

*Quarterly Consolidated Financial Statements of*

**CANADA PENSION PLAN  
INVESTMENT BOARD**

*December 31, 2007*

*(Unaudited)*

# CANADA PENSION PLAN INVESTMENT BOARD

## Consolidated Balance Sheet

As at December 31, 2007

(Unaudited)

<i>(\$ millions)</i>	<u>December 31, 2007</u>	<u>March 31, 2007</u>	<u>December 31, 2006</u>
<b>ASSETS</b>			
Investments (Note 2)	\$ 121,068	\$ 117,465	\$ 109,690
Amounts receivable from pending trades	586	2,477	234
Premises and equipment	17	12	11
Other assets	7	5	7
<b>TOTAL ASSETS</b>	<b>121,678</b>	<b>119,959</b>	<b>109,942</b>
<b>LIABILITIES</b>			
Investment liabilities (Note 2)	1,420	1,382	1,447
Amounts payable from pending trades	746	2,576	218
Accounts payable and accrued liabilities	75	66	31
<b>TOTAL LIABILITIES</b>	<b>2,241</b>	<b>4,024</b>	<b>1,696</b>
<b>NET ASSETS</b>	<b>\$ 119,437</b>	<b>\$ 115,935</b>	<b>\$ 108,246</b>
<b>NET ASSETS, REPRESENTED BY</b>			
Share capital (Note 4)	\$ -	\$ -	\$ -
Accumulated net income from operations	33,299	32,766	30,135
Accumulated net transfers from the Canada Pension Plan (Note 5)	86,138	83,169	78,111
<b>NET ASSETS</b>	<b>\$ 119,437</b>	<b>\$ 115,935</b>	<b>\$ 108,246</b>

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

**CANADA PENSION PLAN INVESTMENT BOARD**  
**Consolidated Statement of Net Income (Loss) and**  
**Accumulated Net Income from Operations**  
For the three and nine-month periods ended December 31, 2007  
(Unaudited)

(\$ millions)	Three-months ended December 31		Nine-months ended December 31	
	2007	2006	2007	2006
<b>NET INVESTMENT INCOME (LOSS)</b> (Note 6)	\$ (115)	\$ 8,894	\$ 634	\$ 10,106
<b>OPERATING EXPENSES</b>				
Salaries and benefits	17	17	60	35
General operating expenses	11	8	31	22
Professional and consulting fees	3	3	10	6
	<b>31</b>	<b>28</b>	<b>101</b>	<b>63</b>
<b>NET INCOME (LOSS) FROM OPERATIONS</b>	<b>(146)</b>	<b>8,866</b>	<b>533</b>	<b>10,043</b>
<b>ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF PERIOD</b>	<b>33,445</b>	<b>21,269</b>	<b>32,766</b>	<b>20,092</b>
<b>ACCUMULATED NET INCOME FROM OPERATIONS, END OF PERIOD</b>	<b>\$ 33,299</b>	<b>\$ 30,135</b>	<b>\$ 33,299</b>	<b>\$ 30,135</b>

**Consolidated Statement of Changes in Net Assets**  
For the three and nine-month periods ended December 31, 2007  
(Unaudited)

(\$ millions)	Three-months ended December 31		Nine-months ended December 31	
	2007	2006	2007	2006
<b>NET ASSETS, BEGINNING OF PERIOD</b>	<b>\$ 121,255</b>	<b>\$ 98,571</b>	<b>\$ 115,935</b>	<b>\$ 88,532</b>
<b>CHANGES IN NET ASSETS</b>				
Canada Pension Plan transfers (Note 5)				
Transfers from the Canada Pension Plan	3,906	6,124	18,901	23,701
Transfers to the Canada Pension Plan	(5,578)	(5,315)	(15,932)	(14,030)
Net income (loss) from operations	(146)	8,866	533	10,043
<b>INCREASE IN NET ASSETS FOR THE PERIOD</b>	<b>(1,818)</b>	<b>9,675</b>	<b>3,502</b>	<b>19,714</b>
<b>NET ASSETS, END OF PERIOD</b>	<b>\$ 119,437</b>	<b>\$ 108,246</b>	<b>\$ 119,437</b>	<b>\$ 108,246</b>

