world, notably by exercising its voting rights as a shareholder. In 2006, the Caisse began posting its proxy voting record on its website. During the year, it also joined the Carbon Disclosure Project, an initiative whereby investors encourage the companies in which they are shareholders to disclose the greenhouse gas emissions associated with their operations. In addition, the Caisse actively promotes the best governance practices. It created the Collège des administrateurs de sociétés in 2005 with various partners. The college offered 16 training modules and honoured its first graduates in 2006.

Moreover, as a good corporate citizen, the Caisse contributes to the well-being of society by supporting educational, cultural and philanthropic causes. The most important manifestation of this commitment and that of its employees is the Centraide/United Way fund-raising campaign. The Caisse's outstanding contribution to the 2005 campaign earned it one of the Solidaires awards presented in 2006.

MANAGEMENT FRAMEWORK

THE CAISSE HAS BEEN MAKING A SUSTAINED EFFORT IN RECENT YEARS TO IMPROVE ITS GOVERNANCE AND MANAGEMENT IN ORDER TO ADOPT BEST PRACTICES AND BECOME A BENCHMARK ORGANIZATION

The Caisse demonstrated leadership in 2006 by strengthening its management and control structures. Documentation of all components of internal control over financial information, application of the new provisions of the Act respecting the Caisse and introduction of a new Code of Ethics and Professional Conduct for Officers and Employees are examples of measures taken to improve the Caisse's governance. Policies and directives on internal control, integrated risk management, compliance, information security and business continuity were also revised or put in place. A plan for optimal resource use was also developed during the year.

HIGHLIGHTS

/ The policies on internal control and compliance were approved during the year. A plan for optimal resource use was also developed.

/ The integrated risk management policy and the embargo rules were revised.

/ The financial certification project continued with documentation of internal control over financial reporting.

/ A policy on information security and business continuity was approved.

/ The Caisse's proxy voting record is now posted on the website.

/ The Regulation respecting internal management was amended to reflect the provisions of the Act respecting the Caisse, which took effect in January 2005. The amendments take into account:

- Creation of the separate position of Chairman of the Board of Directors;
- Addition of provisions on the governance of the Board of Directors and its committees;
- Addition of provisions on the Caisse's reporting to its depositors;
- Provisions on ethics and professional conduct;
- Adoption of the Regulation respecting financial instruments.

/ In December 2006, the Act respecting the Caisse was amended by the Act respecting the governance of state-owned enterprises. This Act clarifies the Caisse's obligation to put in place a plan for optimal resource use, which is monitored by the Audit Committee of the Board of Directors. It also introduces the concept of joint auditing.

PLANNING PROCESS

Every three years, the Caisse establishes a strategic plan that defines the organization's priorities and the resulting action plan. Each year, the Caisse's senior managers prepare business plans in line with the three-year strategic plan, establish a book of business and information technology projects, and prepare personnel, operating and capital budgets adapted to the business plans.

The Board of Directors approves and regularly monitors the three-year strategic plan, the annual business plans, the book of business and information technology projects and the personnel, operating and capital budgets.

In addition, twice a year the President and Chief Executive Officer meets with all employees of the Caisse, as well as the members of the expanded Executive Committee, which includes the main officers. During these meetings, he provides an update on the Caisse's business objectives. Each quarter he also meets with the main officers of the investment groups and the general services units to discuss the business objectives, the projects and the various budgets.

To further their consideration of strategic matters, each year senior management organize the Journées Claude-Prieur, named for the Caisse's first President and General Manager. This event is held for the Caisse's stakeholders, including the main officers, the Board of Directors, depositors' representatives, journalists and opinion leaders. Speakers from Québec and elsewhere address subjects relevant to the Caisse's operations.

INTERNAL MANAGEMENT

The Board of Directors and its committees ensure that the Caisse is managed so as to comply with the provisions of the Act respecting the Caisse and its regulations, and that the institution adopts the measures required to achieve the objectives set out in its mission (see the section "Board of Directors and Board committees" in this Annual Report). Caisse senior managers oversee the organization through committees that deal with specific areas. Three new committees were created in 2006: the Committee to Apply the Act, the Operational Efficiency Committee and the Management Framework Committee. In addition, the Asset Allocation Management Committee was replaced by the Investment Division Committee. The mandate of each committee is described briefly below.

EXECUTIVE COMMITTEE

The Executive Committee has a mandate to advise the President and Chief Executive Officer regarding major decisions concerning the overall management of the organization. The Committee therefore oversees and monitors all the institution's operations. As necessary, it implements appropriate action plans to ensure the organization meets transparency and performance requirements.

All the committees described below are under the jurisdiction of the Executive Committee, to which they report periodically.

DEPOSITORS AND RISKS COMMITTEE

The Depositor and Risks Committee (DRC) has a mandate to oversee and implement policies and systems designed to maintain an acceptable level of risk for the Caisse's operations. The DRC's responsibilities include interpreting depositors' investment policies, particularly in terms of market, liquidity and credit risk. It monitors and controls risks and reports regularly to the Executive Committee and the Board's Risk Management Committee. The DRC also examines measures to be taken to manage risks adequately. It approves risk policies and limits to maintain the best possible balance between assumed risk and expected return.

DRC-TRANSACTIONS

Depending on the level of authorization required, the DRC-Transactions approves investment proposals submitted to it by the Private Equity and Real Estate groups, or refers them for approval to the President and Chief Executive Officer or to the Risk Management Committee and to the Board.

INVESTMENT DIVISION COMMITTEE

With the creation of the Investment Division, the Asset Allocation Management Committee was replaced by the Investment Division Committee. Whereas the Asset Allocation Management Committee had a mandate to approve monthly rebalancing and the currency hedging percentage for the specialized portfolios that invest in liquid markets, the Investment Division Committee plays a far broader role. It has a mandate to review and approve the Caisse's main investment orientations, in addition to promoting collaboration between the investment groups.

The main responsibilities of the Investment Division Committee are to:

/ Approve the investment philosophy of each specialized portfolio, as well as the weighting between internal and external management, and significant changes to external management mandates;

/ Co-ordinate the sharing of information on market trends, best practices and definition of financial research programs, as well as monitor these programs and internal partnerships;

/ Advise the Chief Investment Officer on asset allocation, long-term risk and return forecasts and investment strategies for each of the Caisse's 18 specialized portfolios.

COMMITTEE TO APPLY THE ACT

The purpose of the Committee to Apply the Act is to develop a work plan to implement the Caisse's constituting statute, in addition to assisting the Board of Directors and the organization's units in their work to apply the Act. The Committee therefore:

/ Analyzes issues related to the *Act to amend the Act respecting the Caisse de dépôt et placement du Québec* and submits a plan to the Board of Directors to ensure application of all sections of the *Act respecting the Caisse de dépôt et placement du Québec*;

/ Puts in place a mechanism to co-ordinate actions taken to apply the Act and monitors such actions.

The Committee will continue its work until the major aspects of the application of the new sections of the Caisse's constituting statute are complete.

INFORMATION TECHNOLOGY AND CAPITAL BUDGET COMMITTEE

The Information Technology and Capital Budget Committee has a mandate to maintain a technology platform adapted to the Caisse's operations, to approve major technology management policies and to ensure that projects are in keeping with the Caisse's strategic orientations.

As part of its responsibilities, the Committee approves the annual plan for information technology projects and the related capital budget and recommends their approval to the Executive Committee. It also regularly monitors progress on various computer-related projects.

OPERATIONAL EFFICIENCY COMMITTEE

The Operational Efficiency Committee is continuing the revision of front office and back office processes, which began in late 2004. The Committee's mandate includes:

/ Optimization and documentation of all administrative tasks related to investment operations;

/ Clarification of the roles played by the various units;

/ Identification of opportunities to automate manual tasks;

/ Implementation and monitoring of performance indicators for all these activities;

The Operational Efficiency Committee is temporary. It will continue its work until the priorities corresponding to its mandate, as defined in the strategic plan 2006-2008, are fully implemented.

MANAGEMENT FRAMEWORK COMMITTEE

The Management Framework Committee has a mandate to promote a balanced management and control culture. Its mission is to co-ordinate the internal policies so that they form a coherent body and to monitor implementation of the policies for the four components of the control framework: internal control, risk management, compliance and optimal resource use. The Committee specifies:

/ The scope of policies, while targeting key components;

/ The methodology used to document the management framework processes;

/ The responsibilities of the various stakeholders;

/ The reporting mechanisms.

Like the Operational Efficiency Committee, the Management Framework Committee is temporary. It will continue its work until implementation of the priorities of its mandate, as defined in the strategic plan 2006-2008, is complete.

DISCLOSURE COMMITTEE

The Disclosure Committee consists of members of senior management. Its mandate is to approve the financial certification policy and to ensure compliance with its provisions. Its responsibilities include:

/ Reviewing the list of signing authorities for internal financial certificates and the texts of the financial certificates as well as making recommendations to the President and Chief Executive Officer;

/ Reviewing all the internal financial certificates, including the conclusions and supporting documents;

/ Recommending changes to the reporting process or internal financial controls after reviewing the internal financial certificates.

INTERNAL CONTROL

INTERNAL CONTROL MECHANISM

The Caisse has a sophisticated internal control mechanism that plays a key role in the conduct and monitoring of its various activities. This mechanism, applied systematically at all levels of the organization, consists of an effective set of integrated and adapted activities and measures, such as validation, authorization, audit, data reconciliation, oversight, operational performance review and separation of duties.

The Caisse's internal control mechanism is based on the following principles:

/ A clear definition of responsibilities;

/ Sufficient resources and competencies;

/ Appropriate procedures, information systems, tools and practices;

/ Production of relevant and reliable information that enables employees to discharge their responsibilities;

/ Control measures that are specific to each process and designed to reduce risks that could affect achievement of the organization's objectives;

/ Compliance with policies that complement the internal control policy.

The Caisse's internal control mechanism provides several control functions on various levels, namely:

/ Control measures incorporated into activities, business processes and computer systems;

/ Control functions independent of the investment and transaction-origination processes;

/ Oversight functions, including the committees of the Board of Directors and those of senior management, as well as internal audit and compliance;

/ External audit functions performed by the Auditor General of Québec and accounting firms, as well as monitoring by rating agencies.

The Caisse's internal control mechanism consists of policies, directives, procedures, measures and tools for the four following categories of internal control:

/ General internal controls (controls that apply to the Caisse as a whole);

/ Manual internal controls (controls specific to a business process whose application is not computerized);

/ Computerized internal controls (controls specific to a computer system);

/ Oversight of fraud prevention and detection.

INTERNAL CONTROL POLICY

To ensure all the processes function in a coherent fashion, the Caisse has adopted an internal control policy that:

/ Creates a formal environment to oversee how internal control is carried out at the Caisse and its wholly owned subsidiaries;

/ Makes officers and employees aware of the importance of sufficient and effective functioning of the internal control mechanisms;

/ Provides the Board of Directors with the assurance that the internal controls are complete, and the Audit Committee with the assurance that the internal control mechanisms are sufficient and effective.

INTERNAL CONTROL

Internal control is designed to ensure application of the policies and achievement of the objectives set by the Caisse's Board of Directors and senior management. The proper functioning of internal and external processes, sound risk management, compliance, optimal resource use, complete and reliable information and independent valuation are some of the concerns addressed by internal control.

The internal control policy takes into account good governance practices recognized in Canada and the Caisse's internal control mechanism. It serves as a broad, non-specific framework for each activity or process. Moreover, various aspects of internal control are covered by policies and other documents, some of which are listed below:

/ Administrative policies, including those on travel, entertainment and reimbursement of expenses;

/ Human resources policies, including compensation policies;

/ Integrated risk management policy;

/ Policy on management of outsourcing risk;

/ Compliance policy;

/ Information security policy;

/ Information disclosure policy;

/ Financial certification policy;

/ Plan for optimal resource use;

/ Internal audit charter;

/ Code of Ethics and Professional Conduct.

The internal control policy requires that senior management do an overall self-assessment of the effectiveness of the general control environment. It also provides that Internal Audit assess the general control environment.

These two exercises complement the extensive control work done on various levels at the Caisse, by first-level managers, control functions independent of the investment processes, oversight functions and independent auditors. They also complement periodic reporting to senior management and the Board of Directors (or its committees) by the risk management, compliance, financial governance and internal audit groups.

The internal control policy also requires that senior management do an overall self-assessment of the fraud prevention and detection framework each year. This self-assessment supports the written declaration made by certain officers of the Caisse to the Auditor General of Québec as part of the audit of the Caisse's combined financial statements.

ACHIEVEMENTS 2006

Several initiatives were taken in 2006 to strengthen the Caisse's internal control mechanism. They concern mainly integrated risk management, compliance, ethics and professional conduct, manual and computerized internal controls, fraud prevention and detection, and internal audit.

Moreover, the self-assessments done by senior management in 2006 regarding the effectiveness of the general control environment and oversight of fraud prevention and detection were submitted to the Caisse's Audit Committee in February 2007.

FINANCIAL CERTIFICATION

The financial certification policy took effect in 2005 to formally oversee financial information disclosure by the Caisse and its subsidiaries. It is based on the principles of Multilateral Instrument 52-109 of the Canadian Securities Administrators, to which the Caisse is not subject. The Caisse ensures implementation of the policy through the financial certification project, a major undertaking that will continue until 2008. The project's approach, progress and conclusions are submitted to the Caisse's Disclosure Committee and the Audit Committee of the Board of Directors.

In 2006, while continuing work to assess the sufficient design and effective functioning of disclosure controls and procedures, the participants in the financial certification project also considered exhaustive documentation of the components of internal control over financial information, namely:

/ The Caisse's general control environment, including that of information technology;

/ Manual financial internal controls, or controls applied by those responsible for them;

/ Financial internal controls that are automated or integrated into computer applications;

/ Oversight of fraud prevention and detection.

Under the Caisse's financial certification policy, the President and Chief Executive Officer and the Executive Vice-President, Finance, Treasury and Strategic Initiatives, sign a public financial certificate each year. The certificates of both officers are presented at the beginning of the section "Returns and financial position" of the Annual Report. Both signatories of the public certificates rely on internal financial certificates signed by several officers of the Caisse and the real estate subsidiaries, as well as on work pertaining to the financial certification program.

The conclusions of the Disclosure Committee concerning the design of internal control over financial information and the effectiveness of the disclosure controls and procedures are given at the beginning of the section "Returns and financial position."

OPTIMAL UTILIZATION OF RESOURCES

THE PERIOD 2003-2006

During the period 2003-2006, the Caisse took several initiatives that contributed to optimal resource use. These initiatives concerned important aspects of the organization, such as governance, organizational, administrative and operational structures, investment management, strategic planning, financial and budgetary management, integrated risk management, compliance, control, information technology tools, technology infrastructure, internal audit and reporting.

THE CAISSE APPROACH

The Caisse continued working in 2006 to enhance the understanding of the concept of optimal resource use at the organization, to identify an implementation strategy corresponding to its context and to prepare a plan for the optimal utilization of resources pursuant to its constituting statute.

This work was done to enable the Board of Directors and senior management to ensure that:

/ The strategic orientations and related business plans, the management practices for administration, operations and control, and the systems and tools are established or designed so that their implementation generally allows the organization to achieve the results it seeks, which is referred to as "effectiveness";

/ The resources needed to achieve results are acquired and managed with due regard for "economy" and "efficiency."

The Caisse's resources, processes, systems, tools and controls form a coherent whole so that it can achieve depositors' target returns, develop management practices that correspond to the best practices used by the institutional fund management industry and, lastly, make proper use of the funds made available to manage its activities.

PLAN FOR THE OPTIMAL UTILIZATION OF RESOURCES

To meet the requirements of its Act, the Caisse developed a plan for the optimal utilization of resources in 2006. The Board of Directors approved the Plan in February 2007.

The plan for the optimal utilization of resources is designed to ensure optimal use of two types of resource:

/ Investment resources, which represent the depositors' holdings invested in the Caisse's specialized portfolios;

/ Operational resources, which represent the resources placed at senior management's disposal by the depositors and the Board of Directors, and which are essential for achievement of depositors' objectives. Operational resources include financial resources, human resources, technological resources and informational resources.

The plan is based on the following principles:

/ Operational resources are acquired and managed by means of mechanisms that provide sufficient resources to successfully carry out the main activities and to prudently manage costs and changes in them.

/ Investment resources are managed actively by means of sufficient operational resources to successfully carry out activities with a substantial impact on returns.

/ The effectiveness of resources is assessed comprehensively by a comparison of the results obtained with industry standards, namely benchmark indexes.

/ The Caisse's structures, activities and methods are constantly improved;

/ The work of Internal Audit helps strengthen the management practices used for administration, operations and control, as well as the Caisse's systems and tools.

More than 100 activities and projects related to optimal resource use are planned for 2007 and 2008. These activities affect all the Caisse's resources, as well as the major processes of its investment groups and general services units.

CHARACTERISTICS OF THE OPTIMAL UTILIZATION OF RESOURCES

Optimal resource use is based on three characteristics: economy, efficiency and effectiveness. Economy of resources involves acquiring resources of the required quality, at a reasonable cost and in a timely fashion. Efficiency involves ensuring that resources are sufficient for the business requirements and are used appropriately. Effectiveness of resources is measured by the degree to which an organization achieves its business objectives.

INTEGRATED RISK MANAGEMENT

Risk management at the Caisse is based on an integrated risk management policy and the investment policies of the 18 specialized portfolios.

INTEGRATED RISK MANAGEMENT POLICY

The objective of the integrated risk management policy is to promote a risk management culture based on rigorous practices that ensure the Caisse can fulfill its mission for its depositors. More specifically, the policy serves to define risk management governance at the Caisse, to guard against excessive losses by determining the acceptable level of risk, to relate this level of risk to value-added objectives and to promote effective risk allocation.

Oversight
Governance of risk management is based on three levels of control:

/ First, the portfolio managers are responsible for managing their risks;

/ The Depositors and Risks Committee (DRC) and the DRC-Transactions are the second level of responsibility;

/ The Board of Directors, through its Risk Management Committee, is the third level.

The policy specifies reporting mechanisms for each level of risk management responsibility.

Other types of oversight are also provided in the policy, in particular for outsourcing of investment management, operational risk management and derivative financial instruments.

To ensure the objectivity and rigour required for risk management, teams that are independent of the portfolio managers are responsible for defining and monitoring the integrated risk management policy as well as the investment policies that apply to the specialized portfolios.

