

Quarterly Consolidated Financial Statements of

**CANADA PENSION PLAN
INVESTMENT BOARD**

June 30, 2003

(Unaudited)

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Balance Sheet

June 30, 2003

(Unaudited)

(\$ 000's)	June 30, 2003	March 31, 2003	June 30, 2002
ASSETS			
Investments (Note 2)	\$ 23,886,962	\$ 17,861,767	\$ 17,174,161
Investment receivables (Note 2)	116,597	40,624	25,584
Due from brokers	1,730	35,005	24,032
Premises and equipment	1,050	1,112	1,223
Other assets	791	980	677
TOTAL ASSETS	24,007,130	17,939,488	17,225,677

LIABILITIES

Investment liabilities (Note 2)	326,915	449,757	-
Due to brokers	51,656	34,497	125,463
Accounts payable and accrued liabilities	4,008	4,490	4,828
TOTAL LIABILITIES	382,579	488,744	130,291
NET ASSETS	\$ 23,624,551	\$ 17,450,744	\$ 17,095,386

NET ASSETS, REPRESENTED BY

Share capital	\$ -	\$ -	\$ -
Accumulated net loss from operations	(2,567,510)	(4,238,916)	(1,633,922)
Accumulated Canada Pension Plan transfers	26,192,061	21,689,660	18,729,308
NET ASSETS	\$ 23,624,551	\$ 17,450,744	\$ 17,095,386

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

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

Three-months ended June 30, 2003

(Unaudited)

(\$ 000's)	Three-months ended June 30	
	2003	2002
INVESTMENT INCOME/(LOSS)	\$ 1,675,136	\$ (1,543,626)
INVESTMENT AND ADMINISTRATIVE EXPENSES		
General operating expenses	1,865	1,061
Salaries and benefits	1,720	1,342
Professional and consulting fees	145	408
External investment management fees	-	859
	3,730	3,670
NET INCOME/(LOSS) FROM OPERATIONS	1,671,406	(1,547,296)
ACCUMULATED NET LOSS FROM OPERATIONS, BEGINNING OF PERIOD	(4,238,916)	(86,626)
ACCUMULATED NET LOSS FROM OPERATIONS, END OF PERIOD	\$ (2,567,510)	\$ (1,633,922)

Consolidated Statement of Changes in Net Assets

Three-months ended June 30, 2003

(Unaudited)

(\$ 000's)	Three-months ended June 30	
	2003	2002
NET ASSETS, BEGINNING OF PERIOD	\$ 17,450,744	\$ 14,284,966
CHANGES IN NET ASSETS		
Canada Pension Plan transfers	4,502,401	4,357,716
Net income/(loss) from operations	1,671,406	(1,547,296)
INCREASE IN NET ASSETS FOR THE PERIOD	6,173,807	2,810,420
NET ASSETS, END OF PERIOD	\$ 23,624,551	\$ 17,095,386

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Investment Portfolio

June 30, 2003

(Unaudited)

The CPP Investment Board's investments, before allocating derivative contracts and associated money market securities and other investment liabilities and receivables to the asset classes to which they relate, are as follows:

(\$ 000's)	Fair Value		
	June 30, 2003	March 31, 2003	June 30, 2002
EQUITIES (Note 2)			
Canada			
Public markets	\$ 14,358,745	\$ 11,050,810	\$ 11,518,705
Private markets	247,480	260,609	146,032
	14,606,225	11,311,419	11,664,737
Non-Canada			
Public markets	5,541,485	4,245,184	4,470,455
Private markets	1,235,584	1,264,851	504,432
	6,777,069	5,510,035	4,974,887
TOTAL EQUITIES			
(Cost: June 30, 2003 - \$23,279,980			
March 31, 2003 - \$20,335,762			
June 30, 2002 - \$18,684,293)	21,383,294	16,821,454	16,639,624
REAL RETURN ASSETS (Note 2b)			
Public markets real estate	271,342	218,488	271,500
Private markets real estate	260,693	246,484	-
TOTAL REAL RETURN ASSETS			
(Cost: June 30, 2003 - \$657,997			
March 31, 2003 - \$644,914			
June 30, 2002 - \$280,789)	532,035	464,972	271,500
NOMINAL FIXED INCOME			
Money market securities ¹			
(Cost: June 30, 2003 - \$1,973,515			
March 31, 2003 - \$575,377			
June 30, 2002 - \$263,042)	1,971,633	575,341	263,037
TOTAL INVESTMENTS	23,886,962	17,861,767	17,174,161
INVESTMENT RECEIVABLES			
Derivative receivable (Note 2a)	71,258	-	-
Dividends receivable	40,612	40,272	25,520
Accrued interest	4,727	352	64
TOTAL INVESTMENT RECEIVABLES			
(Cost: June 30, 2003 - \$45,381			
March 31, 2003 - \$40,716			
June 30, 2002 - \$25,584)	116,597	40,624	25,584
INVESTMENT LIABILITIES			
Due to private equity partnerships (Note 2c)	(167,175)	(171,972)	-
Debt on real estate properties (Note 2b)	(152,000)	(152,000)	-
Credit facility (Note 3)	-	(125,000)	-
Derivative liabilities (Note 2a)	(7,740)	(785)	-
TOTAL INVESTMENT LIABILITIES			
(Cost: June 30, 2003 - \$326,282			
March 31, 2003 - \$452,067			
June 30, 2002 - \$Nil)	(326,915)	(449,757)	-
NET INVESTMENTS	\$ 23,676,644	\$ 17,452,634	\$ 17,199,745

¹ As described more fully in Note 2a, at June 30, 2003, \$1.5 billion of money market securities (March 31, 2003 - \$250 million; June 30, 2002 - \$Nil), together with Canadian equity index swaps and non-Canadian futures, provide additional exposure to Canadian and non-Canadian public market equities, respectively.

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Investment Portfolio

June 30, 2003

(Unaudited)

The CPP Investment Board's investments, after allocating derivative contracts and associated money market securities and other investment liabilities and receivables to the asset classes to which they relate, are as follows:

(\$000's)	June 30, 2003		March 31, 2003		June 30, 2002	
	Fair Value	(%)	Fair Value	(%)	Fair Value	(%)
EQUITIES ¹						
Canada	\$ 15,957,605	67.4%	\$ 11,560,652	66.2%	\$ 11,664,737	67.8%
Non-Canada ²	7,007,753	29.6%	5,510,035	31.6%	4,974,887	28.9%
REAL RETURN ASSETS						
Real Estate ³	380,035	1.6%	312,972	1.8%	271,500	1.6%
NOMINAL FIXED INCOME						
Money Market Securities ⁴	331,251	1.4%	68,975	0.4%	288,621	1.7%
	\$ 23,676,644	100.0%	\$ 17,452,634	100.0%	\$ 17,199,745	100.0%

¹ Includes derivative contracts and associated money market securities as described more fully in Note 2a.

² Includes private equity liabilities offset by money market securities held to discharge those liabilities.

³ Net of mortgage debt on real estate properties as described more fully in Note 2b.

⁴ Includes credit facility liability, accrued interest and dividends receivable.

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

June 30, 2003

(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

(a) *Basis of presentation*

These financial statements present the consolidated financial position and operations of the CPP Investment Board and its wholly-owned subsidiaries. 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, 2003 annual financial statements. The interim statements should be read in conjunction with the March 31, 2003 annual financial statements, as they do not include all information and notes required by GAAP for annual financial statements.

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

(b) *Valuation of investments*

Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the 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 for investments is determined as follows:

- (i) Quoted market prices for publicly traded equities 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.
- (ii) In the case of private equity investments, where quoted market prices are not available, fair value is determined annually, commencing after the first year of ownership, based on carrying values and other relevant information reported by external managers of the limited partnerships in which the investments are made. These carrying values are determined by the external managers using accepted industry valuation methods. These methodologies include considerations such as earnings multiples of comparable publicly traded companies, discounted cash flows

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

June 30, 2003

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

and third party transactions, or other events which suggest material impairment or improvement in the fair value of the investment. 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 equity investments, unless there is an indication of permanent impairment of value.