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

# CANADA PENSION PLAN INVESTMENT BOARD

## Consolidated Statement of Investment Portfolio

As at December 31, 2007

(Unaudited)

The CPP Investment Board's investments are grouped by asset class based on the intent of the investment strategies of the underlying portfolios. The investments, before allocating the market exposure of derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

(\$ millions)	Fair Value		
	December 31, 2007	March 31, 2007	December 31, 2006
<b>EQUITIES (Note 2)</b>			
Canada			
Public equities	\$ 14,538	\$ 14,800	\$ 14,308
Private equities	681	667	595
	<b>15,219</b>	<b>15,467</b>	<b>14,903</b>
Foreign			
Public equities	32,396	36,656	37,391
Private equities	10,683	7,436	6,474
Pooled funds	1,258	-	-
	<b>44,337</b>	<b>44,092</b>	<b>43,865</b>
<b>TOTAL EQUITIES</b>	<b>59,556</b>	<b>59,559</b>	<b>58,768</b>
<b>NOMINAL FIXED INCOME</b>			
Bonds (Note 2c)	26,290	27,867	22,154
Money market securities	18,663	15,561	15,788
Pooled funds	1,529	260	-
<b>TOTAL NOMINAL FIXED INCOME</b>	<b>46,482</b>	<b>43,688</b>	<b>37,942</b>
<b>INFLATION-SENSITIVE ASSETS (Note 2d)</b>			
Public real estate	487	1,409	1,370
Private real estate	6,932	5,441	4,739
Inflation-linked bonds	3,926	3,802	3,598
Infrastructure	2,524	2,181	2,068
<b>TOTAL INFLATION-SENSITIVE ASSETS</b>	<b>13,869</b>	<b>12,833</b>	<b>11,775</b>
<b>INVESTMENT RECEIVABLES</b>			
Accrued interest	455	699	417
Derivative receivables (Note 2a)	622	519	689
Dividends receivable	84	167	99
<b>TOTAL INVESTMENT RECEIVABLES</b>	<b>1,161</b>	<b>1,385</b>	<b>1,205</b>
<b>TOTAL INVESTMENTS</b>	<b>\$ 121,068</b>	<b>\$ 117,465</b>	<b>\$ 109,690</b>
<b>INVESTMENT LIABILITIES</b>			
Debt on private real estate properties (Note 2d)	(968)	(1,174)	(1,090)
Derivative liabilities (Note 2a)	(452)	(208)	(357)
<b>TOTAL INVESTMENT LIABILITIES</b>	<b>(1,420)</b>	<b>(1,382)</b>	<b>(1,447)</b>
Amounts receivable from pending trades	586	2,477	234
Amounts payable from pending trades	(746)	(2,576)	(218)
<b>NET INVESTMENTS</b>	<b>\$ 119,488</b>	<b>\$ 115,984</b>	<b>\$ 108,259</b>

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

# CANADA PENSION PLAN INVESTMENT BOARD

## Consolidated Statement of Investment Asset Mix

As at December 31, 2007

(unaudited)

This Consolidated Statement of Investment Asset Mix illustrates the full market exposure and is grouped by asset class based on the intent of the investment strategies of the underlying portfolios. The investments, after allocating the market exposure of derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