Investment recommendations
The Policy also specifies the investment recommendation process for all the investment groups. This process is structured from the bottom to the top of the hierarchy as follows:

/ The manager;

/ The investment committee of the investment group or the board of directors of a real estate subsidiary;

/ The Caisse's DRC – Transactions;

/ The Caisse's President and Chief Executive Officer;

/ The Risk Management Committee of the Caisse's Board of Directors;

/ The Caisse's Board of Directors.

INVESTMENT POLICIES

The risk limits for the specialized portfolios are defined by investment policies that also specify the portfolios' investment philosophy, management style, structure, investment universe, return thresholds in terms of value added or absolute return, risk budget, allocation criteria and currency risk hedging.

The managers responsible for the investment groups must allocate the risk budget for the specialized portfolio under their responsibility among the various mandates they assign to the managers. They develop a portfolio risk framework and set risk limits for the management mandates. They must inform the DRC of their decisions.

THE CAISSE'S RISK MODEL

FIGURE 83

OVERSIGHT OF EXTERNAL INVESTMENT OPERATIONS

The integrated risk management policy provides for specific oversight of:

/ Investment mandates awarded to external managers;

/ Investments in external funds of hedge funds;

/ Investments in external private equity funds;

/ Investments in external real estate funds.

This oversight consists of due diligence, an authorization process and the signing of a management or investment agreement based on the best practices used by the institutional fund management industry.

The main risks related to the Caisse's operations are divided into three categories: business risks, financial risks and operational risks.

BUSINESS RISKS

STRATEGIC RISK

The Caisse is exposed to strategic risk when an event related to its practices or relations, or those of its subsidiaries or employees, does not comply with its mission, culture and fundamental values. Strategic risk is also related to the inadequacy of business strategies or deficiencies in the implementation of the organization's strategic orientations. Finally, the Caisse will be exposed to a strategic risk if its resources are not allocated as a function of established priorities.

REPUTATION RISK

Reputation risk is the possibility that an event related to the business practices or relations of the Caisse, its subsidiaries or its employees will adversely affect the Caisse's image or cause the public to lose confidence in the institution. This risk could detract from the organization's ability to achieve its objectives.

FINANCIAL RISKS

MARKET RISK

Market risk represents the risk of financial loss resulting from fluctuations in the price of financial instruments. The value of a financial instrument may be affected by variations in certain market parameters, such as interest rates, foreign exchange rates, share prices and commodity prices as well as their volatility. The risk of a loss of value corresponds to absolute risk. In the context of active management, active risk, in other words the possibility that managers' returns will be different from those of their benchmark indexes, is added to absolute risk.

CREDIT AND COUNTERPARTY RISK

Credit risk is the possibility of a loss of market value in the event that a borrower, an endorser, a guarantor or a counterparty does not honour its obligation to repay a loan or to fulfill any other financial obligation, or sees its financial position deteriorate. Counterparty risk corresponds to the credit risk from current or potential exposure related to operations involving over-the-counter derivative financial instruments.

LIQUIDITY RISK

Liquidity risk is the possibility that the Caisse may not always be able to fulfill its undertakings without having to obtain funds at abnormally high prices or that it may be obliged to sell assets. It also corresponds to the risk that it may not be possible to sell investments rapidly or to invest without having a significant adverse impact on the price of the investment in question.

OPERATIONAL RISKS

Operational risk corresponds to the possibility of direct or indirect financial loss arising from the deficiency of operations.

HUMAN RESOURCES MANAGEMENT RISK

The risk related to human resources management includes such elements as recruiting (recruiting competent, honest and motivated personnel), training (maintaining and developing employee competencies) and evaluating performance and compensation (ensuring fair, equitable and competitive compensation).

PROCESS MANAGEMENT RISK

The risk related to management of the Caisse's processes applies to processes for input, settlement and tracking of transactions, and errors that may arise in the execution of the processes in place. In addition to internal causes specific to the Caisse, this risk may arise from the poor quality of services rendered by its subcontractors, external suppliers and business partners.

SYSTEM MANAGEMENT RISK

The Caisse is exposed to a risk in the event of deficiency of its information technology infrastructures or computer systems. This deficiency may result from a breakdown or other malfunction that may cause delays or an interruption in operations that is not caused by a disaster.

THEFT AND FRAUD RISK

This is the risk of losses arising from intentional acts to defraud, to embezzle funds or to appropriate the assets of the Caisse or its depositors.

DISASTER RISK

The risk of disaster represents the risk of losses arising from interruption of business as a result of a natural or other disaster.

COMPLIANCE RISK

Compliance risk corresponds to the risk of losses as a result of a deficiency that is unintentional or due to negligence, to policies and directives, and to professional and ethical standards and practices specific to the Caisse's operations. It occurs in the event that the Caisse fails to fulfill its duties.

LEGAL RISK

Legal risk is related to the rights and obligations associated with the Caisse's operations and the legislative framework in which they are carried out. Important aspects of legal risk are related to compliance with the laws and regulations governing the Caisse and its management teams, as well as assurance that the agreements concluded by the institution properly reflect the planned operations and contain the appropriate provisions. Legal risk also refers to the risk of lawsuits that may affect the Caisse.

RISKS RELATED TO THE CAISSE'S OPERATIONS

RISK OVERSIGHT AND MEASUREMENT

The Executive Committee, with the assistance of teams that are independent from the portfolio managers, monitors strategic and reputation risks. It oversees the Depositors and Risks Committee (DRC), which monitors and measures the Caisse's other risks.

Although each risk is distinctive, the DRC aims to integrate them into a single analytical process. To ensure that oversight and practice of the Caisse's integrated risk management comply with the investment industry's best practices, the risk management policies are revised regularly with a view to their continual improvement. The DRC and the portfolio managers are assisted by internal and external experts whose role is to improve the risk evaluation methods.

BUSINESS RISK OVERSIGHT AND MEASUREMENT

STRATEGIC RISK

The Caisse manages this risk with a structured strategic-planning process that involves all units of the organization. Strategic orientations are proposed by the Executive Committee, approved by the Board of Directors and communicated to all employees. The members of the Board of Directors and of the Executive Committee receive a monthly summary of the Caisse's operations. Moreover, the President and Chief Executive Officer monitors the business plans of all units on a quarterly basis.

REPUTATION RISK

All directors, members of management and employees are responsible for carrying out their activities in such a way as to minimize reputation risk.

The Caisse manages and controls this risk by means of codes of ethics and professional conduct for directors, officers and employees, training programs, good internal management and governance practices and various policies and procedures. It also ensures that the information it provides internally and externally is truthful and has been checked. It strives to ensure the public and the media gain a better understanding of its operations. The Caisse also rigorously monitors communications concerning it and responds by taking public positions as required.

FINANCIAL RISK OVERSIGHT AND MEASUREMENT

MARKET RISK

The market risk to which the specialized portfolios are exposed is assessed regularly. It is measured according to the value at risk (VaR) method, which is based on a statistical evaluation of the volatility of individual market positions and their correlation.

CREDIT AND COUNTERPARTY RISK

The Caisse constantly monitors matters that are sensitive to credit risk, using four types of analysis:

/ Analysis of concentration risk measures the fair value of all financial products related to a single issuer or a group of issuers with common characteristics (regions, sectors, credit categories);

/ Analysis of credit risk measures the probability of default and the recovery rate on debt products held by the Caisse, taking into account the credit quality of each security;

/ Analysis of counterparty risk measures the current credit exposure of the Caisse's counterparties for over-the-counter derivatives;

/ Analysis of delivery risk measures default risk and liquidity risk in the settlement of transactions. This risk arises mainly from currency contracts.

LIQUIDITY RISK

Compliance with established rules is monitored on a daily basis, and the liquidity status is submitted to the DRC on a monthly basis. The Caisse evaluates the impact of unfavourable financial market scenarios on liquidity.

OPERATIONAL RISK OVERSIGHT AND MEASUREMENT

Operational risks are managed and measured through self-assessment of risks, a listing of incidents, the use of indicators and maintenance of rigorous processes. The Caisse continues to introduce methods to evaluate and manage these risks.

COMPLIANCE

The Caisse's compliance activities are governed by the compliance policy, adopted by the Caisse's Board of Directors in 2006. The purpose of the policy is to create a formal environment conducive to compliance at the Caisse and its wholly owned subsidiaries, and to make officers and employees aware of the importance of compliance with applicable laws, regulations, policies and directives in their daily activities. It is also intended to provide the Board of Directors as well as the Risk Management Committee and the Executive Committee with the assurance that the compliance policies and programs are applied. This purpose of the policy is also to provide the Audit Committee with the assurance that the mechanisms used to monitor compliance are sufficient and effective.

The main oversight activities carried out in 2006 concerned compliance with the depositors' investment policies and compliance with the investment policies of the specialized portfolios. These two major activities make it possible to issue compliance certificates, which are submitted to the relevant Board committees and sent to the depositors. They cover the depositors' 28 funds and all the Caisse's specialized portfolios.

Other compliance programs were carried out to monitor investment operations and general services, notably compliance with the policy on contracts for acquisition and leasing of goods and services, the directive on the auction of debt securities issued by the Canadian government and the investment limits provided in the Act respecting the Caisse.

In addition, new programs were implemented in 2006 to ensure compliance with regulatory obligations at the time of validation of transactions involving securities of publicly traded companies and compliance with the investment policies for the mandates of Equity Markets external managers.

Finally, the Caisse ensures that the various internal policies that it adopts are applied. These policies concern such matters as harassment at the workplace and the Charter of the French Language.

ETHICS AND PROFESSIONAL CONDUCT

The Caisse updated its Code of Ethics and Professional Conduct for Officers and Employees in 2006. More than 850 employees received training on the provisions of the Code. This training is also given to new employees.

The Code reiterates such matters as the importance of ethical and professional conduct conducive to sound business practices, respect for individuals and groups, and compliance with laws, policies and regulations applicable to the Caisse.

Each year, all employees are required to confirm that they abide by the Code of Ethics and Professional Conduct. Employees must also report any situation where it is reasonable to believe that the Code has been infringed. A telephone line has been provided so that employees can report situations that do not comply with the Code.

COMPLIANCE PROCESS

A sufficient compliance process requires an effective body of integrated activities and measures, adapted to the organization and based on principles of sound management, in accordance with applicable laws, regulations, policies and directives.

Compliance activities and measures are present throughout the organization, at all levels and in all functions. They consist of a wide range of activities, such as documentation, dissemination and co-ordination of policies and directives, oversight and application of compliance programs to ensure follow-up on policies, as well as relevant training and its dissemination to employees and officers.

The Caisse also ensures that the personal transactions of its employees comply with the standards established in the Code. To that end, an automated preauthorization process for personal transactions as well as a compliance program for portfolio declarations has been put in place. Follow-up on the annual declarations and a comparison of the statements of account received is carried out.

EXERCISE OF VOTING RIGHTS AND SOCIALLY RESPONSIBLE INVESTMENT

During the year, the Governance and Ethics Committee recommended to the Board of Directors changes to the policy governing the exercise of voting rights for publicly traded companies. To the extent possible, the policy is also applied to private companies.

The amended policy is available on the Caisse's website. It includes the policy on socially responsible investment adopted by the Caisse.

A total of 2,141 files were processed in 2006:

- 322 files involving Canadian companies;
- 1,260 files involving U.S. companies;
- 559 files involving international companies.

The files included 17,562 resolutions that were analyzed and voted on. Since July 2006, the Caisse has published a record of its voting at the shareholder meetings of the Canadian and U.S. companies in which it invests.

As part of these activities, the Caisse evaluates the compliance of the governance practices of Canadian companies with Canadian regulation as regards the audit and governance committees. It also evaluates internal control practices regarding financial information of U.S. companies in accordance with criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In exercising its voting rights, the Caisse took a position on resolutions involving the following governance matters:

- Annual election of directors;
- Election of directors by a majority vote;
- Separation of the positions of chairman and chief executive officer;
- Election of directors by cumulative voting;
- Shareholder approval for separation pay;
- Relationship between officer compensation and company performance;
- Shareholder approval for poison pills;
- Simple majority vote.

The Caisse also took a position on matters raised by minority shareholders regarding social and environmental issues such as:

- A policy prohibiting discrimination based on sexual orientation;
- Greater diversity on the board of directors and a report on the efforts made;
- Adherence to the principles of the International Labour Organization and reports on climate change, sustainable development, philanthropic contributions and political contributions.

Examples of positions taken in voting:

- Abstention from the election of a slate of directors to a board that does not have a majority of independent members;
- In favour of a shareholder proposal requesting that each person nominated as a director be subject to a separate vote;
- In favour of a shareholder proposal requesting that the remuneration committee establish a performance-related standard for the senior management compensation plan;
- In favour of a shareholder proposal requesting a report on the company's management practices and policies to promote and protect human rights in China and Tibet.

INITIATIVES AND DISCUSSIONS WITH COMPANIES

The Caisse's initiatives involving companies were more frequent in 2006, usually in the context of proxy voting, although companies are increasingly engaging in preventive consultation, apart from shareholder meetings.

Examples of initiatives and discussions with companies:

/ Letter to the president and chief executive officer of a company after payment of a cash bonus to the chairman in an arrangement between the company and another company in the same sector;

/ Letter to the chairman of the remuneration committee of a company regarding revision of the policy on senior management compensation;

/ Discussions with several companies regarding their compensation programs and shareholder approval for poison pills;

/ Commitment to retain an internationally recognized independent firm to complete a study on the social and environmental impacts of a mining project, if the project goes ahead;

/ Discussions with certain companies on the Caisse's specific proposals and concerns regarding social and environmental issues.

COMPLAINT MANAGEMENT

The Caisse de dépôt et placement du Québec has designated Ginette Depelteau, Senior Vice-President, Policies and Compliance, as the person responsible for receiving and examining complaints with all due attention.

Ginette Depelteau
Telephone: (514) 847-5901
Fax: (514) 847-5445
E-mail: gestiondesplaintes@lacaisse.com

MONITORING TOOLS

A tool to monitor environmental, social and governance issues for publicly traded Canadian companies was developed and made available to portfolio managers for the analysis of companies.

Various tools to keep track of proxy voting and initiatives involving companies were also developed.

REPORTING

Reports on these activities were submitted to the depositors as well as to the Caisse's Board of Directors.

PARTICIPATION IN ORGANIZATIONS

/ On April 27, 2006, the Caisse signed the Principles for Responsible Investment (PRI) and took part in the launch of this United Nations initiative, consisting of a group of institutional investors from more than 20 countries. The signatories endorse principles calling for incorporation of environmental, social and governance issues into their investment operations.

/ The Caisse has a representative on the PRI Board's committee, whose work concerns evaluation of and reporting on PRI implementation by the signatories.

/ A total of 135 investors, managers and consultants representing $6 trillion of assets under management had signed the PRI, at year-end 2006.

/ On October 4, 2006, when the Carbon Disclosure Project (CDP) report for Canadian companies was released, the Caisse joined this group of 225 global institutional investors which represent $31 trillion of assets under management and ask public companies to complete a questionnaire on their greenhouse gas emissions.

/ The Caisse's President and Chief Executive Officer gave an address on the CDP at an event held by the Conference Board of Canada at the Montréal Exchange on November 7, 2006, reiterating the Caisse's support for this initiative.

/ The Caisse recently took part in the Consultation on Responsible Investment organized by the United Nations to address the social responsibility of businesses operating in weak and conflict-prone states. This subject is increasingly of concern to the financial community. Representatives of institutional investors, multinationals, non-governmental organizations and academia took part in the event.

INTERNAL AUDIT

Internal Audit's mission is to provide objective assurance and consultation services to add value to the Caisse's operations and to increase their effectiveness. It helps to achieve the Caisse's objectives by using a systematic and methodical approach to assess the processes and systems used for risk management, control and corporate governance. It also helps improve them by making proposals to increase their effectiveness.

The scope of the work done by Internal Audit must make it possible to determine whether the Caisse's processes and systems for risk management, control and governance, as they have been developed and as they are represented by senior management, are sufficient and are applied in such a way as to ensure that:

/ Risks are defined, evaluated and managed adequately;

/ Financial and operational information is authorized, exhaustive, accurate, reliable and available in a timely fashion;

/ Directives, policies, laws, regulations and statutory requirements in effect are respected;

/ Human, material and financial resources and information sources are acquired in an economic fashion, used efficiently and protected adequately;

/ Business programs, plans and objectives are carried out effectively, in accordance with the Caisse's mission.

Internal Audit may also contribute to the development and execution of special projects by contributing its internal control and risk management expertise, while maintaining its independence and objectivity.

During the year, Internal Audit assisted the Audit Committee of the Board of Directors and senior management with maintenance of a sound internal control mechanism, notably through:

/ Performance of some 20 audit mandates;

/ Assistance with development of the management framework and application of the Act;

/ The first full year of audit operations covering the Cadim division and its affiliates;

/ The start of work to study the Caisse's fraud-risk profile;

/ Refinement of the audit approach with regard to optimal resource use;

/ Documentation of the internal control environment and general controls for information technology;

/ Auditing of its own service by an external firm to ensure compliance with professional standards.

In 2007, Internal Audit will focus on applying its audit plan more effectively by relying on a strengthened team management, better co-ordination with the groups audited and targeted performance indicators. Moreover, work to assess the effectiveness of the general control environment and general controls for information technology will require substantial effort, as will completion of the study of the Caisse's fraud-risk profile.

COMMUNICATIONS

As a public-sector institutional fund manager, the Caisse reports not only to its depositors but also to the general public. It is important that it maintain the trust of all stakeholders by demonstrating transparency. It has therefore adopted a policy that defines the way it processes and discloses information regarding it.

With its information disclosure policy, which took effect on January 1, 2006, the Caisse strives to achieve a balance between its desire for transparency and its obligation to protect depositors' interests, while complying with the law, contractual undertakings toward suppliers and third-party rights. To achieve this balance, the Caisse endorses the following principles:

/ Compliance with the laws governing it, including the *Act respecting access to documents held by public bodies and the protection of personal information* (the Access Act) ;

/ Compliance with its contractual obligations to maintain confidentiality;

/ Response to requests for documents concerning it;

/ Full disclosure of information regarding any material fact concerning it.

The Caisse is required to disclose information to comply with certain laws governing it, including its constituting statute, the Access Act and securities legislation. Although it is not subject to the disclosure requirements and recommendations applicable to publicly traded companies, it strives to comply with the best disclosure practices of its industry.

