

Quarterly Financial Statements of

**CANADA PENSION PLAN
INVESTMENT BOARD**

September 30, 2002

(Unaudited)

CANADA PENSION PLAN INVESTMENT BOARD

Balance Sheet

September 30, 2002

(Unaudited)

(\$ 000's)	<u>September 30, 2002</u>	<u>March 31, 2002</u>	<u>September 30, 2001</u>
ASSETS			
Investments (Note 2)	\$ 16,974,350	\$ 14,289,378	\$ 12,017,792
Dividends receivable	28,356	-	477
Due from brokers	81,363	2,343	187
Premises and equipment	1,136	1,278	1,462
Other assets	20	79	455
TOTAL ASSETS	17,085,225	14,293,078	12,020,373
LIABILITIES			
Accounts payable and accrued liabilities	5,195	4,730	3,971
Due to brokers	165,518	3,382	4,437
TOTAL LIABILITIES	170,713	8,112	8,408
NET ASSETS	\$ 16,914,512	\$ 14,284,966	\$ 12,011,965
NET ASSETS, REPRESENTED BY			
Share capital	\$ -	\$ -	\$ -
Accumulated net loss from operations	(4,092,221)	(86,626)	(1,762,255)
Accumulated Canada Pension Plan transfers	21,006,733	14,371,592	13,774,220
NET ASSETS	\$ 16,914,512	\$ 14,284,966	\$ 12,011,965

CANADA PENSION PLAN INVESTMENT BOARD

Statement of Loss and Accumulated Net Loss from Operations

Three-month and six-month periods ended September 30, 2002

(Unaudited)

(\$ 000's)	Three-months ended September 30		Six-months ended September 30	
	2002	2001	2002	2001
INVESTMENT LOSS	\$ (2,455,151)	\$ (1,424,037)	\$ (3,998,777)	\$ (1,365,920)
INVESTMENT AND ADMINISTRATIVE EXPENSES				
Salaries and benefits	1,102	904	2,444	1,967
General operating expenses	888	851	1,949	1,463
External investment management fees	889	702	1,748	1,400
Professional and consulting fees	269	95	677	253
	3,148	2,552	6,818	5,083
NET LOSS FROM OPERATIONS	(2,458,299)	(1,426,589)	(4,005,595)	(1,371,003)
ACCUMULATED NET LOSS FROM OPERATIONS, BEGINNING OF PERIOD	(1,633,922)	(335,666)	(86,626)	(391,252)
ACCUMULATED NET LOSS FROM OPERATIONS, END OF PERIOD	\$ (4,092,221)	\$ (1,762,255)	\$ (4,092,221)	\$ (1,762,255)

Statement of Changes in Net Assets

Three-month and six-month periods ended September 30, 2002

(Unaudited)

(\$ 000's)	Three-months ended September 30		Six-months ended September 30	
	2002	2001	2002	2001
NET ASSETS, BEGINNING OF PERIOD	\$ 17,095,386	\$ 10,967,114	\$ 14,284,966	\$ 7,154,169
CHANGES IN NET ASSETS				
Canada Pension Plan transfers	2,277,425	2,471,440	6,635,141	6,228,799
Net loss from operations	(2,458,299)	(1,426,589)	(4,005,595)	(1,371,003)
INCREASE/(DECREASE) IN NET ASSETS FOR THE PERIOD	(180,874)	1,044,851	2,629,546	4,857,796
NET ASSETS, END OF PERIOD	\$ 16,914,512	\$ 12,011,965	\$ 16,914,512	\$ 12,011,965

CANADA PENSION PLAN INVESTMENT BOARD

Statement of Investment Portfolio

September 30, 2002

(Unaudited)

(\$ 000's)	Fair Value of Investments					
	September 30, 2002		March 31, 2002		September 30, 2001	
EQUITIES (Note 2)						
Canada						
Public Markets	\$ 11,058,976	65.2%	\$ 9,824,428	68.8%	\$ 8,303,681	69.1%
Private Markets	184,032	1.1%	144,207	1.0%	36,172	0.3%
	11,243,008	66.3%	9,968,635	69.8%	8,339,853	69.4%
United States						
Public Markets	2,314,676	13.6%	1,861,021	13.0%	1,817,555	15.1%
Private Markets	575,097	3.4%	304,445	2.1%	32,468	0.3%
	2,889,773	17.0%	2,165,466	15.1%	1,850,023	15.4%
Non-North America						
Public Markets	2,320,998	13.7%	1,971,484	13.8%	1,816,713	15.1%
Private Markets	93,181	0.5%	11,606	0.1%	-	-
	2,414,179	14.2%	1,983,090	13.9%	1,816,713	15.1%
TOTAL EQUITIES						
(Cost September 2002 - \$ 20,276,333						
March 2002 - \$ 14,546,009						
September 2001 - \$ 13,929,296)	16,546,960	97.5%	14,117,191	98.8%	12,006,589	99.9%
REAL ESTATE (Note 2)						
Publicly Traded Securities						
(Cost September 2002 - \$ 317,148						
March 2002 - \$ 144,442						
September 2001 - \$ Nil)	219,224	1.3%	145,141	1.0%	-	-
OTHER INVESTMENTS						
Money Market Securities ¹						
(Cost September 2002 - \$ 208,156						
March 2002 - \$ 27,046						
September 2001 - \$ 11,203)	208,166	1.2%	27,046	0.2%	11,203	0.1%
TOTAL INVESTMENTS	\$ 16,974,350	100.0%	\$ 14,289,378	100.0%	\$ 12,017,792	100.0%