(\$ millions)	December 31, 2007			March 31, 2007			December 31, 2006		
	Fair Value	(%)		Fair Value	(%)		Fair Value	(%)	
<b>EQUITIES<sup>1</sup></b>									
Canada	\$ 28,970	24.3	%	\$ 29,174	25.2	%	\$ 28,460	26.3	%
Foreign	46,840	39.2		46,130	39.8		45,631	42.1	
	<b>75,810</b>	<b>63.5</b>		<b>75,304</b>	<b>65.0</b>		<b>74,091</b>	<b>68.4</b>	
<b>NOMINAL FIXED INCOME</b>									
Bonds <sup>1,2</sup>	29,767	24.9		28,519	24.6		22,535	20.8	
Money market securities <sup>3</sup>	(660)	(0.6)		145	0.1		692	0.7	
Pooled funds <sup>1</sup>	1,531	1.3		260	0.2		-	-	
	<b>30,638</b>	<b>25.6</b>		<b>28,924</b>	<b>24.9</b>		<b>23,227</b>	<b>21.5</b>	
<b>INFLATION-SENSITIVE ASSETS</b>									
Real estate <sup>1,4</sup>	6,508	5.4		5,696	4.9		4,994	4.6	
Inflation-linked bonds <sup>1,2</sup>	3,949	3.3		3,852	3.3		3,909	3.6	
Infrastructure <sup>1</sup>	2,583	2.2		2,208	1.9		2,038	1.9	
	<b>13,040</b>	<b>10.9</b>		<b>11,756</b>	<b>10.1</b>		<b>10,941</b>	<b>10.1</b>	
<b>NET INVESTMENTS</b>	<b>\$ 119,488</b>	<b>100</b>	<b>%</b>	<b>\$ 115,984</b>	<b>100</b>	<b>%</b>	<b>\$ 108,259</b>	<b>100</b>	<b>%</b>

<sup>1</sup> Includes derivative receivables, derivative liabilities and associated money market securities.

<sup>2</sup> Includes accrued interest.

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

<sup>4</sup> Net of mortgage debt on private real estate properties, as described more fully in Note 2d.

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

# CANADA PENSION PLAN INVESTMENT BOARD

## Notes to the Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2007

(Unaudited)

---

### ORGANIZATION

The Canada Pension Plan Investment Board (the “CPP Investment Board”) was established pursuant to the *Canada Pension Plan Investment Board Act* (the “Act”). The CPP Investment Board is a federal Crown corporation, all of the shares of which are owned by Her Majesty the Queen in right of Canada. The CPP Investment Board is responsible for assisting the Canada Pension Plan (the “CPP”) in meeting its obligations to contributors and beneficiaries under the *Canada Pension Plan*. It is responsible for managing amounts that are transferred to it under Section 108.1 of the *Canada Pension Plan*, and its interest in any bonds transferred to it (described in Note 5), in the best interests of the beneficiaries and contributors. The CPP Investment Board’s assets are to be invested in accordance with the Act, regulations and the investment policies with a view to achieving a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

The Consolidated Financial Statements provide information on the net assets managed by the CPP Investment Board and do not include the pension liabilities of the CPP. The CPP Investment Board has a fiscal year end of March 31.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) *Basis of Presentation*

The interim Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and the requirements of the Act and the accompanying regulations. These statements follow the same accounting policies and methods of computation as the March 31, 2007 annual Consolidated Financial Statements, with the exception of the changes in accounting policies described in Note 1b. These interim Consolidated Financial Statements do not include all of the information and note disclosures required by GAAP for annual financial statements and therefore should be read in conjunction with the March 31, 2007 annual Consolidated Financial Statements. The interim Consolidated Financial Statements include all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of the interim period presented.

These interim Consolidated Financial Statements present the consolidated financial position and results of operations of the CPP Investment Board, its wholly-owned subsidiaries and the proportionate share of the fair value of assets, liabilities and operations of privately held real estate investments in joint ventures. Intercompany transactions and balances have been eliminated in preparing these Consolidated Financial Statements.

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

#### (b) *Changes in Accounting Policies*

##### **Financial Instruments**

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

On April 1, 2007, the CPP Investment Board prospectively adopted section 3855. These standards prescribe the quoted market price to be used in measuring the fair value of investments traded in an active market. The appropriate quoted market price for an asset held is the bid price and, for a liability held, the asking price. Other requirements under section 3855 are the expensing of transaction costs as incurred and applying the effective

# CANADA PENSION PLAN INVESTMENT BOARD

## Notes to the Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2007

(Unaudited)

---

interest method in accounting for interest income on bonds. On April 1, 2007, the investments of the CPP Investment Board were revalued to reflect the new valuation standards. The change in fair value arising from the revaluation did not have a material impact to the CPP Investment Board's consolidated financial position and, therefore, no transition adjustment was made to the opening Accumulated Net Income from Operations at April 1, 2007.