The many types of information disclosed include:

/ Insider trading transactions in accordance with the requirements of securities legislation;

/ Material facts, such as decisions affecting the institution as a whole or a major investment, and the various positions taken by the Caisse;

/ Its audited combined annual financial statements, the tables of returns presented in the *Annual Report 2006 – Additional Information*, and the press release announcing its results.

The Caisse discloses information pertaining to it mainly by means of press releases, press conferences and its Annual Report. The Caisse issued 56 press releases and nine insider press releases in 2006. The Caisse also demonstrates transparency concerning its main investment operations and provides useful information to its partners with several publications. The *Partners* bulletin is for managers at mid-sized Québec companies and provides market news and strategic advice. The *Insights* bulletin is for members of the Private Equity group's global network of partners and contacts. Finally, *Forum* publishes news on the operations of the Real Estate group and its subsidiaries for their partners and associates.

The Caisse strives to communicate effectively with its employees through open, sustained and transparent communication. Each year, it carries out an internal communications master plan to ensure employees endorse its mission, ambition and strategic orientations, and to promote cohesion within the institution.

The Caisse also ensures that corporate information is made available to all employees in a uniform and timely fashion. Lastly, it encourages transparent discussions within and between its teams, and promotes person-to-person interaction through various communication channels.

REQUESTS FROM THE MEDIA AND THE PUBLIC

To ensure that all requests from the media and the public are processed in accordance with the information disclosure policy, such requests must be sent to Media Relations:

By E-mail: info@lacaisse.com
By telephone: (514) 842-3261
By fax: (514) 847-2498
By mail to the following address:
Media Relations
External Communications Department
Caisse de dépôt et placement du Québec
1000, place Jean-Paul-Riopelle
Montréal (Québec) H2Z 2B3

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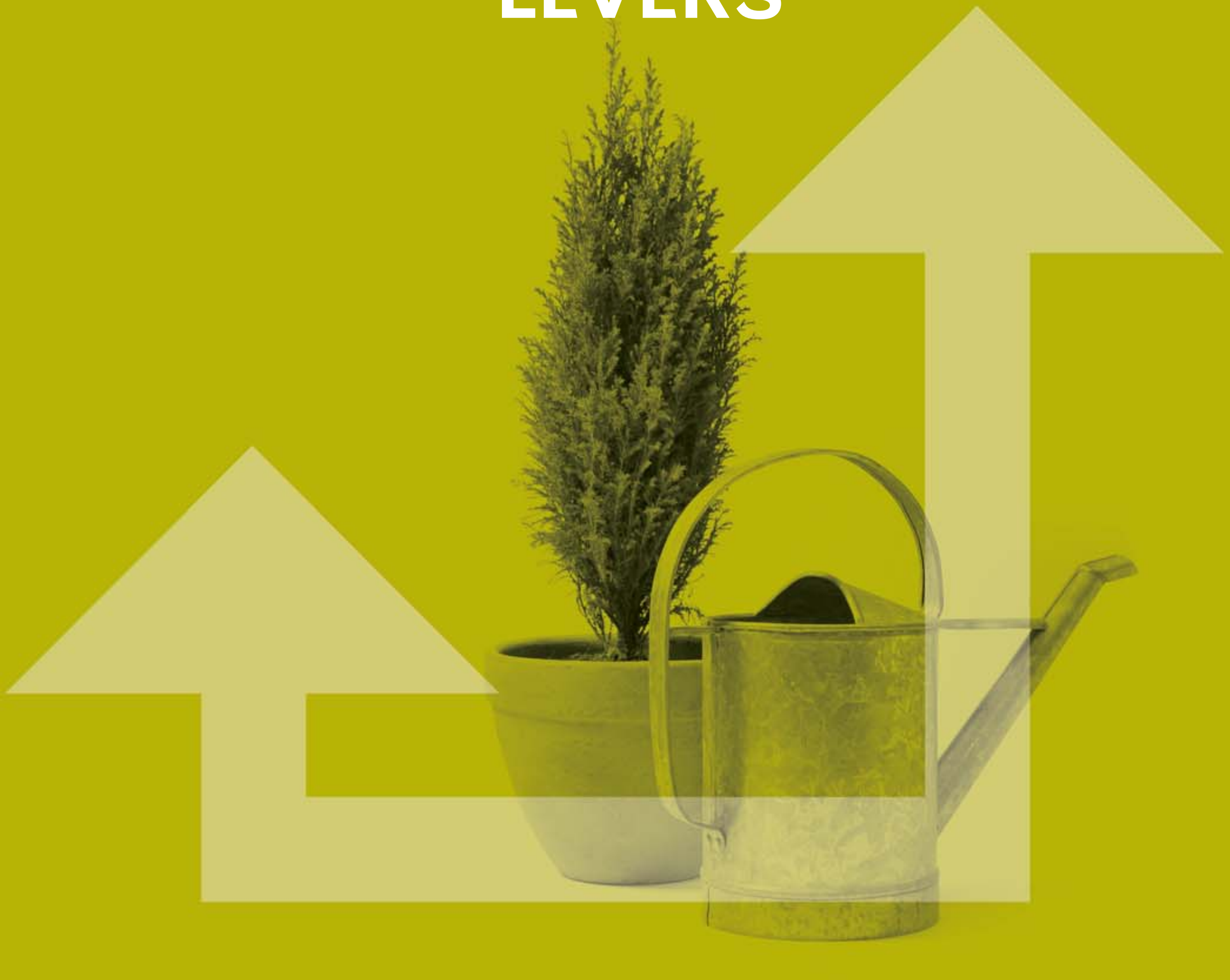

TO PROMOTE RIGOROUS ANALYSIS OF INFORMATION, INNOVATIVE THINKING AND DECISIONS THAT COUNT THROUGHOUT THE ORGANIZATION, THE CAISSE CONTINUES TO STRENGTHEN ITS FOUR OPERATIONAL LEVERS

HUMAN RESOURCES EXCELLENCE

RIGOROUS AND DYNAMIC RISK MANAGEMENT

LEADING-EDGE RESEARCH

LEADING-EDGE TECHNOLOGY AND OPERATIONAL EFFICIENCY

LEVER:
HUMAN RESOURCES EXCELLENCE

More than ever, the Caisse relies on the talent and commitment of its employees. Their expertise and desire to excel form the cornerstone of the institution's success.

The Caisse is faced with a scarcity of qualified professionals in an environment characterized by highly specialized, mobile manpower. Talent development is therefore a key component of its performance plan. The human resources highlights of 2006 and the range of projects for 2007 demonstrate the importance of this lever as a success factor.

EXPERTISE IS CENTRAL TO THE CAISSE'S OPERATIONS

The Caisse is proud of its solid teams consisting of seasoned professionals as well as a new generation of talent. More than 47% of its employees have more than 15 years of experience.

The Caisse is an employer of choice in its industry. During the year, 234 positions were filled, 184 of them by new employees. Moreover, 50 positions were filled internally by employees who received promotions or took up new challenges.

The Caisse inaugurated a new active approach to human resources management during the year. This new approach is based on principles of meritocracy, collaboration and transparency, and ensures better management of performance and recognition of the efforts of each employee, as well as co-ordination of individual objectives, team objectives and the Caisse's overall objectives. This new approach is vital to the future success of the Caisse and its employees.

HIGHLIGHTS 2006

/ Consultation of employees to assess the organizational climate and to improve human resources management practices.

/ Creation of a program to develop the management skills of team leaders.

/ 234 positions filled, 50 of them internally.

/ In-house posting of positions and introduction of an on-line recruiting system.

/ Development of a new variable-compensation program.

/ Launch of various health and well-being programs for all employees, including inauguration of the Centre de santé Montreal Herald.

/ More than 160 training sessions offered to employees.

/ Development of tools for a better evaluation of employee performance.

/ Development of succession plans for several units.

OUTLOOK 2007

/ Improve management of employee performance with better setting of objectives, ongoing follow-up, rigorous evaluation and recognition of merit.

/ Implement the new variable-compensation program.

/ Develop a three-year plan to apply the new performance management approach.

/ Put in place a business continuity plan in the event of a pandemic.

/ Revise policies and procedures for human resources management in line with the new performance management approach.

/ Strengthen the employee management role of team leaders.

/ Strengthen the advisory role of the Human Resources team.

/ Complete and apply the new salary structure.

A STIMULATING PROFESSIONAL ENVIRONMENT

Working at the Caisse means coming into contact each day with highly qualified professionals who are recruited here and elsewhere in the world and come from various sectors.

The qualifications of Caisse employees are remarkable. For example, 75% of the Caisse's employees have university degrees, and of that number 33% have a master's degree and 3% a doctorate. Many employees hold a designation awarded by a recognized organization. In 2006, a total of 131 employees held the designation of Chartered Financial Analyst (CFA), 12 others held that of Financial Risk Manager (FRM) and 101 had a Master of Business Administration (MBA). Lastly, the investment professionals are backed by multidisciplinary teams whose members have various types of expertise, with many belonging to professional bodies (accountants, actuaries, engineers, lawyers, notaries, etc.).

This concentration of expertise is conducive to productive discussion and close co-operation. The Caisse offers a wide range of challenging and stimulating projects that enable its employees to develop their full potential.

ENVIABLE BENEFITS

The Caisse offers competitive compensation aligned with that of the reference market. In this way it can attract and retain employees who take part in its success.

The Caisse believes it is essential to ensure it has a new generation of talent for its various units. It therefore provides financial support to employees who continue their professional training. Moreover, each year it hires new graduates and offers training internships and fellowships to university students.

The Caisse's business office in Montréal provides a first-rate working environment. Employees have a variety of technological tools to perform their duties and access to up-to-the-minute information from around the world.

The Caisse offers its employees various services, including a day-care centre that provides quality services adapted to the needs of children and their families. Access to the centre is given to employees of the Caisse and its subsidiaries on a priority basis. Employees also have a health centre, the Centre de santé Montreal Herald, as well as various employee assistance programs.

EMPLOYEE INTEGRATION AND DEVELOPMENT OF A CORPORATE CULTURE

Each year, many university graduates, particularly in finance and investment, begin developing their potential by starting their careers at the Caisse. In this way, the institution strengthens its ties with academia and also maintains and improves the competitive factor that is the key to success: its intellectual capital.

The Caisse strives to ensure new employees fit in smoothly. It has set up an orientation and integration program that includes training sessions led by members of the Caisse's Executive Committee, including the President and Chief Executive Officer. Moreover, various types of training are offered, especially on the Caisse's structure, functioning and financial operations.

DIVERSITY

The Caisse aims for a level of diversity that is representative of the various groups that make up our society, including women, aboriginals, handicapped people and ethnic and visible minorities. The institution subscribes to the principles of the *Act respecting equal access to employment in public bodies*.

LEVER:
RIGOROUS AND DYNAMIC RISK MANAGEMENT

In recent years, the Caisse has invested a great deal in its risk control and optimization teams as well as in systems and tools to measure overall risk more accurately using a dynamic, real-time approach. These investments are continuing.

During the year, in addition to revising its integrated risk management policy, the Caisse finished implementing a new tool used to evaluate and simulate market risk for all the investment groups. This tool will gradually be refined. It also carried out activities to promote a better risk management culture. For example, it organized a training seminar for depositors on the risk model and market risk management. It plans to extend this awareness activity to all Caisse employees in 2007.

PROMOTING A RISK MANAGEMENT CULTURE TO OPTIMIZE RETURNS

Refinement of risk management is one of the characteristics of the managers who earn superior returns year after year. The Caisse therefore monitors risks with policies and directives based on best practices. It also uses an integrated management model to ensure rigorous and dynamic risk management.

The Caisse also has a responsibility to optimize risk to generate the best possible return within the limits agreed on with the depositors. That is why the Caisse's active management of market risk involves allocating it to the most profitable areas.

HIGHLIGHTS 2006

ACTIVE RISK MANAGEMENT

- Development of a new method to allocate risk among the investment groups in the Investment Division.
- 160 risk analyses for investment projects totalling $44 billion.

OUTLOOK 2007

ACTIVE RISK MANAGEMENT

- Design an optimization process for the Caisse's overall portfolio that incorporates alpha and beta.
- Promote a risk management culture through training and a communication plan.

HIGHLIGHTS 2006

INTEGRATED RISK MANAGEMENT

/ Identification of a new method to estimate and monitor market risk for real estate assets.

/ Improvement of market risk estimates for private equity.

/ Implementation of a market risk evaluation and simulation tool.

/ Implementation of a technological tool for management of operational risk.

RISK OVERSIGHT

/ Revision of the integrated risk management policy as regards improvement to the risk model and oversight of:
- / Transactions covering all investment groups;
- / Outsourcing of management activities;
- / Derivative financial instruments.

/ Creation and revision of risk oversight directives.

/ Deployment of a self-assessment process for operational risks in several Caisse units.

/ Revision of several regulations under the Act respecting the Caisse as well as delegations of power for persons authorized to make undertakings for the Caisse.

/ Revision of several investment policies to reflect new market trends.

OUTLOOK 2007

INTEGRATED RISK MANAGEMENT

/ Evaluate the sensitivity of the Caisse's portfolio to various extreme financial scenarios.

/ Identify, implement and document the methodology used to estimate market risk of hedge funds.

/ Implement and document the market risk methodology for real estate assets.

/ Select a tool to estimate credit risk.

/ Work on implementation of the next phase of the market risk evaluation and simulation tools.

RISK OVERSIGHT

/ Continue to improve derivatives oversight according to best practices.

/ Do a self-assessment of the Caisse's operational risks applicable to certain transversal processes, especially the operational application chain.

/ Continue to revise the investment policies of the specialized portfolios.

LEVER:
LEADING-EDGE RESEARCH

At the Caisse, research is a vital performance lever for active management of depositors' holdings. Within each investment group, creation of value added is based essentially on proprietary research, complemented by targeted external research.

In 2006, the Caisse's multidisciplinary research teams were combined within the Investment Division to promote synergy with a view to innovation and profitability. In addition to continuing its research and providing investment policy counsel for depositors, the Caisse developed proprietary research adapted to the portfolio managers' needs, such as sector-specific or thematic research. Emphasis was placed on developing strategies arising from research, to enhance the Caisse's overall return. To that end, the Caisse improved its alpha-strategies research expertise. In 2007, it intends to continue the initiatives begun in 2006 to offer research on the frontline of market trends.

HIGHLIGHTS 2006

/ Merger of the multidisciplinary research teams within the Investment Division.

/ Outstanding visibility of the Caisse's research expertise with the publication of 15 articles in academic and professional journals, including three in the prestigious *Journal of Portfolio Management and Financial Analysts Journal*.[1]

/ Research on resource- and carbon-related matters.

/ Research conducted in co-operation with universities.

/ Successful application of the new approach to security selection for the Canadian Equity portfolio.

/ Benchmarking of portfolio diversification strategies for the Private Equity group.

/ In-house research panels on hedge funds.

OUTLOOK 2007

/ Continue to do research geared to profitable investment strategies.

/ Continue discussions with the external managers of each investment group to share new alpha strategies.

/ Continue strategic monitoring of emerging markets.

/ Adapt the new security-selection approach of the Canadian Equity portfolio to international equities.

/ Conduct research to support complex transactions for the Private Equity group's portfolios.

/ Carry out benchmarking vis-à-vis peers and disseminate the findings.

[1] "The Relative Importance of Asset Allocation and Security Selection," *Journal of Portfolio Management*, fall 2006; "Timing Small versus Large Stocks Using Artificial Intelligence," *Journal of Portfolio Management,* spring 2007; "A Residual Income Approach to Equity Country Selection," *Financial Analysts Journal*, 2007. Other articles in the following publications: *L'Actualité Économique, Banque & Marchés, Canadian Investment Review, Emerging Markets Review, Financial Markets and Portfolio Management, Finéco, Management, International Review of Financial Analysis, Journal of Investing, Journal of Private Equity* and *Journal of Wealth Management.*

LEVER:
LEADING-EDGE TECHNOLOGY AND OPERATIONAL EFFICIENCY

The Caisse continued to gradually implement its three-year information technology plan in 2006. Many structuring projects were launched during the year and their implementation continues. The Caisse made significant progress in operational efficiency, notably by optimizing the number of securities custodians and clearing brokers involved in the transaction settlement process and by automating the confirmation process so that it will be able to comply with transaction-matching rules set by regulatory authorities. This initiative also reduced operating expenses substantially, improved service and greatly simplified operational processes. Implementation of the three-year plan information technology plan begun during the year will continue in 2007.

HIGHLIGHTS 2006

/ Implementation of various initiatives under the operational efficiency program, such as:
/ Reduction in the number of securities custodians and clearing brokers;
/ Automation of reconciliations with securities custodians;
/ Electronic confirmation of over-the-counter derivatives transactions.

/ Various IT projects, such as :
/ Management of proxies and management of operational risks;
/ New versions of the Private Equity group's portfolio management system and of the General Ledger;
/ Management of interest rates and foreign exchange rates.

/ Implementation of technology to electronically link Caisse traders and brokers for order execution and confirmation.

/ Implementation of analytical platforms to support management of the absolute return operations of the Equity Markets group.

OUTLOOK 2007

/ Continue to automate manual processes for transaction settlement;

/ Optimize the main processes that support investment operations and implement the recommendations arising from this revision.

/ Continue IT programs to increase effectiveness and overall efficiency:
/ Corporate information hub program (data management infrastructure);
/ Operational chain program;
/ Risk management program;
/ Portal program (Caisse intranet).

/ Extend system implementation to the main brokers.

/ Continue to develop analytical platforms to support managers' decision-making process to optimize portfolios and seek new investment opportunities.

HIGHLIGHTS 2006

/ Implementation of the first components to modernize the technology infrastructure and increase the robustness and availability of systems, including:
- / Centralized data storage technology;
- / Consolidation and virtualization of servers.

/ Determination of an overall strategy linked to the operational application chain to reduce the complexity of systems and optimize resources.

/ Development of a master plan to improve management information required for improved overall management of the Equity Markets portfolios.

/ Implementation of an IT recovery plan and a business continuity plan to ensure operations resume quickly in the event of a disaster.

OUTLOOK 2007

/ Continue the program to overhaul the information technology infrastructure with the migration of systems and data bases to new technologies.

/ Gradually implement the strategy adopted by integrating the various technology platforms to simplify the operational application chain.

/ Implement identified initiatives to better equip the portfolio managers in the Equity Markets group.

/ Carry out an overall plan to ensure the IT recovery plan is co-ordinated with the business continuity plan.

