

Quarterly Consolidated Financial Statements of

**CANADA PENSION PLAN
INVESTMENT BOARD**

December 31, 2003

(Unaudited)

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Balance Sheet

December 31, 2003

(Unaudited)

(\$ 000's)	December 31, 2003	March 31, 2003	December 31, 2002
ASSETS			
Investments (Note 2)	\$ 30,923,521	\$ 17,861,767	\$ 18,413,495
Investment receivables (Note 2)	160,581	40,624	31,351
Due from brokers	19,293	35,005	4,818
Premises and equipment	1,032	1,112	1,093
Other assets	2,001	980	325
TOTAL ASSETS	31,106,428	17,939,488	18,451,082
LIABILITIES			
Investment liabilities (Note 2)	150,923	449,757	5,940
Due to brokers	7,062	34,497	8,491
Accounts payable and accrued liabilities	6,403	4,490	4,629
TOTAL LIABILITIES	164,388	488,744	19,060
NET ASSETS	\$ 30,942,040	\$ 17,450,744	\$ 18,432,022
NET ASSETS, REPRESENTED BY			
Share capital	\$ -	\$ -	\$ -
Accumulated net income/(loss) from operations	1,583,730	(4,238,916)	(3,093,002)
Accumulated Canada Pension Plan transfers	29,358,310	21,689,660	21,525,024
NET ASSETS	\$ 30,942,040	\$ 17,450,744	\$ 18,432,022

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

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

Three-month and nine-month periods ended December 31, 2003

(Unaudited)

(\$ 000's)	Three-months ended December 31		Nine-months ended December 31	
	2003	2002	2003	2002
INVESTMENT INCOME/(LOSS)	\$ 2,795,502	\$ 1,002,440	\$ 5,834,721	\$ (2,996,337)
INVESTMENT AND ADMINISTRATIVE EXPENSES				
General operating expenses	1,884	1,238	5,393	3,187
Salaries and benefits	1,490	1,528	5,120	3,972
Professional and consulting fees	673	395	1,562	1,072
External investment management fees	-	60	-	1,808
	4,047	3,221	12,075	10,039
NET INCOME/(LOSS) FROM OPERATIONS	2,791,455	999,219	5,822,646	(3,006,376)
ACCUMULATED NET LOSS FROM OPERATIONS, BEGINNING OF PERIOD	(1,207,725)	(4,092,221)	(4,238,916)	(86,626)
ACCUMULATED NET INCOME/(LOSS) FROM OPERATIONS, END OF PERIOD	\$ 1,583,730	\$ (3,093,002)	\$ 1,583,730	\$ (3,093,002)

Consolidated Statement of Changes in Net Assets

Three-month and nine-month periods ended December 31, 2003

(Unaudited)

(\$ 000's)	Three-months ended December 31		Nine-months ended December 31	
	2003	2002	2003	2002
NET ASSETS, BEGINNING OF PERIOD	\$ 27,416,500	\$ 16,914,512	\$ 17,450,744	\$ 14,284,966
CHANGES IN NET ASSETS				
Canada Pension Plan transfers	734,085	518,291	7,668,650	7,153,432
Net income/(loss) from operations	2,791,455	999,219	5,822,646	(3,006,376)
INCREASE IN NET ASSETS FOR THE PERIOD	3,525,540	1,517,510	13,491,296	4,147,056
NET ASSETS, END OF PERIOD	\$ 30,942,040	\$ 18,432,022	\$ 30,942,040	\$ 18,432,022

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Investment Portfolio

December 31, 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		
	December 31, 2003	March 31, 2003	December 31, 2002
EQUITIES (Note 2)			
Canada			
Public markets	\$ 18,731,537	\$ 11,050,810	\$ 11,802,440
Private markets	270,250	260,609	240,756
	19,001,787	11,311,419	12,043,196
Non-Canada			
Public markets	6,828,633	4,245,184	4,936,241
Private markets	1,419,296	1,264,851	752,137
	8,247,929	5,510,035	5,688,378
TOTAL EQUITIES			
(Cost: December 31, 2003 - \$25,679,298 March 31, 2003 - \$20,335,762 December 31, 2002 - \$20,170,163)	27,249,716	16,821,454	17,731,574
REAL RETURN ASSETS (Note 2b)			
Public markets real estate	337,333	218,488	219,663
Private markets real estate	362,234	246,484	-
Private markets infrastructure	22,013	-	-
TOTAL REAL RETURN ASSETS			
(Cost: December 31, 2003 - \$776,394 March 31, 2003 - \$644,914 December 31, 2002 - \$398,611)	721,580	464,972	219,663
NOMINAL FIXED INCOME			
Money Market Securities ¹			
(Cost: December 31, 2003 - \$2,959,821 March 31, 2003 - \$575,377 December 31, 2002 - \$457,100)	2,952,225	575,341	462,258
TOTAL INVESTMENTS			
	30,923,521	17,861,767	18,413,495
INVESTMENT RECEIVABLES			
Derivative receivable (Note 2a)	104,701	-	-
Dividends receivable	52,737	40,272	31,351
Accrued interest	3,143	352	-
TOTAL INVESTMENT RECEIVABLES			
(Cost: December 31, 2003 - \$55,918 March 31, 2003 - \$40,716 December 31, 2002 - \$31,236)	160,581	40,624	31,351
INVESTMENT LIABILITIES			
Due to private equity partnerships (Note 2c)	-	(171,972)	-
Debt on real estate properties (Note 2b)	(150,923)	(152,000)	-
Credit facility (Note 3)	-	(125,000)	-
Derivative liabilities (Note 2a)	-	(785)	(5,940)
TOTAL INVESTMENT LIABILITIES			
(Cost: December 31, 2003 - \$150,923 March 31, 2003 - \$452,067 December 31, 2002 - \$Nil)	(150,923)	(449,757)	(5,940)
NET INVESTMENTS			
	\$ 30,933,179	\$ 17,452,634	\$ 18,438,906