- (iii) The fair value of private market investments in real estate properties is determined annually, commencing after the first year of ownership, using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for real estate. Debt on real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics.
- (iv) Fair value for over-the-counter derivatives such as swaps is determined based on discounted cash flows and market prices for underlying assets with similar characteristics. Fair value for exchange-traded futures is based on quoted market prices.
- (v) Money market securities are recorded at cost which, together with accrued interest income, approximates fair value.

2. INVESTMENTS

The CPP Investment Board has established investment policies which set out the manner in which assets shall be invested. In determining the asset mix, the CPP Investment Board takes into consideration certain assets of the CPP which are held outside of the CPP Investment Board. As at June 30, 2003, these assets totaled approximately \$33.1 billion at cost (June 30, 2002 - \$34.3 billion) and consisted primarily of provincial debt obligations.

The Consolidated Statement of Investment Portfolio provides information on the investments and related receivables and liabilities held as at June 30, 2003.

(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.

As at June 30, 2003, the CPP Investment Board held exchange-traded S&P 500 futures contracts and equity swap contracts, the latter of which provided for the exchange of money market interest payments for the return on a Canadian equity index. The swap and futures contracts had notional amounts of \$1.3 billion (2002 - \$Nil) and \$231 million (2002 - \$Nil), respectively, and a term to maturity of one year or less. Notional amounts are used to compute the cash flows 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.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

June 30, 2003

(Unaudited)

2. INVESTMENTS (continued)

The fair value of swap contracts is \$71,258,000 at June 30, 2003 (2002 - \$Nil) and is recorded as an asset on the balance sheet. The fair value of futures contracts is \$(7,740,000) at June 30, 2003 (2002 - \$Nil) and is recorded as a liability on the balance sheet. Consistent with the investment policies, the derivative contracts are fully covered by cash and cash equivalents. The economic impact on the total investment asset mix is to increase public market equities exposure by 6.7%, with a corresponding decrease in money market securities exposure.

(b) *Real return assets*

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 a subsidiary and are managed on behalf of the CPP Investment Board by external advisors and managers through co-ownership arrangements. As at June 30, 2003, the CPP Investment Board's share of these investments include \$260,693,000 of assets primarily related to properties (2002 - \$Nil) and \$152,000,000 of liabilities related to mortgage debt (2002 - \$Nil), with a fixed interest rate of 6.57% and a term to maturity of 8 years.

(c) *Due to private equity partnerships*

Amounts due to partnerships represent the second installment owing to a limited partnership relating to the purchase by the partnership during the prior year of a portfolio of private equity investments.

(d) *Management fees*

Private equity investments are generally made by taking interests in limited partnerships with a typical term of 10 years. The limited partnerships' underlying investments represent equity ownerships 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 CPP Investment Board's cost of the investments. As discussed more fully in Note 1b, the carrying values of these investments are reviewed at least annually and any resulting adjustments are reflected as gains or losses.

3. CREDIT FACILITY

The CPP Investment Board maintains a \$300,000,000 unsecured credit facility to meet potential liquidity requirements relating to investment activities. As at June 30, 2003, the total amount drawn on the credit facility was \$Nil (2002 - \$Nil).

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

June 30, 2003

(Unaudited)

4. COMMITMENTS

The CPP Investment Board has committed to enter into private equity and real estate investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at June 30, 2003, these outstanding commitments totaled \$3.8 billion (2002 – \$2.8 billion).

5. LEGISLATIVE AMENDMENT

Legislation to amend the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* was passed by Parliament on April 3, 2003, and is now subject to provincial approval. The provisions of the amending legislation contemplate a transfer of the CPP assets currently managed by the federal government. If the legislative change is approved by the provinces, these assets will be transferred to the CPP Investment Board over a period of three years. The CPP assets consist of a bond portfolio and a cash operating balance and as at June 30, 2003 totaled approximately \$33.1 billion at cost.