BOARD OF DIRECTORS AND BOARD COMMITTEES

BOARD OF DIRECTORS

/ CLAUDE GARCIA / SYLVIE DILLARD / PIERRE PRÉMONT / ALBAN D'AMOURS / HENRI-PAUL ROUSSEAU / JOHN T. WALL / STEVEN M. CUMMINGS

/ **A. MICHEL LAVIGNE** / **DUC VU** / **LOUISE CHARETTE** / **CLAUDETTE CARBONNEAU** / **YVAN ALLAIRE** / **HENRI MASSÉ** / **PIERRE BRUNET**

BOARD OF DIRECTORS

/ PIERRE BRUNET

Chairman of the Board
Chairman of the Human Resources Committee
Member: Governance and Ethics Committee
Board member since April 27, 2005

Pierre Brunet was President and Chief Executive Officer of National Bank Financial for many years. He has also served as Chairman of the Board of Governors of the Montréal Exchange, the Montréal Board of Trade, the Investment Dealers Association, the Canadian Institute of Chartered Accountants and the Montréal Symphony Orchestra, and he currently sits on the boards of Montréal International and Metro Inc. Mr. Brunet's many honours include the title of Fellow of the Ordre des comptables agréés du Québec, the Order of Merit from the Université de Montréal and Officer of the Order of Canada.

/ HENRI-PAUL ROUSSEAU

President and Chief Executive Officer
Caisse de dépôt et placement du Québec
Member: Risk Management Committee
Board member since September 1, 2002

Henri-Paul Rousseau holds a Ph.D. in economics and was a university professor for 15 years before holding various senior management positions in the financial sector. He has also served as an economic adviser to the governments of Canada and Québec on various issues. His many honours include the T.M. Brown Thesis Prize for the best doctoral dissertation in economics at the University of Western Ontario, a Doctorate of Laws (Honoris Causa) from Concordia University and an honourary doctorate from Université Lumière, Lyon 2. Mr. Rousseau is a member of the Academy of Great Montrealers and is actively involved in the community.

/ YVAN ALLAIRE

Chairman
Institute for Governance of Private and Public Organizations (HEC-Concordia)
Chairman of the Governance and Ethics Committee
Member: Risk Management Committee
Board member since April 27, 2005

Yvan Allaire holds a doctorate in management science from the Massachusetts Institute of Technology and is a Fellow of the Royal Society of Canada, as well as Professor Emeritus of Strategy at the Université du Québec à Montréal and an Associate Professor at HEC Montréal. He is Chairman of the Institute for Governance of Private and Public Organizations (HEC-Concordia) and a former director of Bombardier (1997-2002) and CGI (1998-2003). He is also a member of the Conseil des relations internationales de Montréal (CORIM), the Advisory Committee of the Comptroller General of Canada, the National Committee (Canada) of the Aga Khan Foundation and the Graduate Advisory Committee of the University of British Columbia.

/ CLAUDETTE CARBONNEAU

President
Confédération des syndicats nationaux
Member: Audit Committee
Board member since September 25, 2002

Claudette Carbonneau holds a master's degree in political science and is the first woman to serve as President of the Confédération des syndicats nationaux (CSN), a position she has held since 2002. Previously, Ms. Carbonneau served as First Vice-President of the CSN and as Secretary General of the CSN's Conseil central du Montréal métropolitain. Ms. Carbonneau was appointed to the Québec government's Advisory Council on Labour and Manpower in 2002.

/ LOUISE CHARETTE

Assistant Director General
Administration and Finance
Commission de la construction du Québec
Member: Risk Management Committee
Board member since April 27, 2005

Louise Charette holds a master's degree in business administration and is completing a doctorate in mathematics. Since 1981, she has held various management positions at the Commission de la construction du Québec, including Director of Internal Audit. In addition to her duties as Assistant Director General, she has also headed the CCQ's Investment Committee. Ms. Charette has worked for a number of organizations. She was a founding member of the Regroupement des femmes cadres du Québec in 1984 and served as Vice-Chair of the Société d'habitation du Québec from 1998 to 2002.

/ STEVEN M. CUMMINGS, CM

President and Chief Executive Officer
Maxwell Cummings & Sons Holdings Ltd.
Member: Human Resources Committee
Board member since October 1, 2003

Steven M. Cummings is President and Chief Executive Officer of Maxwell Cummings & Sons Holdings Ltd. Active in community affairs, Mr. Cummings is a past President of Federation CJA and has served as President of the Jewish General Hospital Centre Board and its Foundation Board. He is also Founding Chair of the Montreal Holocaust Memorial Centre, and Founding Co-Chair of ProMontreal. He is currently Co-Chair of the Canadian Council for Israel and Jewish Advocacy and a director of VIA Rail Canada Inc. Mr. Cummings is also a Member of the Order of Canada.

/ ALBAN D'AMOURS

President and Chief Executive Officer
Desjardins Group
Member: Risk Management Committee
Board member since August 24, 2000

Alban D'Amours completed doctoral studies (Ph.D.), specializing in monetary theory, public finance and econometrics. After teaching for several years, he held a number of positions in Québec's public service, including Deputy Minister of Revenue and Associate Deputy Minister of Energy. He joined the Confédération des caisses Desjardins du Québec in 1988, and has held several management positions since then. Mr. D'Amours was elected President of the Desjardins Group in 2000 and was re-elected in 2004.

/ SYLVIE DILLARD

President and Chief Executive Officer
Fonds québécois de la recherche sur la nature et les technologies
Guest member: Human Resources Committee
Board member since September 25, 2002

Sylvie Dillard holds a master's degree in economics and has held a number of management and research positions in Québec's public service, including Assistant Deputy Minister of Planning and Evaluation at the Ministère de la Santé et des Services sociaux. In 1998, she was named President and Director General of the Fonds pour la formation de chercheurs et l'aide à la recherche, and in 2001 she was appointed President and Chief Executive Officer of the Fonds québécois de la recherche sur la nature et les technologies.

/ CLAUDE GARCIA

Corporate Director

Chairman of the Audit Committee

Board member since April 27, 2005

Claude Garcia has completed the course requirements for a doctorate from the London School of Economics and Political Science and is a Fellow of the Canadian Institute of Actuaries and the Society of Actuaries. In 1983, he joined Standard Life Insurance, where he held several senior management positions. In 1993, he was named President of the company's Canadian operations and served in that capacity until the end of 2004. Mr. Garcia has been actively involved with a number of organizations and currently sits on the boards of Cogeco, Cogeco Cable, Goodfellow, BTB Real Estate Investment Trust and the Institut de recherches cliniques de Montréal.

/ A. MICHEL LAVIGNE

Corporate Director

Member: Audit Committee

Board member since April 27, 2005

A. Michel Lavigne was President and Chief Executive Officer of Raymond Chabot Grant Thornton until May 2005. He has also served on various committees at the Canadian Institute of Chartered Accountants (CICA) and the Ordre des comptables agréés du Québec (OCAQ) as well as the offices of the Auditors General of Canada and Québec. His directorships include Quebecor Media, TVA, Nurun, Primary Energy Recycling and Nstein Technologies. Mr. Lavigne has received many distinctions; most notably, he is a Fellow of the OCAQ.

/ HENRI MASSÉ

President

Fédération des travailleurs et travailleuses du Québec

Member: Risk Management Committee

Board member since January 27, 1999

Henri Massé has been President of the Fédération des travailleurs et travailleuses du Québec (FTQ) since 1998. He also serves as Chairman of the Board and Chairman of the Executive Committee of the Solidarity Fund QFL, and is a member of the Board of Directors of the Commission de la santé et de la sécurité du travail. Mr. Massé has served on various committees of the Conseil consultatif du travail et de la main-d'œuvre, as well as the Executive Committee of the International Confederation of Free Trade Unions.

/ PIERRE PRÉMONT

President and General Manager

Régie des rentes du Québec

Guest member: Audit Committee

Board member since August 9, 2004

Pierre Prémont is a Fellow of the Ordre des comptables agréés du Québec and has a doctorate in administrative sciences. He became an Associate Professor at Université Laval in 1998 and subsequently became Director of its Institut des affaires électroniques. He was also a partner and Director of Management Consulting at a chartered accounting firm, President and General Manager of Société immobilière du Québec and General Manager of the Parc technologique du Québec métropolitain. Mr. Prémont has been President and General Manager of the Régie des rentes du Québec since 2004.

/ DUC VU

President
Commission administrative des régimes de retraite et d'assurances
Guest member : Audit Committee
Board member since September 25, 2002

Duc Vu is an engineer by training and has worked primarily in Québec's public service, including the Conseil du Trésor, where he assumed various responsibilities related to administrative and budgetary policies. Subsequently, he served as Assistant Deputy Minister in various departments, including Santé et services sociaux, Main-d'œuvre et formation professionnelle and Ressources naturelles. Before taking up his current position, Mr. Vu served as President and Chief Executive Officer of the Régie de l'assurance-maladie du Québec. Mr. Vu has been the President of the Commission administrative des régimes de retraite et d'assurances since 2002.

/ JOHN T. WALL

Chairman of the Board
Capital Markets Advisors, Inc.
Member: Human Resources Committee
Governance and Ethics Committee
Board member since August 1, 2002

John T. Wall is Chairman of the Board and Chief Executive Officer of Capital Markets Advisors, Inc. He is also a director of the Friedman Billings Ramsey Group. From 1965 to 2002, he held various management positions with the National Association of Securities Dealers, Inc. and NASDAQ. In 1997, he was appointed President of Nasdaq International, Ltd. Mr. Wall has been a director of various organizations, including the National Securities Clearing Corporation (NSCC), the Options Clearing Corporation and the European Association of Securities Dealers Automated Quotation (EASDAQ).

BOARD OF DIRECTORS' REPORT

COMPOSITION OF THE BOARD

The Caisse's Board of Directors consists of 14 members out of a possible maximum of 15. One Director, Bernard Bonin, resigned in April 2006.

During his years on the Caisse's Board, Mr. Bonin distinguished himself by his hard work and generosity with his time and expertise. His contributions enriched the discussions of the Board, the Risk Management Committee, which he chaired, and the other committees on which he served. The Board is very grateful to him.

The Board consists of its Chairman, the President and Chief Executive Officer, depositors' representatives, members of the academic and business communities and the cooperative movement, and union leaders. The Act respecting the Caisse specifies that at least two-thirds of the Board members, including the Chairman, be independent.

DIRECTOR ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Regular meetings of the Board and its committees are scheduled months in advance. Special meetings are convened on short notice, as required. The Board has decided that, under certain circumstances, a director's repeated absence from three consecutive regular meetings may constitute a vacancy. No director missed three consecutive Board or committee meetings in 2006. This rule does not apply in the case of special meetings of the Board or its committees.

INDEPENDENT BOARD MEMBER REMUNERATION AS DEFINED BY THE ORDER-IN-COUNCIL 610-2006

On June 28, 2006, by adopting Order-in-Council 610-2006 concerning the remuneration of members of the boards of directors of six state-owned enterprises, the Québec government established the following annual remuneration for directors of the Caisse, excluding the Chairman of the Board and the President and Chief Executive Officer:

/ Annual remuneration for all independent directors, as defined by the Order-in-Council: $16,000

/ Annual remuneration for a committee chairman: $5,000

/ Attendance fee for each Board or committee meeting: $750

/ Attendance fee for each special or brief Board or committee meeting held by conference call: $375

Only directors whose status is independent, as defined by the Order-in-Council, are entitled to remuneration.

Directors are also entitled to reimbursement of their travel and living expenses, when applicable.

For 2006, the Directors were compensated from the date when the Order-in-Council took effect. They were therefore paid for the meetings they attended after June 28, 2006. They were also entitled to 50% of the specified annual

DIRECTOR ATTENDANCE AT MEETINGS IN 2006

TABLE 84

Director	Board of Directors		Audit Committee		Risk Management Committee		Human Resources Committee		Governance and Ethics Committee
	Regular 12	Special 5	Regular 6	Special 1	Regular 11	Special 3	Regular 11	Special 2	Regular 9
Yvan Allaire	11	4	–	–	10	3	–	–	9
Bernard Bonin	4/4	–	–	–	3/3	–	–	–	3/3
Pierre Brunet	12	4	–	–	–	–	11	2	9
Claudette Carbonneau	9	2	5	0	–	–	–	–	–
Louise Charette	11	4	–	–	10	2	–	–	–
Steven M. Cummings	9	5	–	–	–	–	8	2	–
Alban D'Amours	8	4	–	–	9	1	–	–	–
Sylvie Dillard	10	4	–	–	–	–	9	2	–
Claude Garcia	11	4	6	1	–	–	–	–	–
A. Michel Lavigne	12	4	6	1	–	–	–	–	–
Henri Massé	10	4	–	–	10	3	–	–	–
Pierre Prémont	12	3	4	1	–	–	–	–	–
Henri-Paul Rousseau	12	5	–	–	11	3	–	–	–
Duc Vu	10	5	5	1	–	–	–	–	–
John T. Wall	9	3	–	–	–	–	10	2	7

remuneration and 50% of the remuneration for committee chairmen, where applicable. The total remuneration of Caisse Directors after that date amounted to $134,500, which can be broken down as shown in table 85.

RENUMERATION OF THE CHAIRMAN OF THE BOARD

The remuneration of the Chairman of the Board is not covered by Order-in-Council 610-2006. It has been set separately by the Québec government at $125,000 a year. The Chairman of the Board is also entitled to reimbursement of entertainment expenses related to the duties of his position, to an annual ceiling of $15,000.

BOARD MANDATE

The mandate of the Board of Directors is to ensure that the Caisse is managed in compliance with the provisions of its Caisse's constituting statute and its regulations. It must ensure that the institution takes the necessary steps to attain the objectives stated in its mission, namely to earn an optimal return on depositors' capital while contributing to the economic development of Québec.

The Board adopts regulations and approves the Caisse's main guidelines and policies with respect to investment operations, socially responsible investment, risk management oversight and delegation of authority. Any investment proposal or matter that calls for special attention, particularly in light of its intrinsic importance or impact on the Caisse's portfolio or asset allocation, is discussed by the Board.

The Board reviews and approves the Caisse's strategic plan. It approves the Caisse's annual business plan and reviews management's evaluations of the economic and financial environment throughout the year. It reviews and approves the Caisse's budgets and annual financial statements. The Board is required to assess the integrity of internal controls, disclosure controls and information systems, and to approve a financial disclosure policy. The Board also approves the Caisse's Annual Report.

The Board approves human resources policies, pay standards, pay scales and other employment conditions for Caisse officers and employees. It also determines the pay standards, pay scales and other employment conditions for the President and Chief Executive Officer, according to parameters established by the government after consulting the Board. On the recommendation of the President and Chief Executive Officer, the Board appoints members of senior management.

Working with the Governance and Ethics Committee, the Board develops and oversees implementation of the Caisse's rules, procedures and polices respecting corporate governance. It approves the codes of ethics and conduct that are applicable to Caisse Board members and to officers and employees of the Caisse and its subsidiaries.

As required by law, the Board of Directors has formed an Audit Committee, a Human Resources Committee, a Governance and Ethics Committee, and a Risk Management Committee.

INDEPENDENT BOARD MEMBER REMUNERATION AS DEFINED BY THE ORDER-IN-COUNCIL 610-2006

TABLE 85

Director	Annual remuneration	Remuneration as Committee Chairman	Attendance fees	Total remuneration
Yvan Allaire	$ 8,000	$ 2,500	$ 12,000	$ 22,500
Claudette Carbonneau*	$ 8,000	-	$ 4,125	$ 12,125
Louise Charette	$ 8,000	-	$ 9,000	$ 17,000
Steven M. Cummings	$ 8,000	-	$ 6,375	$ 14,375
Alban D'Amours	$ 8,000	$ 2,500	$ 9,000	$ 19,500
Claude Garcia	$ 8,000	$ 2,500	$ 7,125	$ 17,625
A. Michel Lavigne	$ 8,000	-	$ 7,125	$ 15,125
Henri Massé*	$ 8,000	-	$ 8,250	$ 16,250

* The remuneration for these Directors is not paid directly to them, in accordance with instructions they have given the Caisse.

N.B.: John T. Wall has waived the fee to which he is entitled for services rendered to the Caisse as a Director, pursuant to Government of Québec Order-in-Council 610-2006.

BOARD ACTIVITY REPORT

COMPLIANCE WITH THE ACT RESPECTING THE CAISSE

Throughout the year, the Board ensured that the Caisse's operations complied with the Act and relevant regulations. It received an audit report from an independent firm pertaining to the plan for implementation of the Act respecting the Caisse. In this way, the Board obtained assurance that the tasks and actions proposed for the implementation of each section of the Act respecting the Caisse are adequate and sufficient, and that each section of the Act is covered by the implementation plan.

STRATEGIC PLANNING AND BUSINESS PLANS

Each of the Caisse's business units and real estate subsidiaries presented its business plan to the Board, including objectives, challenges and related risks. The Board adopted the Caisse's business plan and asset allocation program for the year.

The Board also received regular management reports pertaining to Caisse business operations, various economic indicators, and market conditions and trends. At mid-year and at year-end, assessments of the Caisse's operations and reports on strategic priorities were presented to the Board.

The Board members took part in the Journées Claude-Prieur, an annual information and discussion forum that brings together all Caisse stakeholders and takes a strategic look at the organization's business. In 2006, the Journées Claude-Prieur focused on emerging markets. A real estate subsidiary of the Caisse also made a detailed presentation to the Board on its investment strategy for an emerging country.

These activities gave the Board a detailed and comprehensive view of the organization's projects and objectives. As a result, the Board was able to oversee the Caisse's operations effectively and to provide senior management with constructive feedback. In addition, the Board was able to monitor the strategic plan 2006-2008, and to assess the progress made with its implementation during the year.

FINANCIAL RESULTS, INTERNAL CONTROL AND MANAGEMENT SYSTEM

After each Audit Committee meeting, the Board received the Committee's report on its activities, including monitoring of the quarterly financial statements, budgetary monitoring of operating expenses and monitoring of internal audit work. On the Audit Committee's recommendation, the Board approved the Caisse's annual financial statements, budget and Annual Report.

In co-operation with the Audit Committee and the Risk Management Committee, the Board reviewed the processes used for internal control, risk management and optimal use of resources. On the Committees' recommendation, the Board adopted a policy on internal control and a policy on compliance. The Board also reviewed the Audit Committee's work on development of a plan for optimal use of resources. The plan will be submitted for adoption in early 2007.

In addition, with the assistance of the Audit Committee, the Board oversaw the application of the policies on financial certification and information disclosure. In line with industry best practices, these policies ensure that information disclosed by the Caisse is transparent and accurate.