¹ As described more fully in Note 2a, at December 31, 2003, \$2.4 billion of Canadian money market securities (March 31, 2003 - \$250 million; December 31, 2002 - \$97 million), together with Canadian equity index swaps and futures provide additional exposure to Canadian public market equities and \$399 million of non-Canadian money market securities (March 31, 2003 - \$Nil; December 31, 2002 - \$325 million) together with non-Canadian futures provide additional exposure to non-Canadian public market equities.

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Investment Portfolio

December 31, 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)	December 31, 2003		March 31, 2003		December 31, 2002	
	Fair Value	(%)	Fair Value	(%)	Fair Value	(%)
EQUITIES¹						
Canada	\$ 21,491,554	69.5%	\$ 11,560,652	66.2%	\$ 12,140,332	65.8%
Non-Canada ²	8,648,008	28.0%	5,510,035	31.6%	6,012,935	32.6%
REAL RETURN ASSETS						
Real Estate ³	548,644	1.8%	312,972	1.8%	219,663	1.2%
Infrastructure	22,013	0.1%	-	-	-	-
NOMINAL FIXED INCOME						
Money Market Securities ⁴	222,960	0.6%	68,975	0.4%	65,976	0.4%
	\$ 30,933,179	100.0%	\$ 17,452,634	100.0%	\$ 18,438,906	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, as described more fully in Note 2c.

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

December 31, 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 are used to represent fair value.
- (ii) In the case of private equity investments and infrastructure funds, 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 or funds 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,

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

December 31, 2003

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

discounted cash flows 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 December 31, 2003, these assets totaled approximately \$31.1 billion at cost (December 31, 2002 - \$31.4 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 December 31, 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 December 31, 2003, the CPP Investment Board held exchange-traded S&P/TSX 60 and S&P 500 futures contracts. The CPP Investment Board also held equity swap contracts, which provided for the exchange of money market interest payments for the return on a Canadian equity index. The futures contracts had notional amounts of \$109 million (December 31, 2002 - \$97 million) and \$399 million (December 31, 2002 - \$325 million), respectively. The equity swap contracts had a notional amount of \$2.3 billion (December 31, 2002 - \$Nil). All derivative contracts have a term to maturity of one year or less. Notional amounts are used to

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

December 31, 2003

(Unaudited)

2. INVESTMENTS (continued)

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.

The fair value of futures and swap contracts at December 31, 2003 is \$1,133,000 (December 31, 2002 - \$(5,940,000)) and \$103,567,000 (December 31, 2002 - \$Nil) respectively, and is recorded as an asset 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 Canada and Non-Canada equities exposure by 8.1% and 1.3% respectively, with a corresponding decrease in money market securities exposure.

(b) *Real return assets*

During the quarter ended December 31, 2003, the CPP Investment Board made its first investment in a private market infrastructure fund. As at December 31, 2003, the investment totaled \$22,013,000.

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 December 31, 2003, the subsidiary's share of these investments include assets of \$362,234,000 (December 31, 2002 - \$Nil) and \$150,923,000 of liabilities related to mortgage debt (December 31, 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 at March 31, 2003 represented 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. The amount was paid in September 2003.

(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.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

December 31, 2003

(Unaudited)

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 December 31, 2003, the total amount drawn on the credit facility was \$Nil (December 31, 2002 - \$Nil).

4. COMMITMENTS

The CPP Investment Board has committed to enter into private equity, real estate and infrastructure investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at December 31, 2003, these outstanding commitments totaled \$3.9 billion (December 31, 2002 – \$3.9 billion).

5. LEGISLATIVE AMENDMENT

Legislation to amend the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* received Royal Assent 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 to the CPP Investment Board. Once the legislation comes into force, 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 December 31, 2003 totaled approximately \$31.1 billion at cost.