1. As described more fully in Note 2c, at September 30, 2002, \$89.9 million of the Money Market Securities together with S&P/TSX 60 Index futures contracts, effectively provide exposure to Canadian Public Markets.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Financial Statements

September 30, 2002

(Unaudited)

ORGANIZATION

The Canada Pension Plan Investment Board (the “CPP Investment Board”) was formed pursuant to the *Canada Pension Plan Investment Board Act* (the “Act”). The CPP Investment Board is responsible for managing amounts that are transferred to it under Section 111 of the *Canada Pension Plan* in the best interests of the beneficiaries and contributors under that Act. The amounts are to be invested with a view to achieving a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan (the “CPP”) and the ability of the CPP to meet its financial obligations.

The CPP Investment Board has a fiscal year end of March 31.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements present the consolidated financial position and operations of the CPP Investment Board and its wholly-owned subsidiary. The financial statements include only a portion of the assets (as described in Note 2) and none of the pension liabilities of the CPP. These interim 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, 2002 annual financial statements. The interim statements should be read in conjunction with the March 31, 2002 annual financial statements, as they do not include all information and notes required by GAAP for annual financial statements.

Valuation of investments

Investments are recorded as of the trade date and are stated at fair value. Fair value is 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.

Quoted market prices for publicly traded securities and exchange traded futures, and unit values for pooled funds are used to represent fair value for these investments. Unit values reflect the quoted market prices of the underlying securities. In the case of private market investments, where quoted market prices are not available, fair value is determined on an annual basis, utilizing information provided by external managers who use applicable industry valuation methods such as earnings multiples of comparable publicly traded companies, discounted cash flows, and appraisals. On a quarterly basis, when there is evidence of a significant change in fair value, the valuation is adjusted, as appropriate. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for private market investments, unless there is an indication of permanent impairment of value.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Financial Statements

September 30, 2002

(Unaudited)

2. INVESTMENTS

The CPP Investment Board has established an Investment Statement and Investment Policies, which set out the manner in which assets shall be invested. In determining the asset mix, the CPP Investment Board must take into consideration certain assets of the CPP which are held outside of the CPP Investment Board. As at September 30, 2002, these assets total approximately \$33.1 billion at cost (September 30, 2001 - \$34.1 billion) and consist primarily of government debt obligations.

a) Equity investments

The majority of the CPP Investment Board's investments are allocated to public and private equities in Canadian, United States and Non-North America markets.

As at September 30, 2002, 5.0% (September 30, 2001 - 0.6%) of investments are held in private market equities. These investments are generally made by taking interests in limited partnerships with a typical investment period of 10 years. The limited partnerships' underlying investments represent equity ownership or investments with the risk and return characteristics of equity.

The CPP Investment Board advances capital to the limited partnerships, a portion of which, commonly referred to as management fees, is used by the general partners to select and provide ongoing management support to the underlying companies. Management fees generally vary between 1.5% and 2.0% of the total amount committed to the limited partnerships, and are included as part of the cost of the private market investments.

b) Real estate

The CPP Investment Board currently obtains exposure to real estate through investments in publicly traded securities. As at September 30, 2002, 1.3% (September 30, 2001 - 0.0%) of investments are held in real estate equities.

c) Derivative contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency exchange rates. Notional amounts represent the contractual amounts used to compute the cash flows to be exchanged and for determining the fair value of the contracts. Notional amounts of derivative contracts are not recorded as assets or liabilities on the balance sheet.

During the quarter ended September 30, 2002, the CPP Investment Board purchased exchange traded futures contracts to equitize cash that is being held to fund investment activities. As at September 30, 2002, the CPP Investment Board held S&P/TSX 60 Index futures contracts with a notional amount of \$89.9 million, and a term to maturity of less than one year (September 30, 2001 - \$Nil). The fair value of these contracts is \$0.9 million (September 30, 2001 - \$Nil). Consistent with the Investment Policies, the futures contracts are fully backed with cash and cash equivalents.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Financial Statements

September 30, 2002

(Unaudited)

3. COMMITMENTS

The CPP Investment Board has committed to enter into private market investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at September 30, 2002, these outstanding commitments totaled \$3.4 billion (September 30, 2001 – \$0.3 billion).

4. LEGISLATIVE AMENDMENT

Legislation to amend the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* was re-introduced in the House of Commons of Canada on October 3, 2002. If enacted, it will permit the cash balance held in the Canada Pension Plan Account to be transferred to the CPP Investment Board and will provide a means by which the CPP Investment Board will be required to transfer funds to the government to meet immediate obligations. It will also provide for the transfer to the CPP Investment Board, over a three-year period on a pro-rata basis, the right, title or interest in each security held in the CPP's government bond portfolio, currently administered by the Minister of Finance.

5. COMPARATIVE FIGURES

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