A detailed presentation on the financial certification program used by the Caisse was made to the Board. The program allows the President and Chief Executive Officer and the Executive Vice-President, Finance, Treasury and Strategic Initiatives, to publicly certify the reliability of the Annual filings, the effectiveness of disclosure controls and procedures, and the design of internal controls over financial reporting. The certificates signed by the President and Chief Executive Officer and the Executive Vice-President, Finance, Treasury and Strategic Initiatives, can be found in the "Financial certification" section of the Annual Report.

The Board also monitored the strategic plan for information technology and deployment of the target infrastructure for the operational application chain that the Caisse is using to bolster its management information system.

RISK MANAGEMENT

With assistance from the Risk Management Committee, the Board has identified the main risks to which the Caisse is exposed, and ensured effective oversight of them. In this respect, the Board received a full report on the activities of the Committee after each of its meetings.

On the Committee's recommendation, the Board approved the active-risk objectives and limits and the absolute risk thresholds and limits for the year. It also reviewed and amended the integrated risk management policy, which covers the main risks to which the Caisse is exposed, the investment approval limits that apply to the various levels of authority and oversight of outsourcing. The Board also approved changes to the investment policies of the specialized portfolios, on the Committee's recommendation.

Every quarter, after a review by the Risk Management Committee, the Board received a report on the monitoring of returns and financial risks from the Executive Vice-Presidency responsible for risk management.

The Board was also informed of the oversight and control measures governing the use of derivative financial instruments. On the Committee's recommendation, the Board amended the *Regulation respecting the determination of instruments or contracts of a financial nature and the framework for their use* to specify the list of derivative financial instruments that the Caisse is permitted to deal in.

In collaboration with Caisse senior management, the Board requested a review of the business model used in the hedge funds unit. The review will be presented to the Board in early 2007.

On the Committee's recommendation, the Board approved an increase in the short-term notes program of the subsidiary CDP Financial Inc.

The Board studied investment proposals requiring its authorization and approved them as it saw fit. In each case, the Board analyzed the risks associated with the investment and its impact on the level and concentration of risk in the portfolio concerned. The Board did separate and regular monitoring of major investments with a substantial impact on the risk level and concentration of the specialized portfolios. The Board also ensured that a report on investments requiring authorization by Caisse senior management was submitted to the Risk Management Committee.

On the Committee's recommendation, the Board adopted a business continuity policy that ensures the Caisse's operations will continue if an extraordinary event occurs. It protects financial assets, minimizes the impact on business and increases the Caisse's ability to fulfil its commitments to its depositors, partners and employees.

The Board also adopted a policy on restricted securities transactions. The policy defines the management framework and operational conditions to which a restricted security is subject.

Finally, on the recommendation of the Risk Management Committee, the Board revised the policy on contracts for acquisition or leasing of goods and services.

OPERATIONAL AGREEMENTS

In light of the intrinsic importance of certain agreements with Caisse suppliers and their impact on the institution's proper functioning, senior management submitted amendments to one of these agreements to the Board for approval. The Board reviewed and approved the proposed terms.

PERSONNEL MANAGEMENT AND SENIOR MANAGEMENT SUPERVISION

The Board approved the annual objectives of the Caisse's President and Chief Executive Officer. In addition, at its meetings, senior executives regularly made presentations on their area of activity.

With assistance from the Human Resources Committee, the Board reviewed the performance of the most senior officer of the Caisse as a function of the objectives set at the beginning of the year. It also reviewed his evaluation of the performance of the senior officers. On a recommendation from the Human Resources Committee, the Board approved the salary conditions for Caisse employees and senior management for 2006 and the bonuses for 2005. With the Committee's assistance, the Board also reviewed the remuneration of the President and Chief Executive Officer. In accordance with the parameters set by the Québec government for the remuneration and other working conditions for Henri-Paul Rousseau, the Board approved new pay standards, pay scales and other employment conditions for the President and Chief Executive Officer.

To fulfill the Caisse's objective of gaining recognition as a benchmark organization, the Board approved the reorganization of senior management that was proposed by the President and Chief Executive Officer. This restructuring created the position of Chief Investment Officer, who essentially manages the Caisse's investment operations in all areas except private equity and real estate. The Investment Division Committee was also created for the purpose of approving the organization's main investment policies and guidelines and ensuring they are respected.

The Chief Investment Officer submitted his annual objectives to the Board, which approved them. He also proposed a reorganization of the Investment Division to ensure optimal use of resources and a consolidated strategic vision. On the recommendation of the Human Resources Committee, the Board approved the restructuring.

On the recommendation of the Human Resources Committee, the Board approved the human resource policies and the pay standards, pay scales and other employment conditions for the most senior officer and the employees of a wholly owned Caisse subsidiary, CDP US Inc. This subsidiary was created to enable the Caisse to open an office in New York. The Board also approved the code of ethics and professional conduct for the officers and employees of the subsidiary.

The Board reviewed the findings of an organizational survey of employees and ensured that management gave effect to the comments received. It reviewed the new approach proposed for human resources management and reviewed and approved a new short-term variable-compensation plan for all Caisse personnel, on the recommendation of the Human Resources Committee. It also reviewed the new performance management program to be implemented in 2007. This program complements the new variable-remuneration program.

CORPORATE GOVERNANCE

The Board received a full report on the activities of the Governance and Ethics Committee after each of its meetings.

On the recommendation of the Governance and Ethics Committee, the Board adopted a procedure for evaluating directors. This evaluation, which was conducted by the Chairman of the Board, gave all directors the opportunity to meet individually with him to discuss their individual contributions to the work of the Board and its committees. The Chairman reported to the Board on the outcome of this procedure.

As for rules of ethics and professional conduct, the Board adopted the Code of Ethics and Professional Conduct for Employees as submitted by the Governance and Ethics Committee. The Code includes the obligation to act with loyalty, honesty and integrity, to avoid conflicts of interest and to protect confidential information. The Board also revised and approved the Code of Ethics and Professional Conduct for Directors.

In the context of the Québec government's Order-in-Council respecting the remuneration of board members of six state-owned enterprises, on the Committee's recommendation the Board adopted a directive on reimbursement of directors' travel and living expenses, as well as a directive on reimbursement of the entertainment expenses of the Chairman of the Board.

The Board received a detailed report pertaining to the Caisse's exercise of its voting rights as well as its application of the policy on socially responsible investment for 2005 and 2006.

On the recommendation of the Governance and Ethics Committee, the Board reviewed and amended the Caisse's *Regulation respecting internal management*. It also approved the mandates of the Chairman of the Board of Directors and the Chairmen of the Committees.

During regular Board meetings, presentations are made to the directors on various aspects of the Caisse's operations. In the past year, these presentations concerned such matters as private equity in Québec, the Caisse's depositors, hedge fund management and governance of the real estate subsidiaries. Moreover, on an initiative of the Governance and Ethics Committee, the directors were able to attend two training sessions on derivatives and control of market risk.

REPORT OF THE AUDIT COMMITTEE

COMMITTEE MANDATE

The Audit Committee carries out its activities in accordance with a mandate adopted in August 2005 and modified in February 2007.

Under the terms of its mandate, the Audit Committee ensures that the Caisse's financial statements accurately reflect its financial position. To that end, it reviews the Caisse's financial statements in co-operation with the Auditor General of Québec and recommends them to the Board of Directors for approval.

The Audit Committee ensures that sufficient and effective internal control mechanisms are in place. It also ensures that a risk management process for the Caisse's operations and a plan for optimal use of resources are put in place. It also follows up on the plan.

The Committee reviews any activity that may adversely affect the sound financial position of the Caisse. It is obliged to inform the Board of Directors, in writing, of any management operation or practice that is unsound or that does not comply with the laws, regulations or policies that govern the operations of the Caisse.

Furthermore, the Committee appoints the Vice-President, Internal Audit, and approves the audit plan. It ensures that the organizational structure in place provides the Internal Audit team with the requisite independence in respect of Caisse management so that the team can carry out its role effectively.

COMPOSITION OF THE COMMITTEE

The Audit Committee consists of three independent members:

Chairman: Claude Garcia
Members: Claudette Carbonneau and A. Michel Lavigne

The Committee also includes two guest members, Duc Vu and Pierre Prémont, who take part in discussions as non-voting members. In addition, the Chairman of the Board of Directors regularly attends the meetings of the Audit Committee.

The Chairman of the Audit Committee and its members do not sit on any other committee of the Caisse's Board of Directors.

ACCOUNTING OR FINANCIAL EXPERTISE

The members of the Audit Committee all have the required experience and knowledge to understand the Committee's mandate and to properly fulfill their role.

During their careers, they have acquired the abilities and skills to read and understand the Caisse's financial statements.

The Audit Committee has two accounting and financial experts, Claude Garcia and A. Michel Lavigne, both of whom have the financial knowledge required to understand the accounting principles used by the Caisse for its financial statements and to evaluate their general application. They possess relevant experience in the preparation, audit and analysis of financial statements presenting a degree of complexity comparable to those of the Caisse. Both are familiar with the concept of internal control and its application at an organization such as the Caisse.

REPORT OF THE AUDIT COMMITTEE ON THE PERFORMANCE OF ITS MANDATE

In fulfilling its mandate, the Audit Committee performed the following functions in 2006:

RESPONSIBILITIES PERTAINING TO FINANCIAL INFORMATION

/ Reviewed the quarterly financial statements and budgetary monitoring of operating expenses;

/ Oversaw an independent valuation of the fair value of private equity and real estate investments made by the Caisse;

/ Reviewed the financial certification process that enables the President and Chief Executive Officer and the Vice-President, Finance, Treasury and Strategic Initiatives, to publicly certify the reliability of the Annual Filings, the effectiveness of disclosure controls and procedures, and the design of internal control over financial reporting;

/ Discussed with the Auditor General his audit plan with respect to the Caisse's financial statements;

/ Reviewed the annual financial statements with the Auditor General and recommended them to the Board of Directors for approval;

/ Met with the Auditor General twice in the absence of members of management;

/ Analyzed the impact on the Caisse of the adoption of Section 3855 of the *CICA Handbook*, as well as the application of international accounting standards.

RESPONSIBILITIES PERTAINING TO INTERNAL AUDIT

/ Reviewed the internal audit universe, the strategic and three-year audit plans for 2006-2008 and the 2006 business plan of the Internal Audit Vice-Presidency;

/ Discussed the characteristics of a value-added internal audit service with the Internal Audit team. The Committee reviewed the principles, vision and proposed performance indicators for each characteristic;

/ Approved the internal audit charter, which establishes the department's mission and the scope of its work;

/ Ensured the Internal Audit team can act independently of Caisse management;

/ Reviewed and approved the annual internal audit plan;

/ Reviewed the report by an external audit firm on the compliance of the Caisse's internal audit service with the standards of the Institute of Internal Auditors;

/ Met with Internal Audit Vice-Presidency in the absence of members of management.

RESPONSIBILITIES PERTAINING TO INTERNAL CONTROLS AND THE PLAN FOR OPTIMAL USE OF RESOURCES

/ Discussed the approach to be followed to apply the legislative provisions governing the Caisse with respect to the control framework, risk management and the plan for optimal use of resources;

/ Discussed the application of internal control mechanisms and the risk management process;

/ Reviewed a policy on internal control and a policy on compliance, and recommended the Board of Directors approve them. These policies serve as an overall reference framework. In line with the Caisse's mission, objectives and strategic priorities, the policies introduce the concepts of evaluation and accountability, and formalize the roles and responsibilities of each unit;

/ Reviewed the implementation of a reference framework for optimal use of resources that supports the attainment of the Caisse's objectives. The Committee reviewed the initiatives related to optimal use of resources during the period 2003-2006. It also carried out preparatory work for implementation of a plan that provides for specific activities involving optimal use of resources for the period 2007-2008. Finally, the Committee identified the activities that will enable it to ensure the plan is monitored. The plan for optimal use of resources will be submitted to the Board of Directors for approval in early 2007;

/ In co-operation with the Risk Management Committee, ensured implementation of a risk management process;

/ Each quarter, reviewed the reports on compliance with the Caisse's investment limits specified in the Act respecting the Caisse. The Committee received copies of the certificates of compliance with depositors' investment policies and the investment policies of the Caisse's specialized portfolios. The Committee also conducted regular monitoring of the investments made pursuant to the last paragraph of section 37.1 of the Act respecting the Caisse.

No activity that may adversely affect the sound financial position of the Caisse was brought to the Committee's attention by the Internal Auditor or any officer in 2006.

After each of its meetings, the Committee reported on its activities to the Board of Directors.

In the exercise of their functions, the Board of Directors and its committees may employ the services of external experts. The Audit Committee did not use such services in 2006.

REPORT OF THE HUMAN RESOURCES COMMITTEE

The Committee carries out its activities in accordance with a mandate that was approved by the Board of Directors on August 26, 2005.

COMMITTEE MANDATE

The mandate of the Human Resources Committee is to review the guidelines and strategies for human resources management.

The Committee reviews human resources policies, submits them to the Board for approval and ensures they are implemented.

The Committee develops the expertise and experience profile for the appointment of the President and Chief Executive Officer and submits it to the Board for approval. Using this profile, the Committee reviews and recommends the appointment of the President and Chief Executive Officer to the Board and evaluates his performance.

On the recommendation of the President and Chief Executive Officer, the Committee reviews the appointment and remuneration of the Caisse's senior officers, and submits this information to the Board for approval. The Committee also reviews the responsibilities of the members of senior management and ensures that succession-planning mechanisms are in place. It reviews the performance evaluation for senior officers, which is done by the President and Chief Executive Officer. With respect to remuneration, the Committee receives information each year concerning remuneration on the Caisse's reference market. It reviews and submits to the Board a recommendation to establish the remuneration and other employment conditions of the President and Chief Executive Officer within the parameters determined by the government after consultation with the Board. It also reviews and submits to the Board the appropriate recommendations to establish the remuneration and other employment conditions of the other officers and employees of the Caisse.

Finally, in co-operation with the Governance and Ethics Committee, the Committee develops expertise and experience profiles for the appointment of independent Board members and submits these profiles to the Board for approval.

COMPOSITION OF THE COMMITTEE

The Human Resources Committee consists of three independent members:

Chairman: Pierre Brunet
Members: Steven M. Cummings and John T. Wall

The Committee has one guest member, Sylvie Dillard, who takes part in discussions as a non-voting member.

HUMAN RESOURCES COMMITTEE ACTIVITY REPORT

In fulfilling its mandate, the Human Resources Committee performed the following functions in 2006:

/ Reviewed the annual objectives of the President and Chief Executive Officer and recommended the Board of Directors approve them;

/ Considered the salary reviews of Caisse employees for 2006 and recommended that the Board approve them. It carried out the same procedure to determine employee bonuses for the previous year;

/ Evaluated the performance of the Caisse's most senior officer and reviewed the performance evaluations for members of senior management, which were done by the most senior officer. On the basis of its review, the Committee recommended that the Board approve the salary increases and bonuses for each member of senior management;

/ Reviewed the provisions of the Act respecting the Caisse that pertain to disclosure, in the Annual Report, of the remuneration of the President and Chief Executive Officer and the five most highly remunerated officers reporting directly to him;

/ Submitted to the Québec government its recommendations concerning the parameters that could be used to determine the remuneration and other employment conditions of the President and Chief Executive Officer. After the government approved these new parameters, the Committee submitted to the Board for approval the remuneration and other employment conditions of the President and Chief Executive Officer;

/ Discussed the new human resources management approach proposed by Caisse senior management, and reviewed the proposed changes to the short-term variable-remuneration plan for Caisse employees. Taking into consideration the practices of the reference market and the recommendations of members of the Caisse's senior management, the Committee submitted to the Board for approval a new short-term variable-remuneration plan covering all positions at the Caisse;

/ Reviewed the components of the new performance management program that will be introduced at the beginning of 2007. This program is aligned with the implementation of the new variable-remuneration plan. The Committee verified that it was in keeping with the new human resources management approach;

/ Reviewed the proposed objectives, thresholds and risk limits for 2007, as well as their effect on the new variable-remuneration plan;

/ Discussed the challenges associated with short-term retention of investment group employees whose performance in recent years has been exceptional and sustained. The Committee recommended measures aimed at motivating these employees to maintain their level of exceptional performance;

/ Reviewed and approved, or recommended that the Board approve, the hiring and salary conditions for employees at the level of vice-president or higher levels;

/ Discussed the need to promote the well-being of employees and team leaders, and to implement programs aimed at improving the health of Caisse employees;

/ Reviewed the proposal for restructuring some of the Caisse's business units, including the creation of the Investment Division and the position of Chief Investment Officer. The Committee also looked into redefining certain positions and recommended any necessary changes to the Board for approval;

/ Reviewed the remuneration programs and other employment conditions for employees of a wholly owned subsidiary of the Caisse, CDP US Inc., and recommended that the Board adopt them. The Committee also recommended that the Board of Directors approve a code of ethics and professional conduct for the employees and officers of this subsidiary.

After each of its meetings, the Committee reported on its activities to the Board of Directors.

In the exercise of their functions, the Board of Directors and its committees may employ the services of external experts. The Human Resources Committee did not use such services in 2006. In reviewing one file, it met with an external consultant hired by Caisse senior management.

REPORT OF THE HUMAN RESOURCES COMMITTEE ON THE REMUNERATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER AND THE FIVE MOST HIGHLY REMUNERATED OFFICERS REPORTING DIRECTLY TO HIM

The Caisse is a financial institution whose performance depends essentially on the talent of its employees. Its officers are responsible for putting in place and carrying out business plans in line with the Caisse's mission, which is "to receive moneys on deposit as provided by law and manage them with a view to achieving optimal return on capital within the framework of depositors' investment policies while at the same time contributing to Québec's economic development."

The Caisse must rely on highly competent employees, whom it recruits on markets for occupations similar to its own. To attract such people, it must adopt a remuneration policy aligned with that of its reference market. This is the only way it can hope to attract, retain and motivate employees whose talent will enable it to achieve its business objectives in an environment where competition for talent is intense.

Long perceived as Québec's investment school, the Caisse has often lost talented employees recruited by other Canadian and foreign investment firms that can offer more advantageous compensation conditions than those in effect at the Caisse. To contain this trend, the Caisse has had to define programs enabling it to offer total remuneration that is competitive in its reference market while respecting the remuneration parameters included in its Regulation respecting internal management.