### Management Fees

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

### (c) *Valuation of Investments, Investment Receivables and Investment Liabilities*

Investments, investment receivables and investment liabilities are recorded on a trade date basis and are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value is determined as follows:

- (i) Fair value for publicly-traded equities is based on quoted market bid prices. Where the bid price is not available or reliable, such as those for securities that are not sufficiently liquid to be used as a basis for fair value, fair value is determined using accepted industry valuation methods.
- (ii) Fair value for investments in pooled funds is based on net asset values as reported by the external managers of the funds using accepted industry valuation methods.
- (iii) Private equity and infrastructure investments are either held directly or through ownership in limited partnership arrangements. The fair value for investments held directly is determined using accepted industry valuation methods. These methods include considerations such as earnings multiples of comparable publicly-traded companies, discounted cash flows and third party transactions, or other events which would suggest a change in the value of the investment. In the case of investments held through a limited partnership, fair value is generally determined based on carrying values and other relevant information reported by the General Partner using accepted industry valuation methods.
- (iv) Fair value for marketable bonds is based on quoted market bid prices. Where the bid price is not available, fair value is calculated using discounted cash flows based on current market yields of instruments with similar characteristics.
- (v) Fair value for non-marketable Canadian federal and provincial government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, adjusted for the non-marketable and rollover provisions of the bonds.
- (vi) Money market securities are recorded at cost, which, together with accrued interest income, approximates fair value.
- (vii) Fair value for public real estate investments is based on quoted market bid prices.

# CANADA PENSION PLAN INVESTMENT BOARD

## Notes to the Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2007

(Unaudited)

---

(viii) Fair value for private real estate investments is determined using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. Debt on private real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics.

(ix) Fair value for inflation-linked bonds is based on quoted market bid prices.

(x) Fair value for exchange-traded derivatives, which include futures, is based on quoted market prices. Fair value for over-the-counter derivatives, which include swaps and forward contracts, is determined based on the quoted market prices of the underlying instruments or other accepted industry valuation methods. The quoted market price used for an asset held is the bid price and, for a liability held the asking price. Where the bid or asking price is unavailable, closing sale or mid prices are used, as appropriate.

### (d) *Transaction Costs*

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment. Transaction costs are expensed as incurred and recorded as a component of net investment income.

## 2. INVESTMENTS AND INVESTMENT LIABILITIES

### (a) *Derivative Contracts*

A derivative is a financial contract, the value of which is derived from the value of underlying assets, indexes, interest rates or currency exchange rates. The fair value of these contracts is reported as derivative receivables and derivative liabilities on the Consolidated Statement of Investment Portfolio. In the Consolidated Statement of Investment Asset Mix, the derivative exposure is allocated to the asset class to which each contract relates. Derivative exposure includes the fair value plus the notional amount of the contract.

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

#### **Equity and bond swaps**

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

#### **Equity, interest rate and bond futures**

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

# CANADA PENSION PLAN INVESTMENT BOARD

## Notes to the Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2007

(Unaudited)

### Foreign exchange and interest rate forward contracts

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

All derivative contracts have a term to maturity of one year or less.

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

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

(\$ millions)	As at December 31, 2007			
	Notional Amount	Gross Positive Fair Value	Gross Negative Fair Value	Net Fair Value
Equity swaps	\$ 14,267	\$ 330	\$ (269)	\$ 61
Bond swaps	3,021	39	(25)	14
Equity futures	2,053	1	(11)	(10)
Foreign exchange forward contracts	12,700	252	(147)	105
Interest rate forward contracts	1,801	-	-	-
Interest rate and bond futures	-	-	-	-
<b>Total</b>	<b>\$ 33,842</b>	<b>\$ 622</b>	<b>\$ (452)</b>	<b>\$ 170</b>