Total remuneration is comprised of all aspects of an officer's remuneration and includes base salary, annual bonus, long-term incentive plan, benefits programs, pension plans and other remuneration.

The reference market for investment positions is defined as the Canadian institutional investment market and includes a representative sample of institutions, insurance companies, trust companies, pension funds, investment advisers, brokerage firms and fund managers or managers in similar industries. Reference may be made to the North American market for positions related to international investment. The reference market for non-investment positions is Québec, and includes the public sector.

The parameters incorporated into the Regulation respecting internal management specify that the maximum level of total remuneration for investment positions must fall within the upper decile (90th centile) of the reference market. It should be noted that these maximums are in fact rarely reached. The total remuneration for other positions must be at the third quartile (75th centile) of the reference market.

Although the Regulation respecting internal management enables the Caisse to go beyond those limits, its approach is generally, apart from certain exceptional cases, to offer remuneration near the median of the reference market when the Caisse's performance is average, and 75th-centile remuneration when its performance is superior.

To ensure that its remuneration programs are competitive and respect the parameters of the Regulation respecting internal management, the Caisse asks recognized firms to advise it on the analysis of its remuneration programs. An analysis is done regularly for many strategic positions in a data bank covering the reference market. The results are used to compare the direct remuneration offered at the Caisse for each matching position. The latest market analysis, completed early in 2007, shows that the direct remuneration offered to the Caisse's President and Chief Executive Officer and to the officers is within the parameters of the Regulation respecting internal management and the policy followed by the Caisse.

Under the *Act respecting the Caisse de dépôt et placement du Québec*, the Caisse must disclose the remuneration of the President and Chief Executive Officer and that of the five most highly remunerated officers reporting directly to him. The same disclosure is also required for wholly owned subsidiaries. CDP US Inc. is a wholly owned subsidiary of the Caisse, and its President and Chief Executive Officer and officers are the same as those of the Caisse.

REMUNERATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

In May 2006, after the amendments to the *Act respecting the Caisse de dépôt et placement du Québec* came into effect, the government established parameters, by order-in-council, to enable the Caisse's Board of Directors to determine the remuneration and the other employment conditions of the President and Chief Executive Officer. According to these parameters, the remuneration and the other employment conditions of the President and Chief Executive Officer must be between the median and the 75th centile of the reference market depending on whether the Caisse's performance is average or superior. The reference market, is defined as that of large Canadian pension funds. These parameters have been incorporated into the Caisse's Regulation respecting internal management.

Base salary

The base salary for 2005 of the President and Chief Executive Officer was reviewed in May 2006 by the government, once the new remuneration parameters were established, and was set at $460,000 to reflect market conditions. The Board of Directors then set the salary of the President and Chief Executive Officer, at $473,800 for 2006, an increase of 3%.

Variable remuneration

The variable-remuneration programs of the President and Chief Executive Officer are based on the same rules as those of the Caisse's other officers. These programs represent a large portion of the total remuneration of the President and Chief Executive Officer and link his remuneration to achievement of performance objectives. These are the annual bonus program and the long-term incentive plan. To align the interests of the President and Chief Executive Officer with depositors' expectations, the Caisse gives considerable weight to long-term variable remuneration.

Annual bonus program
At the start of each fiscal year, the Board of Directors sets the annual objectives of the President and Chief Executive Officer. At year-end, as a function of the results obtained, it approves his annual bonus.

The amount of the bonus depends on the degree to which the President and Chief Executive Officer achieves the annual objectives and the Caisse's performance. The bonus may reach a maximum of 30% of his base salary, as provided in Order-in-Council 607-2002.

The performance is based on achievement of value-added objectives over and above predetermined thresholds. The Caisse's performance is measured over a moving three-year period to evaluate the results on a medium-term horizon.

Long-term incentive plan (LTIP)
The long-term incentive plan (LTIP) represents the largest portion of the variable remuneration of the President and Chief Executive Officer and aligns his overall remuneration with the Caisse's long-term value-added objectives. The performance is based on achievement of value-added objectives over and above a benchmark index. The Caisse's performance is measured over a moving five-year period to evaluate the results on a horizon corresponding to a long-term investment philosophy.

Under the LTIP, each year the President and Chief Executive Officer receives a grant corresponding to a percentage of his base salary. A reserve is thereby created and it varies according to the Caisse's performance during a moving five-year period. The right to payment under the LTIP is vested gradually and on certain conditions, starting from the end of the third year of the first cycle. The President and Chief Executive Officer may receive, on vesting and depending on the Caisse's performance, a basic payment corresponding to a percentage of the reserve accumulated as at December 31 of each year. The distribution percentage ranges from 0% to 40% of the reserve and is based on the Caisse's performance throughout the cycle measured. The Board of Directors may decide to increase the distribution percentage to recognize long-term performance and thus grant an additional payment under the LTIP. In this case, it ensures that the overall remuneration of the President and Chief Executive Officer remains within the parameters specified in the Regulation respecting internal management.

When the current long-term incentive plan was introduced in 2004, like the other officers who were members of the long-term incentive plan put in place just before the current program took effect, the President and Chief Executive Officer was given, in addition to the regular annual grant, a additional grant to take into account his waiver of the benefits he had been given under the long-term incentive plan in effect when he was hired in 2002. This additional grant has been included with the regular annual grants and is treated in the same way as the regular grants.

PAYMENTS IN 2006 UNDER THE LONG-TERM INCENTIVE PLAN
TABLE 86

Name and position	Payments
Henri-Paul Rousseau President and Chief Executive Officer	$1,213,850[1]

[1] The President and Chief Executive Officer received a basic payment of $485,540 and an additional payment of $728,310 in 2006.

Other compensation
Other compensation refers to perquisites (a car and the related operating expenses, parking, health care and professional consulting fees), the Caisse's contribution to the group insurance plan in effect for management and any other amount paid to an officer under a special agreement.

Pension plans
The pension program for the President and Chief Executive Officer has two separate components, namely the Basic Plan and the Supplemental Pension Plan for Designated Officers (SPPDO).

Under these two plans, the President and Chief Executive Officer is entitled to receive, from the normal retirement age, a total annual pension equal to $35,000 plus an amount corresponding to his number of years or fraction of a year of membership in the pension plans multiplied by 8% of his eligible earnings, defined as being the average of the base salaries for the three years of membership during which his salary was highest. The maximum pension payable under the two plans may not exceed 60% of eligible earnings.

The value of the obligation in respect of benefits under the SPPDO is $3,068,200 as at December 31, 2006.

EXAMPLES OF THE AMOUNT OF ANNUAL PENSION PAYABLE, ON RETIREMENT, BEFORE ANY REDUCTION, FOR YEARS OF MEMBERSHIP IN THE SUPPLEMENTAL PENSION PLAN OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

TABLE 87

	Years of membership					
Eligible earnings	5 years	6 years	7 years	8 years	9 years	10 years
$450,000	$215,000	$251,000	$270,000	$270,000	$270,000	$270,000
$475,000	$225,000	$263,000	$285,000	$285,000	$285,000	$285,000
$500,000	$235,000	$275,000	$300,000	$300,000	$300,000	$300,000
$525,000	$245,000	$287,000	$315,000	$315,000	$315,000	$315,000
$550,000	$255,000	$299,000	$330,000	$330,000	$330,000	$330,000

SUMMARY OF THE DIRECT REMUNERATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER AND THE AMOUNTS RECEIVED BY HIM FOR 2005 AND 2006

The President and Chief Executive Officer's total direct remuneration normally differs from the total amounts he receives for a given year (see table 88). To determine the value of his direct remuneration, the present value of the annual grant added to the LTIP reserve is usually entered in the column "Long-term incentive plan" rather than basic payments related to a possible distribution under the plan, since these basic payments come from grants awarded in previous years and disclosed in the year in which they are awarded. Moreover, a payment made in a given year may be higher or lower than the value of a grant, or even nil, depending on the Caisse's performance during a given cycle or whether the right to a payment is not yet vested or only partially vested.

Thus using the present value of the grant for the year under the LTIP rather than the payment received under previous grants, one takes into account what is actually granted as direct remuneration during a year. On this basis, the total value of direct remuneration is equal to $1,647,814. The difference between the amounts received in 2006 and the value of direct remuneration for 2006 corresponds to the difference between the value of the 2006 annual grant under the LTIP, namely $253,000, and the basic payment of $485,540 received in 2006 relative to previous grants. There was no payment under the LTIP in 2005 whereas the value attributed to the reserve was $245,575.

The value of the direct remuneration of the President and Chief Executive Officer for 2005 is higher than the total of the amounts he received for 2005, because the value of the annual grant is taken into account in the calculation of his direct remuneration, even though he was not yet entitled to a basic distribution in 2005. The total of the amounts he received in 2006 is higher than the value of his direct remuneration since the basic payment under the LTIP, as a result of previous grants, is greater than the value of a basic grant and takes into account the Caisse's superior performance during the cycle measured.

The methodology used to establish the direct remuneration of the President and Chief Executive Officer respects the rules generally recognized in this area and makes it possible to establish a comparison of the direct remuneration of the President and Chief Executive Officer with that of the reference market on a comparable basis.

SUMMARY OF THE DIRECT REMUNERATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER AND THE AMOUNTS HE RECEIVED FOR 2005 AND 2006

TABLE 88

Henri-Paul Rousseau

2006	Base salary	Annual bonus program	Long-term incentive plan [1]	Additional distribution under the long-term incentive plan [2]	Other compensation [3]	Total
Value of direct remuneration	$473,800	$142,140	$253,000	$728,310	$50,564	$1,647,814
Amounts received	$473,800	$142,140	$485,540	$728,310	$50,564	$1,880,354
2005						
Value of direct remuneration [4]	$460,000	$138,000	$245,575	$0	$50,159	$893,734
Amounts received	$460,000	$138,000	$0	$0	$50,159	$648,159

1 The annual grant included in the President and Chief Executive Officer's reserve under the LTIP and used to calculate the "Value of his direct remuneration" is equal to 55% of his base salary as at December 31 of the previous year. Under the rules of the LTIP, the President and Chief Executive Officer is entitled in 2006 to a basic payment of $485,540. This amount comes from the basic distribution percentage provided in the LTIP, which is determined on the basis of the Caisse's performance since the program took effect. This amount is entered in the column "Long-term incentive plan" in "Amounts received."

2 As provided under the LTIP, to recognize the Caisse's superior performance, the Board of Directors has approved for 2006 an increase in the basic distribution percentage for the President and Chief Executive Officer, giving him an additional payment of $728,310. This additional payment must be added to the value of the direct remuneration of the President and Chief Executive Officer for the year in which it is provided.

3 Includes the amount of perquisites as well as the portion of group insurance premiums paid by the Caisse.

4 The amounts for 2005 differ from those published in the *Annual Report 2005*. The remuneration and other employment conditions of the President and Chief Executive Officer for 2005 were established after the publication of the *Annual Report 2005* because Order-in-Council 458-2006 setting the parameters used to determine the remuneration and other employment conditions of the President and Chief Executive Officer was adopted on May 30, 2006.

ANALYSIS OF THE REFERENCE MARKET FOR THE POSITION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER

Comparison of the direct remuneration policy for the position of President and Chief Executive Officer in 2006 with the reference market for a superior performance

The analysis of the reference market for the position of President and Chief Executive Officer is based on a comparison group of eight large Canadian pension funds. The Caisse's Regulation respecting internal management requires that data reflecting the portrait of the reference market be compiled by means of a survey done by a recognized firm, and that they be administered and analyzed according to a methodology and rules generally recognized in this field. To establish the comparison of the President and Chief Executive Officer's remuneration with that of the reference market, Towers Perrin uses a recognized and reliable analytical method that ensures all the components of this remuneration are considered on a comparable basis.

Table 89 compares the President and Chief Executive Officer's potential direct remuneration based on the Caisse policy for 2006 with that observed in the reference market for a superior performance. It presents, on a comparable basis, the direct remuneration paid at the 75th centile of the reference market and the direct remuneration payable at the Caisse under the various remuneration programs in effect, including the maximum additional payment that the Board of Directors may decide to make under the long-term incentive plan.

COMPARISON OF THE CAISSE'S DIRECT REMUNERATION POLICY FOR THE POSITION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER IN 2006 WITH THE REFERENCE MARKET FOR A SUPERIOR PERFORMANCE

TABLE 89

Position	Reference market at 75th centile	Caisse policy for a superior performance	Ratio
	(A)	(B)	(B) / (A)
President and Chief Executive Officer	$1,911,000	$1,905,430	1.00

Source: Towers Perrin, Study of the Remuneration of the President and Chief Executive Officer, Caisse de dépôt et placement du Québec, 2007.

OFFICERS' REMUNERATION

Officers' remuneration consists of the following components: base salary, annual bonus program, long-term incentive plan, other compensation and pension plans.

Base salary
An officer's base salary falls within a salary structure aligned with the reference market. It is determined on the basis of the level of responsibility related to the position as well as the officer's experience, expertise and performance.

Variable remuneration
The variable-remuneration programs in effect at the Caisse, described hereunder, are based on Canadian practices in this area. They represent a large portion of officers' total remuneration and link their remuneration to achievement of performance and value-added objectives by the various investment groups and to those of the Caisse generally. These are the annual bonus program and the long-term incentive plan. To align officers' interests with depositors' expectations, the Caisse gives considerable weight to officers' variable remuneration.

Annual bonus program
At the beginning of each year, the Board of Directors approves budgets, business plans and value-added performance objectives for each specialized portfolio in relation to predetermined thresholds and market indexes. At the end of the year, as a function of the results obtained, it approves the annual bonus for each Caisse officer reporting to the President and Chief Executive Officer.

The amount of the bonus depends on the performance of the investment groups and the performance of the Caisse. The performance is based on achievement of value-added objectives over and above predetermined thresholds aligned with depositors' expectations. The performance of the specialized portfolios and that of the Caisse are measured over a moving three-year period (five years for the Private Equity and Real Estate portfolios) to evaluate the results on a medium-term horizon.

The bonuses of officers in the investment groups are calculated on the basis of the performance of their specialized portfolios as well as their personal evaluations. The bonuses of officers in the general services groups are calculated on the basis of the Caisse's overall performance as well as their personal evaluations. Allowing for exceptions, that portion of the bonus tied to performance remains by far the largest.

Long-term incentive plan (LTIP)
The long-term incentive plan (LTIP) represents a large portion of officers' remuneration and aligns their total remuneration with the Caisse's long-term value-added objectives. The performance is based on achievement of value-added objectives over and above a benchmark index, aligned with depositors' expectations. The Caisse's performance is measured on a moving five-year period so as to evaluate the results on a horizon that corresponds to a long-term investment philosophy. In the case of the Executive Vice-President, Real Estate, the performance used is that of the Real Estate group, as a result of his many years of service with the group's subsidiaries before he joined Caisse senior management.

Under the LTIP, each officer receives an annual grant corresponding to a percentage of his base salary. A reserve is thereby created and it varies according to the Caisse's performance during a moving five-year period. The right to payment under the LTIP is vested gradually and on certain conditions, starting from the end of the third year of the first cycle. The officer may receive, on vesting and depending on the Caisse's performance, a basic payment corresponding to a percentage of the reserve accumulated as at December 31 of each year. The distribution percentage ranges from 0% to 40% of the reserve and is based on the Caisse's performance throughout the cycle measured. The Board of Directors may decide to increase the distribution percentage to recognize long-term performance and thus grant an additional payment under the LTIP. In this case, it ensures that the officer's overall remuneration remains within the parameters specified in the Regulation respecting internal management.

When the current long-term incentive plan was introduced in 2004, the officers hired before January 1, 2004, were given, in addition to the regular annual grant, a additional grant to take into account their waiver of the benefits they had been given under the long-term incentive plan in effect when they were hired. This additional grant has been included with the regular annual grants and is treated in the same way as the regular grants.

PAYMENTS IN 2006 UNDER THE LONG-TERM INCENTIVE PLAN

TABLE 90

Name and position	Payments
Fernand Perreault Executive Vice-President, Real Estate	$538,620
Richard Guay Chief Investment Officer	$159,720
Normand Provost Executive Vice-President, Private Equity	$197,250
Ghislain Parent Executive Vice-President, Finance, Treasury and Strategic Initiatives	$81,450
Suzanne Masson Executive Vice-President, Corporate Affairs and Secretary	$40,500

Other compensation

Other compensation refers to perquisites (a car and the related operating expenses, parking, health care and professional consulting fees), the Caisse's contribution to the group insurance plan in effect for management and any other amount paid to an officer under a special agreement.

Pension plans

The Caisse's pension plan for officers has three separate components, namely the Basic Plan, the Supplemental Pension Plan for Designated Officers (SPPDO) and the Supplemental Pension Plan for Employees (SPPE). The benefits under the supplemental plans vary according to the annual pension ceilings imposed by the Canada Revenue Agency. The vesting of certain benefits is based on the Caisse's performance.

Mr. Perreault is a member of SITQ's basic pension plan. The total benefits are essentially the same as those in effect at the Caisse.

The provisions of the SPPDO in respect of Ms. Masson differ from those of the other officers to take into account the fact that her basic pension plan is the Retirement Plan for Senior Officials (RPSO).

The value of the obligation under the SPPDO and the SPPE is $ 4,146,300 as at December 31, 2006.

EXAMPLES OF THE MINIMUM ANNUAL AMOUNT OF PENSION PAYABLE, AT NORMAL RETIREMENT AGE, FOR AN OFFICER'S YEARS OF MEMBERSHIP IN THE SUPPLEMENTAL PENSION PLANS

TABLE 91

	Years of membership				
Eligible earnings	10 years	15 years	20 years	25 years	30 years
$200,000	$40,000	$60,000	$80,000	$100,000	$120,000
$250,000	$50,000	$75,000	$100,000	$125,000	$150,000
$300,000	$60,000	$90,000	$120,000	$150,000	$180,000
$350,000	$70,000	$105,000	$140,000	$175,000	$210,000
$400,000	$80,000	$120,000	$160,000	$200,000	$240,000

N.B.: These pension amounts may vary depending on the Caisse's performance during the years in which the officer is a member of the Supplemental Pension Plan for Designated Officers and the Supplemental Pension Plan for Employees.

SUMMARY OF THE DIRECT REMUNERATION AND AMOUNTS RECEIVED BY THE FIVE MOST HIGHLY REMUNERATION OFFICERS REPORTING DIRECTLY TO THE PRESIDENT AND CHIEF EXECUTIVE OFFICER FOR 2005 AND 2006

The total direct remuneration of each of the aforementioned officers normally differs from the total amounts received for a given year (see table 92). To determine the value of direct remuneration, the present value of the annual grant added to the LTIP reserve is usually entered in the column "Long-term incentive plan" rather than basic payments related to a possible distribution under the plan, since these basic payments come from grants awarded in previous years and disclosed in the year in which they are awarded. Moreover, a payment made in a given year may be higher or lower than the value of a grant, or even nil, depending on the Caisse's performance during a given cycle or whether the right to a payment is not yet vested or only partially vested.

Thus using the present value of the grant for the year under the LTIP rather than the payment received under previous grants, one takes into account what is actually granted as direct remuneration during a year.

Thus the value of the direct remuneration of each aforementioned officer for 2005 is higher than the total of the amounts received for 2005 since the value of the annual grant is taken into account in the calculation of direct remuneration, even though there was no payment in 2005 under the LTIP. The total of the amounts received in 2006 is in certain cases higher than the value of the direct remuneration, since the basic payment under the LTIP, as a result of previous grants, is greater than the value of a basic grant and takes into account the Caisse's superior performance during the cycle measured. In other cases, the total of the amounts received is lower than the total direct remuneration, since certain officers' right to a distribution was only partially vested in 2006.

The methodology used to establish the direct remuneration of the aforementioned officers respects the rules generally recognized in this area and makes it possible to establish a comparison of the direct remuneration of the officers with that of the reference market on a comparable basis.

SUMMARY OF THE DIRECT REMUNERATION OF THE FIVE MOST HIGHLY REMUNERATED OFFICERS REPORTING DIRECTLY TO THE PRESIDENT AND CHIEF EXECUTIVE OFFICER AND THE AMOUNT THEY RECEIVED FOR 2005 AND 2006

TABLE 92

	Base salary	Annual bonus program	Long-term incentive plan [1]	Other compensation [2]	Total
Fernand Perreault Executive Vice-President, Real Estate					
2006					
Value of direct remuneration	$385,000	$685,300	$139,050	$33,877	$1,243,227
Amounts received	$385,000	$685,300	$538,620	$33,877	$1,642,797
2005					
Value of direct remuneration	$370,800	$660,024	$135,000	$33,810	$1,199,634
Amounts received	$370,800	$660,024	$0	$33,810	$1,064,634
Richard Guay Chief Investment Officer [3]					
2006					
Value of direct remuneration	$310,500	$581,750	$93,750	$36,666	$1,022,666
Amounts received	$310,500	$581,750	$159,720	$36,666	$1,088,636
2005					
Value of direct remuneration	$250,000	$320,000	$84,375	$31,882	$686,257
Amounts received	$250,000	$320,000	$0	$31,882	$601,882
Normand Provost Executive Vice-President, Private Equity					
2006					
Value of direct remuneration	$300,000	$525,000	$108,750	$32,794	$966,544
Amounts received	$300,000	$525,000	$197,250	$32,794	$1,055,044
2005					
Value of direct remuneration	$290,000	$510,000	$103,125	$32,698	$935,823
Amounts received	$290,000	$510,000	$0	$32,698	$832,698
Ghislain Parent Executive Vice-President, Finance, Treasury and Strategic Initiatives					
2006					
Value of direct remuneration	$265,000	$210,000	$93,750	$30,094	$598,844
Amounts received	$265,000	$210,000	$81 450	$30,094	$586,544
2005					
Value of direct remuneration	$250,000	$196,000	$84,375	$29,682	$560,057
Amounts received	$250,000	$196,000	$0	$29,682	$475,682
Suzanne Masson Executive Vice-President, Corporate Affairs and Secretary					
2006					
Value of direct remuneration	$252,500	$200,000	$91,875	$31,153	$575,528
Amounts received	$252,500	$200,000	$40,500	$31,153	$524,153
2005					
Value of direct remuneration	$234,131	$190,120	$80,625	$30,788	$535,664
Amounts received	$234,131	$190,120	$0	$30,788	$455,039

1 Represents the annual grant included in the officer's reserve under the LTIP for 2006. This grant is equal to 37.5% of the officer's base salary as at December 31 of the previous year. Any future payment under the LTIP, whether a basic payment or, as applicable, an additional payment, will be determined taking into account the variation in the reserve as a result of the Caisse's performance during the cycle measured.

2 Includes the amount of perquisites as well as the portion of group insurance premiums paid by the Caisse.

3 Richard Guay was promoted to Chief Investment Officer as of March 31, 2006.

COMPARISON OF THE CAISSE'S 2006 DIRECT REMUNERATION POLICY FOR THE POSITIONS HELD BY THE OFFICERS WITH THE REFERENCE MARKET FOR A SUPERIOR PERFORMANCE

Analysis of the reference market for senior management positions

The analysis of the reference market for senior management positions is based on a comparative group of about 60 companies that are part of the reference market specified in the Caisse's Regulation respecting internal management.

The Caisse's Regulation respecting internal management specifies that the data reflecting the reference-market profile be compiled by means of a survey, conducted by a recognized firm, and that they be administered and analyzed according to a methodology and rules generally recognized in this field.

Table 93 compares each officer's potential direct remuneration based on the Caisse policy for 2006 with that observed in the reference market for a superior performance. It presents, on a comparable basis, the direct remuneration paid at the 75th centile of the reference market and the direct remuneration payable at the Caisse under the various remuneration programs in effect for a superior performance.

COMPARISON OF EACH OFFICER'S POTENTIAL DIRECT REMUNERATION BASED ON THE CAISSE POLICY FOR 2006 WITH THAT OBSERVED IN THE REFERENCE MARKET FOR A SUPERIOR PERFORMANCE

TABLE 93

	Direct remuneration for 2006		
Positions	Reference market at 75th centile	Caisse policy for a superior performance	Ratio
	(A)	(B)	(B) / (A)
Executive Vice-President, Real Estate	$1,699,000	$1,396,750	0.82
Chief Investment Officer	$2,274,000	$1,183,750	0.52
Executive Vice-President, Private Equity	$1,402,000	$1,090,000	0.78
Executive Vice-President, Finance, Treasury and Strategic Initiatives	$803,000	$700,750	0.87
Executive Vice-President, Corporate Affairs and Secretary	$684,000	$668,875	0.98

Source: Towers Perrin, Study of Direct Remuneration, Caisse de dépôt et placement du Québec, 2007.

REPORT OF THE GOVERNANCE AND ETHICS COMMITTEE

COMMITTEE MANDATE

The Governance and Ethics Committee has a mandate to assure the Board of Directors that the Caisse maintains the highest standards of governance and ethics. To that end, the Committee establishes governance rules, structures and procedures to ensure the Board of Directors acts independently from management.

The Committee must propose an orientation program for new directors and an ongoing training program. By doing so, it ensures that the directors have the knowledge they require to play an active role on the Board and its committees. The Committee makes recommendations to the Board with respect to the composition and mandates of the Board's committees, as well as the creation and mandates of other committees that may, to facilitate the proper functioning of the Caisse. The Committee also proposes a procedure for evaluating the performance of the Directors and the Board as a whole.

Together with the Human Resources Committee, the Governance and Ethics Committee submits to the Board the expertise and experience profile for the selection of independent members. It also recommends independent members on the basis of the criteria established by the Act.

Finally, the Committee reviews regulations and policies respecting the following matters and recommends them to the Board:

/ The ethics and professional conduct of the directors, officers and employees of the Caisse, including control measures pertaining to the personal use of information received with respect to Caisse operations, and instances in which officers of the Caisse are obliged to declare their interests;

/ Socially responsible investment;

/ The governance principles that the Caisse intends to promote to the companies in which it exercises voting rights.

COMPOSITION OF THE COMMITTEE

The Governance and Ethics Committee consists of four independent members. One position became vacant in 2006 when Bernard Bonin left the Board of Directors of the Caisse and, in so doing, terminated his functions as a member of the Committee.

Chairman: Yvan Allaire
Members: Pierre Brunet and John T. Wall

REPORT OF THE GOVERNANCE AND ETHICS COMMITTEE

In fulfilling its mandate, the Governance and Ethics Committee performed the following functions in 2006:

/ Revised the Code of Ethics and Professional Conduct for Officers and Employees of the Caisse, and submitted it to the Board of Directors for approval. The Committee also received a report on the application of the Code and a report that compared the Caisse's Code with that of its subsidiaries;

/ Revised the Code of Ethics and Professional Conduct for Directors, and submitted it to the Board of Directors for amendment and adoption;

/ On behalf of the Board of Directors, received and reviewed the directors' declarations of interests and forwarded the declarations to the competent authorities, as stipulated in the Act respecting the Caisse;

/ Revised the preauthorization process for directors' personal transactions;

/ Reviewed the independence of the members of the private equity valuation committees and the independence of real estate appraisers, and confirmed the effectiveness of the selection process for committee members and appraisers;

/ Implemented a process to review candidacies for the position of director of the Caisse. The Chairman of the Board and the Committee Chairman were jointly responsible for conducting the review process;

/ Reviewed and recommended to the Board of Directors for adoption a policy on the principles governing the exercise of the Caisse's rights to vote its shares of publicly traded companies;

/ Received a report on the exercise of the Caisse's voting rights;

/ Discussed the application of the policy on socially responsible investment in 2005 and 2006;

/ Proposed the adoption of directives for the entertainment expenses of the Chairman of the Board and the travelling and living expenses of directors, pursuant to the Québec government's order-in-council respecting the remuneration of officers of six state-owned enterprises. The Committee also studied the rules for payment of directors' remuneration;

- Supervised the performance evaluation of the Board, its Chairman and its committees. The Committee reported the results of this process to the Board of Directors and, in response to comments expressed by its members, proposed improvements to the Board of Directors' decision-making process. The Committee also identified areas of activity where a Director's expertise would complement the experience and knowledge of the Board as a whole;
- Ensured the members of the Board conducted a self-evaluation;
- Reported to the Board of Directors on its work after each of its meetings.

The Committee continually evaluated the structures and procedures designed to ensure the independence of the Board of Directors. To that end, the Committee:

- Proposed discussion sessions over the course of the year in the absence of senior management;
- Developed and recommended that the Board adopt descriptions of the mandates of the Chairman of the Board and the Chairmen of the Committees;
- Amended the *Regulation respecting the internal management of the Caisse* to bring it into line with the provisions of the Act respecting the Caisse, and recommended adoption of the amended regulation by the Board of Directors;
- Organized for Board members two training sessions on subjects related to the Caisse's operations. The first session dealt with derivative financial instruments, while the second reviewed market risk and ways to control it. The Committee ensured key members of Caisse senior management or external consultants were available to address the various subjects on the agenda, and that the time allocated for this training allowed for a full and complete discussion;
- Ensured that the Board had all the relevant information and the time necessary to analyze the issues that the Caisse faces.

In the exercise of their functions, the Board of Directors and its Committees may employ the services of external experts. In reviewing candidacies for the position of Director of the Caisse, the Governance and Ethics Committee employed the services of a professional firm. In accordance with the terms of its mandate, the Committee advised the Chairman of the Board and the President and Chief Executive Officer in advance of the use of the services of an external expert, the mandate awarded and the estimated budget.

REPORT OF THE RISK MANAGEMENT COMMITTEE

The Board of Directors created the Risk Management Committee to facilitate the proper functioning of the Caisse with respect to the establishment of risk management guidelines and policies.

The Committee carries out its activities in accordance with a mandate that was most recently modified by the Board of Directors in January 2007.

COMMITTEE MANDATE

By establishing risk management guidelines and policies, the Committee seeks to maintain an appropriate level of business, financial and operational risks. In carrying out its mandate, the Committee ensures that risks are clearly identified, and that a process is in place to manage them.

The Committee also reviews and submits to the Board for approval any transaction, investment or investment file and any deviation from policies under the authority of the Board of Directors, notably with respect to their impact on the Caisse's overall portfolio or asset allocation.

In addition, the Committee ensures that the Caisse fulfills its obligations to its depositors. To that end, it monitors compliance with the investment policy of each specialized portfolio and with each depositor's investment policy.

The Committee informs the Audit Committee of the implementation of a risk management process.

COMPOSITION OF THE COMMITTEE

The Risk Management Committee consists of six members. One position became vacant in 2006 when Bernard Bonin left the Board of Directors of the Caisse and, in so doing, terminated his functions as Committee Chairman. Alban D'Amours is the Chairman.

Chairman: Alban D'Amours
Members: Louise Charette, Yvan Allaire, Henri Massé and Henri-Paul Rousseau

The Chairman of the Board regularly attends the Committee's meetings.

ACTIVITY REPORT OF THE RISK MANAGEMENT COMMITTEE

In fulfilling its mandate, the Risk Management Committee performed the following functions in 2006:

RESPONSIBILITIES FOR ESTABLISHMENT OF RISK MANAGEMENT GUIDELINES AND POLICIES

/ Revised and recommended to the Board of Directors for approval the integrated risk management policy setting out the main risks to which the Caisse is exposed, the investment approval limits of the various levels of authority, oversight of outsourcing and of the use of derivative financial instruments;

/ Reviewed and as applicable recommended to the Board of Directors changes to the investment policies of the Caisse's specialized portfolios, notably to revise certain limits;

/ Reviewed all overruns or deviations from the investment policies and, as necessary, brought them to the attention of the Board of Directors for approval;

/ Reviewed and recommended that the Board of Directors amend the *Regulation respecting the determination of instruments or contracts of a financial nature and the framework for their use* to draw up the list of derivative financial instruments that the Caisse may use. The Regulation also stipulates that the Board of Directors set one or more risk limits for contracts or instruments of a financial nature at least once a year;

/ Analyzed the quarterly reports and the annual report on monitoring of changes in the Caisse's financial risks. The Committee also reviewed changes in the Caisse's operational risk;

/ Closely monitored changes in the Caisse's specialized portfolios, with particular focus on market and credit risks, as well as the risk budget allocated to each manager of a specialized portfolio;

/ Conferred at each meeting with the Executive Vice-President responsible for risk management to ensure the Caisse has a sufficient and effective process to manage significant risks;

/ Reviewed the certificates of compliance with depositors' investment policies and the investment policies of the specialized portfolios;

/ Reviewed the directives to oversee and manage risks put in place by Caisse management;

/ Reviewed the short-term note program of the wholly owned subsidiary CDP Financial Inc. and recommended to the Board of Directors that it be increased;

/ Reviewed and recommended that the Board of Directors adopt the policy on business continuity and the policy on contracts for acquisition or leasing of goods and services by the Caisse.

RESPONSIBILITIES FOR INVESTMENT FILES

/ Reviewed and, as appropriate, recommended to the Board, for approval, 27 investment files under the authority of the Board of Directors. For each file, in addition to the analysis submitted by the unit proposing the transaction, the Committee reviewed the analysis of the project's risks, in particular its impact on the degree and concentration of the risk of the specialized portfolio and the Caisse's overall portfolio;

/ Discussed the analysis of the risk-return ratio for each investment file submitted to the Committee with the Executive Vice-Presidency, Risk Management and Depositors' Accounts Management;

/ Received the monitoring report on investment files that do not require Board approval and that were authorized by Caisse senior management;

/ Reviewed and recommended that the Board of Directors approve a policy on restricted securities transactions;

/ After each of its meetings, the Risk Management Committee reported on its activities to the Board of Directors and submitted its minutes to the Audit Committee.

In the exercise of their functions, the Board of Directors and its committees may use the services of external experts. The Risk Management Committee did not use such services in 2006.

GLOSSARY

ABSOLUTE RETURN

Return as measured by accounting records for any set of investments, including a depositor's portfolio or the Caisse's overall portfolio.

ABSOLUTE RISK

Expression of a portfolio's market volatility. This risk is used to measure, on the basis of the securities in the portfolio, the magnitude of a potential return deficit in comparison with the portfolio's expected return.

ACCUMULATION INVESTMENT

Investment that involves accumulating shares of a publicly traded company over the long term to acquire a strategic position so as to take advantage of value-enhancement opportunities.

ACTIVE MANAGEMENT

Portfolio management that differs from the benchmark index as a function of the manager's opinion regarding the market's future behaviour. The manager selects certain securities or sectors to create value added.

ACTIVE RISK

Volatility of value added, generally measured on the basis of the portfolio manager's current positions and the volatility and correlations of the return associated with these positions.

ACTUARIAL LIABILITIES

Total financial obligations that a pension or insurance plan must meet, given the nature of the plan and its commitments to participants.

ANALYTICAL APPROACH

Data-analysis method that is carried out in advance of an investment decision and takes into account quantitative and qualitative factors.

ANALYTICAL PLATFORM

Computer tools and infrastructure that enable managers to analyze current or potential investments quickly and easily.

ARBITRAGE

Transactions carried out to profit from a real or apparent imbalance between two securities or two baskets of securities. Arbitrage involves the purchase of a security or a basket of securities that appears to be undervalued and the sale of another that appears overvalued. Depending on the products available, transactions may be conducted in cash or on the futures market.

ASSET ALLOCATION (TOTAL)

Percentage of each asset class in a portfolio. It may refer to the portfolio's targeted or real asset allocation. The Caisse's total asset allocation results from the sum of the weighted asset allocation of each depositor.

ASSET-LIABILITY MATCHING

Development of a portfolio that takes into account the requirements of actuarial liabilities, such as current income, sensitivity to certain variables, etc. For example, if a plan must pay out a total of $10 million a month in benefits, the portfolio can be built with a suitable proportion of fixed-income securities to provide the revenues necessary to pay these benefits. This is an example of the matching of assets and liabilities on the basis of cash flows.

ASSETS UNDER ADMINISTRATION

Assets for which the Caisse's subsidiaries and affiliates provide administrative services on behalf of the clients that own them. The companies that administer the assets are not involved in investment or disinvestment decisions and receive payment in the form of fees.

ASSETS UNDER MANAGEMENT

Assets that are owned by partner companies or clients and managed by a subsidiary or an affiliate of the Caisse. The units that manage the assets are involved in investment and disinvestment decisions and receive fees as payment for services rendered.

AUTHORIZED INVESTMENT

Investment whose parameters (financial vehicle, financing terms, cost, expected returns, etc.) have been examined and accepted by the competent authority.

BENCHMARK INDEX

Index used to measure the effect of all investors' decisions. It reflects the general market trend and allows comparison with the Caisse's portfolio management result for each specialized portfolio or management mandate. The market index may vary depending on the investment horizon and mandate. It can be a stock market index for an entire portfolio or a subindex that corresponds to a chosen investment universe for a management mandate.