(\$ millions)	As at March 31, 2007		As at December 31, 2006	
	Notional Amount	Net Fair Value	Notional Amount	Net Fair Value
Equity swaps	\$ 14,435	\$ 239	\$ 13,841	\$ 404
Bond swaps	-	-	-	-
Equity futures	1,797	(1)	1,822	(1)
Foreign exchange forward contracts	19,170	73	17,058	(71)
Interest rate forward contracts	-	-	-	-
Interest rate and bond futures	-	-	5,006	-
<b>Total</b>	<b>\$ 35,402</b>	<b>\$ 311</b>	<b>\$ 37,727</b>	<b>\$ 332</b>

# CANADA PENSION PLAN INVESTMENT BOARD

## Notes to the Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2007

(Unaudited)

### (b) Private Equity Investments

Private equity investments are generally made directly or through ownership in limited partnership arrangements which have a typical term of 10 years. The private equity investments represent equity ownerships or investments with the risk and return characteristics of equity.

With respect to limited partnership arrangements, the CPP Investment Board advances capital to the limited partnerships, a portion of which, commonly referred to as management fees, is used by the General Partners to select and provide ongoing management support to the underlying companies. Management fees generally vary between 1% and 2% of the total amount committed to the limited partnerships and are expensed as incurred. During the three and nine-month periods ended December 31, 2007, management fees of \$35 million and \$104 million, respectively (three and nine-month periods ended December 31, 2006 - \$33 million and \$89.3 million, respectively) were paid to the limited partnerships.

### (c) Bonds

Bonds consist of marketable and Canadian government non-marketable bonds.

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

In lieu of exercising its statutory rollover right described in the preceding paragraph, agreements between the CPP Investment Board and the provinces permit each province to repay the bond and concurrently cause the CPP Investment Board to purchase a replacement debt security or securities in a total principal amount not exceeding the principal amount of the maturing security for a term of not less than five years and not greater than 30 years. Such replacement bonds contain rollover provisions that permit the issuer, at its option, to roll over the debt security for successive terms of not less than five years and subject in all cases to the maximum 30 years outside maturity date. The replacement bonds are also redeemable before maturity at the option of the issuers.

The terms to maturity of the marketable and non-marketable bonds, not including any rollover options, as at December 31, 2007 are as follows:

(\$ millions)	Terms to Maturity				Total	Average Effective Yield
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		
<b>Marketable bonds</b>						
Government of Canada	\$ -	\$ 329	\$ 234	\$ 238	\$ 801	4.0 %
Provincial	-	403	320	632	1,355	4.6
Government corporations	-	605	179	320	1,104	4.5
<b>Non-marketable bonds</b>						
Government of Canada	536	608	-	-	1,144	3.9
Provincial	1,661	7,964	749	11,512	21,886	4.8
<b>Total</b>	\$ 2,197	\$ 9,909	\$ 1,482	\$ 12,702	\$ 26,290	4.7 %

# CANADA PENSION PLAN INVESTMENT BOARD

## Notes to the Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2007

(Unaudited)

(d) *Inflation-Sensitive Assets*

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

Private real estate investments are held by wholly-owned subsidiaries and are managed on behalf of the CPP Investment Board by external advisors and managers through co-ownership arrangements. As at December 31, 2007, the subsidiary's share of these investments includes assets of \$6,932 million (March 31, 2007 - \$5,441 million; December 31, 2006 - \$4,739 million) and \$968 million of secured debt (March 31, 2007 - \$1,174 million; December 31, 2006 - \$1,090 million), with a weighted average fixed interest rate of 6.4 per cent and terms to maturity of 1 to 20 years.