BENCHMARKING

Ongoing process that a company uses to compare and evaluate itself against companies that have adopted exemplary business practices, in order to obtain information confirming its business practices or to adopt measures to improve them.

BOTTOM-UP ANALYSIS

Analytical process that examines specific elements before considering general elements. For example, a company is analyzed before the impact of sector concentration, national concentration and foreign currency exposure are examined. Top-down analysis functions in the opposite direction.

CAISSE'S OVERALL PORTFOLIO

Combination of the depositors' individual portfolios in proportion to the weight of each portfolio managed by the Caisse, whose overall return is the weighted average return on depositors' funds.

CAPITALIZATION RATE

Standardized and annualized net income of a property at a specific date, divided by the estimated value or selling price. This rate can be used to compare real estate property values.

CASH OPERATIONS

Operations allowing for the immediate purchase or sale of assets at a defined price according to market conditions.

CDO

See *Collateralized debt obligation*.

CLIENT

Company to which the Caisse or one of its subsidiaries provides portfolio management or property administration services in consideration of fees.

CMBS

See *Commercial mortgage-backed securities*.

COLLATERALIZED DEBT OBLIGATION (CDO)

Securities issued on the market and guaranteed by financial assets. The issuer of a collateralized debt obligation issues securities with various maturity dates, often referred to as tranches, using the funds generated by the underlying financial assets to reimburse the end investors, hence the notion of structured cash flows. The cash flows of the underlying financial assets are used to guarantee the various tranches.

COMMERCIAL MORTGAGE-BACKED SECURITIES (CMBS)

Securities issued in tranches, for which credit ratings are provided by a recognized rating agency. Each tranche has a different credit rating depending on the guarantee associated with it. The guarantee is based on a group of mortgages granted to borrowers and on the guarantee provided by the issuer of the security.

COMMERCIAL PAPER

Debt security issued by a corporation with a maturity usually shorter than or equal to one year. Commercial paper is to corporations as treasury bills are to governments.

COMMODITIES

Products that trade in the form of futures contracts on specialized exchanges. Examples are crude oil, gold, wheat and coffee.

COMPLIANCE CERTIFICATE

Document certifying compliance with the laws, regulations, and policies governing the operations of the Caisse.

COMPOSITE

Predetermined set of securities that have shared investment objectives or strategies. A composite may be based on one or more of the following criteria: currency, country, company size, product type, etc.

CONVENTIONAL INVESTMENT (REAL ESTATE)

High-quality real estate occupying a dominant position in its market. This type of real estate asset presents an attractive financial picture over the long term (five to 10 years) owing to its high level of stability and potential to weather a downturn in the real estate cycle. This type of property also has the following characteristics: a strategic location, a stable cash flow and a high current return similar to the return on fixed-income investments such as bonds and quality tenants.

CORE MANAGEMENT STYLE

Traditional management style that has no bias based on growth, value, etc.

CORRELATION

Statistic that measures the variation in the return on one financial asset in relation to another. The correlation coefficient measures the degree of dependence between two variables to determine, for example, whether the returns on a mutual fund fluctuate as a function of the market or other categories of funds. Selection of funds with a low degree of correlation ensures effective portfolio diversification.

CREDIT SPREAD

Difference in yields to maturity associated with issuers other than the government of the country concerned. In this sense, the spread between corporate bonds and Government of Canada bonds is a form of credit spread, as is the difference in yields to maturity between Ontario bonds and Government of Canada bonds, Québec bonds and Government of Canada bonds, etc.

DEPOSITOR

Public- or private-sector pension or insurance plan whose funds are managed by the Caisse.

DEPOSITOR'S BENCHMARK PORTFOLIO

Portfolio whose net asset allocation among the Caisse's specialized portfolios is agreed on with the depositor and corresponds to its needs and risk tolerance.

DEPOSITOR'S INVESTMENT POLICY

Framework that defines the management of funds entrusted to the Caisse by a depositor and includes a description of the particular plan and its characteristics, the benchmark portfolio, the market indexes, the value-added expectations and other technical aspects, such as frequency of meetings and reporting requirements.

DEPOSITORS' NET ASSETS OR DEPOSITORS' HOLDINGS

Fair market value of depositors' assets managed by the Caisse.

DEPOSITORS' TOTAL ASSETS

Depositors' net assets plus assets financed by borrowing as well as transactions being settled, other liabilities and non-controlling interests.

DERIVATIVES, DERIVATIVE PRODUCTS

Contracts, commitments or agreements for the sale or purchase of assets or the exchange of returns at a future date. These financial instruments are called derivatives because their value depends on an underlying asset.

There are three types of derivative products: futures and forward contracts, options and swaps.

DEVELOPMENT CAPITAL

Investment in a privately or publicly held company that wants to expand through internal growth or through an acquisition. Also includes a partial or total buyback of shares from a major shareholder allowing for a transfer of ownership.

DIRECTIONAL INVESTMENT STRATEGY

Portfolio strategy based on the manager's ability to predict the direction of the price of a security or a group of securities.

DISCRETIONARY APPROACH

Management approach that analyzes various parameters of the market and uses quantitative models to develop a measure of certainty regarding what appears to be a market imbalance. The transaction is carried out only if the manager believes the expected return compensates for the risk associated with the transaction.

DUE DILIGENCE

Complete review of a company, asset, loan or equity, in order to certify accuracy and assure a level of confidence to the investor. This process includes business, financial, technical, legal and environmental audits.

DURATION

Average maturity of cash flows (coupon or face value). The maturity of each cash flow is weighted by its present value. This duration is also known as Macaulay Duration.

EQUITY INTEREST

Private investment made with the intention of holding it over the long term. This type of investment usually takes the form of capital stock in a company, and often gives the investor some degree of influence on the direction of the company through a board seat or specified management rights. In the context of the specialized Investments and Infrastructures portfolio, equity interest refers to a portion of the capital stock of a listed company.

EVENT-DRIVEN INVESTMENT STRATEGY

Portfolio management strategy designed to take advantage of an event that may take place on the market. For example, buying shares of a company after determining they have fallen too much in response to a lawsuit brought against the company.

EXPECTED RETURN

Benchmark return to which is added the target value added, in accordance with the depositor's investment policy.

EXTERNAL MANAGEMENT

Portfolio management performed by managers who are not employees of the Caisse, but who have been given a management mandate in consideration of fees.

FAIR VALUE

Value of an investment that reflects all fluctuations resulting from market behaviour or from any event that makes it possible to consider appreciation or depreciation. The expression "market value" is often used.

FOREIGN EXCHANGE OR CURRENCY RISK HEDGING

Financial operation whereby an investment is protected from fluctuations in the exchange rate between the currency in which the investment was made and the investor's original currency.

FUND OF HEDGE FUNDS

Fund whose component securities are hedge funds. This approach generally ensures diversification of styles, philosophies, risks, etc.

FUNDAMENTAL ANALYSIS

Analysis based on the intrinsic value of a company and its more or less long-term outlook. It evaluates the company's qualitative and quantitative elements to determine whether, at the current share price, it appears undervalued, overvalued or fully valued. This method is based solely on calculation of ratios, returns and other quantitative data.

GLOBAL MACRO

Investment operations based on an analysis of macroeconomic and political factors. The fund manager invests on the basis of the expected direction a market will take or the returns expected from one market compared with another. The manager can trade on interest rates, shares, currencies and commodities.

HEDGE FUND

Fund managed actively and dynamically with flexible, sophisticated strategies to produce high absolute returns. The strategies include leverage, derivatives, and long and short positions.

INDEPENDENT MEMBER

Under the *Act respecting the Caisse de dépôt et placement du Québec*, a member of the Board of Directors who has not had any ties with Caisse management, the government or the depositors for at least three years.

INDEXED MANAGEMENT

Management that obtains the same return as the benchmark index by an essentially identical matching of the portfolio.

INDIVIDUAL FUND

Fund attributed to a single depositor. An individual fund buys units from the Caisse's various specialized portfolios.

INFORMATION RATIO

Difference between the return earned by a portfolio manager and the return on the benchmark index, divided by active risk. Used to evaluate a manager's ability to produce value added on a constant basis. By industry standards an information ratio greater than 0.5 for a given period is considered excellent.

INFRASTRUCTURE

Investment in a company created to manage a specific project, such as a highway or an airport. It is characterized by less risk than other private equity investments owing to the stable and predictable nature of the long-term revenues.

INVESTMENT HORIZON

Foreseeable period, accepted by the investor, that an investment may require before returning a profit. For example, the Private Equity group has an investment horizon of three to seven years.

INVESTMENT POLICY (SPECIALIZED PORTFOLIO)

Framework that defines the rationale for a specialized portfolio or management mandate, and includes management philosophy, portfolio structure, investment universe, market index, target returns and valued-added objectives, as well as risk elements and their limits.

JOINT INVESTMENT

Investment made jointly with several investors who share the risk and return. The Caisse may partner with one or more investors or financial institutions to make an investment. At the Caisse, this term is also used for an investment made jointly with a fund. In this case, the Caisse is a passive investor.

LEVERAGE

Use of borrowed funds to finance an investment. The classic example is the purchase of a property on which there is a mortgage. Derivatives and commodities also use a leverage effect.

LEVERAGED BUYOUT

High-yield investment in a company that wants to acquire a majority position in a third company that is usually well established and profitable. With no capital provided, the acquisition is financed by an issue of high-yield bonds.

LIABILITIES

Primarily undertakings related to investments, such as mortgage loans, securities sold under repurchase agreements and securities sold short.

LIQUID INVESTMENT

Financial asset or security that can be easily turned into cash through a sale.

LONG-SHORT STRATEGY

Absolute return operation based on the opportunity for portfolio managers to buy or sell a security short on the basis of their opinion regarding the direction of its price. See also *Long position* and *Short position*.

LONG POSITION

Overweighting of a security, a sector or an asset class in comparison with the portfolio's benchmark index. See also *Long-short strategy*.

MANAGEMENT MANDATE

Smallest measurable group of securities managed by a portfolio manager.

MEZZANINE DEBT

Expression used in the context of private equity and real estate.

A hybrid financial vehicle whose return consists of a fixed portion of either cash or additional bonds and a variable portion consisting of warrants of a company. There is generally no repayment of capital during the term of the loan.

Financing that bridges the gap between traditional financing and equity capital.

There are many types of mezzanine loans based on the risks and barriers to investment. The two main types are called high-yield mezzanine and low-yield mezzanine. The first resembles equity while the second is closer to traditional real estate financing.

OPPORTUNISTIC INVESTMENT STRATEGY (REAL ESTATE)

Investment method used for a real estate asset with attractive short- and medium-term growth potential, and with the prospect of a sale in the medium term. Investments can take the form of debt or equity. Given the generally low current return, the return expected from this type of investment derives largely from the expected increase in the value of the real estate asset.

OUTSTANDING

Publicly issued and sold.

OVERALL BENCHMARK PORTFOLIO

Weighted sum of the depositors' benchmark portfolios.

OVERWEIGHTING

Proportion greater than the benchmark weighting.

NON-INDEX OPERATIONS

Investment operations outside the benchmark universe of a specialized portfolio. See also *Benchmark index*.

PARTNERSHIP

Co-operation agreement between two or more investors that provides for pooling of their expertise and sharing of the risk inherent in joint investments.

PRIVATE EQUITY

Investment made in a company on a private basis. Such transactions do not involve the usual mechanisms of the organized market.

PROPRIETARY RESEARCH

Exclusive research conducted by Caisse employees as opposed to research purchased from an external supplier.

QUARTILE

Ranking of the performance of investment managers. After the results of the managers in a sample have been ranked in descending order, they are divided into four equal groups. The first quartile corresponds to the best results in the sample, and the fourth quartile corresponds to the poorest results. The median is the mid-point of the sample and separates the top two quartiles from the bottom two.

REAL RETURN

Return obtained over and above inflation. If an investment generates 6% per annum (nominal return) and inflation is 2%, then the real return is 4%. This return is used particularly in actuarial studies.

RELATIVE RETURN

See *Value added*.

RISK PREMIUM

Additional return required in comparison with the return obtained on an investment considered risk free, such as Government of Canada treasury bills or bonds.

S&P/TSX CAPPED INDEX

Index consisting of the same securities as the S&P/TSX Index, with one additional restriction: no security can represent more than 10% of the market capitalization of the index.

SECURITIES BORROWING AND LENDING

Contract whereby an investor gives securities to another investor for a definite period in return for compensation.

SECURITIZATION

Operation whereby a company converts assets or debt securities (mortgage loans, for example) by combining and structuring them in the form of a new security, which it then offers to investors. In this way it can increase its return, increase its liquid assets, revenues, etc.

SENIOR DEBT

Security that entitles the holder to be reimbursed ahead of other holders of securities from the same issuer. The debt may take the form of a bond, loan, etc., and may be associated with specific collateral such as a building or machinery.

SHORT POSITION

Underweighting of a security, a sector or an asset class in comparison with the portfolio's benchmark index. See also *Long-short strategy*.

SPECIALIZED PORTFOLIO

Group of securities with a common set of characteristics (currency, product type, market behaviour, etc.). Specialized portfolios are similar to mutual funds.

STRUCTURED FINANCING (REAL ESTATE)

Process that involves grouping debt assets, dividing them into tranches according to the associated risk level and then selling the tranches to investors. On completion of the operation, the risk depends solely on the assets and is no longer related to the quality of the original underwriter.

SUBORDINATED DEBT

Debt security that ranks below another debt claim and entitles the holder to be reimbursed after other debt holders. See also *Senior debt*.

SUBSIDIARIES AND AFFILIATES

Operational management company that specializes in one or more niche markets and is part of the Real Estate group's network. Its mandate primarily involves asset management and real estate investment (investments in equity ownership or financing products) on behalf of the Caisse, its main real estate subsidiaries and third-party investors. The Caisse or one of its main real estate subsidiaries normally holds a minimum 50% interest, which entitles it to appoint representatives to the company's board of directors and to exercise control, under a unanimous shareholder agreement.

SYNDICATION

Operation whereby a group of financial institutions carry out an investment or provide financing.

SYSTEMATIC APPROACH

Approach based on mathematical models incorporating several variables that portfolio managers define according to their degree of reliability and relevance. The managers follow a set of decision-making rules and try not to be influenced by their current opinion.

TECHNICAL ANALYSIS

Analysis based on charts that map out the past behaviour of the market in an attempt to project its future behaviour. Technical analysis is used primarily to identify inflection points for a market or a company, to determine whether a recent trend is likely to continue in the longer term and to determine other trend indicators.

TIME-WEIGHTED RATE OF RETURN

Return based on the initial fair value for the period, the contributions weighted by the time of contribution and the final fair value. The return alone is considered without regard to the decision as to when to call sums of money or to entrust sums to be managed.

TOP-DOWN ANALYSIS

Analytical process that examines general elements before considering specific elements. For example, this approach considers foreign currency exposure, national concentration and sector concentration before analyzing the outlook for a company. Bottom-up analysis functions in the opposite direction.

TOTAL ASSETS

See *Depositors' total assets*.

TOTAL ASSET ALLOCATION

See *Asset allocation*.

TOTAL ASSETS UNDER MANAGEMENT

All assets managed by the Caisse, namely all depositors' assets as well as assets under management and assets under administration on behalf of clients.

UNDERLYING

Security or product to which another security, usually a derivative, is linked. For example, the barrel of oil is the product that underlies oil futures contracts. Similarly, the price of an ounce of gold affects the price of gold futures contracts.

UNDERWEIGHTING

Proportion lower than the benchmark weighting.

UNDERWRITING (REAL ESTATE)

Process whereby a lender evaluates a project according to cash flows and the value of the property, the quality of the borrower, the local market, the available security and any other relevant risk factor.

VALUE ADDED

Difference between the absolute return on a portfolio and that of the benchmark index.

VALUE AT RISK (VaR)

Method of measuring the risk that could be incurred as a result of exposure to a financial risk in normal market conditions during a given period within a determined confidence interval.

VENTURE CAPITAL

Investments in start-ups or early-stage firms that are usually unlisted. The expected high return makes this type of investment attractive. The investment is usually made in stages, with additional financing provided only if the company achieves agreed-on objectives.

VOLATILITY

Variability of the fair value of a market or security subject to rapid price changes. Volatility is said to be high when prices or rates vary widely over a short period.

YIELD CURVE

Relationship among the yields of bonds of the same quality but different maturities, put into graphic form. A yield curve applies to a single market. For example, the Canada bond yield curve is different from the Québec bond yield curve. A curve is snap-shot valid at a given time and changes along with the market.

TABLES AND FIGURES

GENERAL NOTES

1 / The Caisse's operations comply with the requirements of the *Act respecting the Caisse de dépôt et placement du Québec* and with investment industry practices. Its financial statements are prepared in accordance with generally accepted accounting principles in Canada. Each year, the Auditor General of Québec, to the extent that he deems it appropriate, conducts the financial audit and ensures that the Caisse's operations comply with laws, regulations, policies and guidelines, and with the systems and procedures set up to control and protect its assets.

2 / The *Annual Report 2006 - Additional Information* is an integral part of the Annual Report 2006 and presents the Schedules (tables of returns) as at December 31, 2006, relating to the composites of the Caisse depositors' accounts. The Schedules and calculations have been audited as at December 31, 2006, by Deloitte & Touche LLP for compliance with the Global Investment Performance Standards (GIPS®).

3 / The returns on the specialized portfolios represent the time-weighted rate of return.

4 / Unless otherwise indicated, returns are presented before operating expenses. They include the return on cash and cash equivalents and they take into account a foreign exchange hedging position. The return spreads related to the operating expenses of each specialized portfolio are presented in the Schedules of the *Annual Report 2006 - Additional Information.*

5 / Certain returns are expressed in basis points (b.p.). One hundred basis points equal 1.0% and one basis point equals 0.01%.

6 / Unless otherwise indicated, all figures are given in Canadian dollars. The letters M and B used with dollar amounts designate millions and billions respectively.

7 / Totals may vary because of the rounding of figures.

8 / Many of the financial terms in this Annual Report are defined in the "Glossary" section.

9 / Unless otherwise indicated, all data in the tables and figures are from studies made by the Caisse.

10 / The benchmark index for the investment groups is the weighted average of the benchmark indexes of the specialized portfolios they manage.

[1] The *Act respecting the Caisse de dépôt et placement du Québec* can be consulted on the Caisse's website at www.lacaisse.com

The *Annual Report 2006* and the *Annual Report 2006 – Additional Information*
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