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

<b>Proportionate Share of Net Assets</b>				
<i>(\$ millions)</i>	<b>December 31, 2007</b>		March 31, 2007	December 31, 2006
Assets	\$	<b>4,896</b>	\$ 4,790	\$ 4,236
Liabilities		<b>(968)</b>	(1,174)	(1,090)
	\$	<b>3,928</b>	\$ 3,616	\$ 3,146

  

<b>Proportionate Share of Net Income</b>				
<i>(\$ millions)</i>	<b>Three-months ended December 31</b>		<b>Nine-months ended December 31</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
Revenue	\$	<b>127</b>	\$ 119	\$ 355
Expenses		<b>(80)</b>	(86)	(240)
	\$	<b>47</b>	\$ 33	\$ 115

- (ii) The terms to maturity of the inflation-linked bonds as at December 31, 2007 are as follows:

<b>Terms to Maturity</b>							
<i>(\$ millions)</i>	<b>Within 1 Year</b>	<b>1 to 5 Years</b>	<b>6 to 10 Years</b>	<b>Over 10 Years</b>	<b>Total</b>	<b>Average Effective Yield</b>	
Inflation-linked bonds	\$ -	\$ 288	\$ 318	\$ 3,320	\$ 3,926	4.5	%

- (iii) Infrastructure investments are generally made directly, but can also occur through limited partnership arrangements that have a typical term of 10 years. Direct investments do not have management fees, while management fees for limited partnership infrastructure investments are treated similarly to private equity management fees as discussed in Note 2b. During the three and nine-month periods ended December 31, 2007, management fees of \$1.3 million and \$2 million, respectively (three and nine-month periods ended December 31, 2006 - \$(3.3) and \$(2.5) million, respectively) were paid to the limited partnerships or (refunded) to the CPP Investment Board.

# CANADA PENSION PLAN INVESTMENT BOARD

## Notes to the Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2007

(Unaudited)

### (e) *Securities Lending*

The CPP Investment Board engages in securities lending to enhance portfolio returns. Credit risk associated with securities lending is mitigated by requiring the borrower to provide daily collateral in the form of readily marketable investments of greater market value than the securities loaned. As at December 31, 2007, the CPP Investment Board's investments include securities loaned with a fair value of \$2,784 million (March 31, 2007 - \$3,047 million; December 31, 2006 - \$1,489 million). The fair value of collateral received in respect of the securities loaned is \$2,926 million (March 31, 2007 - \$3,202 million; December 31, 2006 - \$1,566 million).

### 3. CREDIT FACILITIES

The CPP Investment Board maintains \$1.5 billion (March 31, 2007 - \$1.5 billion; December 31, 2006 - \$1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at December 31, 2007, the total amount drawn on the credit facilities is \$nil (March 31, 2007 - \$nil; December 31, 2006 - \$nil).

### 4. SHARE CAPITAL

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

### 5. CANADA PENSION PLAN TRANSFERS

The *Canada Pension Plan*, the Act and an administrative agreement between Her Majesty the Queen in right of Canada and the CPP Investment Board (the "Agreement") together provide for the transfer of certain specified CPP assets administered by the federal government to the CPP Investment Board. These assets consist of a portfolio of non-marketable federal, provincial and territorial bonds which were transferred to the CPP Investment Board in 36 monthly installments beginning on May 1, 2004. The final installment of \$0.6 billion based on fair market value occurred on April 1, 2007.

Pursuant to Section 108.1 of the *Canada Pension Plan* and the Agreement, referred to above, amounts not required to meet specified obligations of the CPP are transferred to the CPP Investment Board. The funds originate from employer and employee contributions to the CPP, proceeds of maturing and redeemed government bonds held in a portfolio administered by the federal government and interest income generated from this portfolio.

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

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

(\$ millions)	December 31, 2007	March 31, 2007	December 31, 2006
Accumulated transfers from the Canada Pension Plan	\$ 144,190	\$ 125,289	\$ 115,496
Accumulated transfers to the Canada Pension Plan	(58,052)	(42,120)	(37,385)
Accumulated net transfers from the Canada Pension Plan	\$ 86,138	\$ 83,169	\$ 78,111

# CANADA PENSION PLAN INVESTMENT BOARD

## Notes to the Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2007

(Unaudited)

### 6. NET INVESTMENT INCOME (LOSS)

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

Net investment income (loss) by asset class, after giving effect to derivative contracts and investment receivables and liabilities, is as follows:

	For the three-month period ended December 31, 2007					
	Investment Income <sup>1</sup>	Net Gain (Loss) on Investments <sup>2</sup>	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
Equities	\$ 527	\$ (1,830)	\$ (1,303)	\$ (20)	\$ (22)	\$ (1,345)
Nominal fixed income	393	498	891	(11)	(1)	879
Inflation-sensitive assets	213	163	376	(10)	(15)	351
<b>Total</b>	<b>\$ 1,133</b>	<b>\$ (1,169)</b>	<b>\$ (36)</b>	<b>\$ (41)</b>	<b>\$ (38)</b>	<b>\$ (115)</b>

	For the three-month period ended December 31, 2006					
	Investment Income <sup>1</sup>	Net Gain (Loss) on Investments <sup>2</sup>	Total Investment Income	Investment Management Fees	Transaction Costs	Net Investment Income
Equities	\$ 728	\$ 7,502	\$ 8,230	\$ -	\$ -	\$ 8,230
Nominal fixed income	424	(203)	221	-	-	221
Inflation-sensitive assets	107	343	450	(6)	(1)	443
<b>Total</b>	<b>\$ 1,259</b>	<b>\$ 7,642</b>	<b>\$ 8,901</b>	<b>\$ (6)</b>	<b>\$ (1)</b>	<b>\$ 8,894</b>

	For the nine-month period ended December 31, 2007					
	Investment Income <sup>1</sup>	Net Gain (Loss) on Investments <sup>2</sup>	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
Equities	\$ 2,009	\$ (3,229)	\$ (1,220)	\$ (116)	\$ (49)	\$ (1,385)
Nominal fixed income	1,186	8	1,194	(11)	(1)	1,182
Inflation-sensitive assets	357	526	883	(25)	(21)	837
<b>Total</b>	<b>\$ 3,552</b>	<b>\$ (2,695)</b>	<b>\$ 857</b>	<b>\$ (152)</b>	<b>\$ (71)</b>	<b>\$ 634</b>

	For the nine-month period ended December 31, 2006					
	Investment Income <sup>1</sup>	Net Gain (Loss) on Investments <sup>2</sup>	Total Investment Income	Investment Management Fees	Transaction Costs	Net Investment Income
Equities	\$ 1,330	\$ 6,899	\$ 8,229	\$ (3)	\$ -	\$ 8,226
Nominal fixed income	1,188	(171)	1,017	-	-	1,017
Inflation-sensitive assets	257	617	874	(10)	(1)	863
<b>Total</b>	<b>\$ 2,775</b>	<b>\$ 7,345</b>	<b>\$ 10,120</b>	<b>\$ (13)</b>	<b>\$ (1)</b>	<b>\$ 10,106</b>

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

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

# **CANADA PENSION PLAN INVESTMENT BOARD**

## **Notes to the Consolidated Financial Statements**

**For the three and nine-month periods ended December 31, 2007**

**(Unaudited)**

---

### **7. COMMITMENTS**

The CPP Investment Board has committed to enter into investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at December 31, 2007, the commitments total \$16.9 billion (March 31, 2007 - \$13.4 billion; December 31, 2006 - \$12.9 billion).

As at December 31, 2007, the CPP Investment Board has made lease and other commitments of \$61.2 million (March 31, 2007 - \$54.9 million; December 31, 2006 - \$37.4 million) over the next ten years.

### **8. GUARANTEES AND INDEMNIFICATIONS**

The CPP Investment Board provides indemnifications to its officers, directors and, in certain circumstances, to various counterparties. The CPP Investment Board may be required to compensate these parties for costs incurred as a result of various contingencies such as changes in laws and regulations and litigation claims. The contingent nature of the indemnification agreements prevents the CPP Investment Board from making a reasonable estimate of the maximum potential payments the CPP Investment Board could be required to make. To date, the CPP Investment Board has not received any claims nor made any payments pursuant to such indemnifications.