

Quarterly Consolidated Financial Statements of

**CANADA PENSION PLAN
INVESTMENT BOARD**

December 31, 2004

(Unaudited)

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Balance Sheet

As at December 31, 2004

(Unaudited)

(\$ 000's)	December 31, 2004	March 31, 2004	December 31, 2003
ASSETS			
Investments (Note 2)	\$ 50,425,826	\$ 32,991,204	\$ 30,923,521
Investment receivables (Note 2)	373,234	102,363	160,581
Due from brokers	80,122	13,917	19,293
Premises and equipment	3,415	974	1,032
Other assets	1,344	1,828	2,001
TOTAL ASSETS	50,883,941	33,110,286	31,106,428
LIABILITIES			
Investment liabilities (Note 2)	258,373	199,358	150,923
Due to brokers	28,878	108,722	7,062
Accounts payable and accrued liabilities	15,540	6,860	6,403
TOTAL LIABILITIES	302,791	314,940	164,388
NET ASSETS	\$ 50,581,150	\$ 32,795,346	\$ 30,942,040
NET ASSETS, REPRESENTED BY			
Share capital	\$ -	\$ -	\$ -
Accumulated net income from operations	6,532,462	2,970,791	1,583,730
Accumulated Canada Pension Plan transfers (Note 4)	44,048,688	29,824,555	29,358,310
NET ASSETS	\$ 50,581,150	\$ 32,795,346	\$ 30,942,040

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Income and Accumulated Net Income from Operations

Three-month and nine-month periods ended December 31, 2004

(Unaudited)

(\$ 000's)	Three-months ended December 31		Nine-months ended December 31	
	2004	2003	2004	2003
INVESTMENT INCOME, NET OF EXTERNAL				
INVESTMENT MANAGEMENT FEES (Note 5)	\$ 3,152,582	\$ 2,795,502	\$ 3,584,793	\$ 5,834,721
OPERATING EXPENSES				
General operating expenses	3,835	1,884	9,484	5,393
Salaries and benefits	3,911	1,490	9,958	5,120
Professional and consulting fees	1,545	673	3,680	1,562
	9,291	4,047	23,122	12,075
NET INCOME FROM OPERATIONS	3,143,291	2,791,455	3,561,671	5,822,646
ACCUMULATED NET INCOME/(LOSS) FROM				
OPERATIONS, BEGINNING OF PERIOD	3,389,171	(1,207,725)	2,970,791	(4,238,916)
ACCUMULATED NET INCOME FROM				
OPERATIONS, END OF PERIOD	\$ 6,532,462	\$ 1,583,730	\$ 6,532,462	\$ 1,583,730

Consolidated Statement of Changes in Net Assets

Three-month and nine-month periods ended December 31, 2004

(Unaudited)

(\$ 000's)	Three-months ended December 31		Nine-months ended December 31	
	2004	2003	2004	2003
NET ASSETS, BEGINNING OF PERIOD	\$ 44,215,482	\$ 27,416,500	\$ 32,795,346	\$ 17,450,744
CHANGES IN NET ASSETS				
Canada Pension Plan transfers (Note 4)				
Transfers from the Canada Pension Plan	6,490,627	734,085	18,447,055	7,668,650
Transfers to the Canada Pension Plan	(3,268,250)	-	(4,222,922)	-
Net income from operations	3,143,291	2,791,455	3,561,671	5,822,646
INCREASE IN NET ASSETS				
FOR THE PERIOD	6,365,668	3,525,540	17,785,804	13,491,296
NET ASSETS, END OF PERIOD	\$ 50,581,150	\$ 30,942,040	\$ 50,581,150	\$ 30,942,040

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Investment Portfolio

As at December 31, 2004

(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, 2004	March 31, 2004	December 31, 2003
EQUITIES (Note 2)			
Canada			
Public markets	\$ 20,828,124	\$ 18,045,921	\$ 18,731,537
Private markets	437,220	281,602	270,250
	21,265,344	18,327,523	19,001,787
Non-Canada			
Public markets	11,108,380	7,552,200	6,828,633
Private markets	2,015,539	1,529,698	1,419,296
	13,123,919	9,081,898	8,247,929
TOTAL EQUITIES			
(Cost: December 31, 2004 - \$30,681,426 March 31, 2004 - \$25,034,281 December 31, 2003 - \$25,679,298)	34,389,263	27,409,421	27,249,716
REAL RETURN ASSETS (Note 2c)			
Public markets real estate	384,929	350,480	337,333
Private markets real estate	616,359	431,848	362,234
Private markets infrastructure	61,762	22,013	22,013
TOTAL REAL RETURN ASSETS			
(Cost: December 31, 2004 - \$1,053,996 March 31, 2004 - \$829,325 December 31, 2003 - \$776,394)	1,063,050	804,341	721,580
NOMINAL FIXED INCOME			
Bonds (Note 2d)	6,244,793	-	-
Money market securities	8,728,720	4,777,442	2,952,225
TOTAL NOMINAL FIXED INCOME			
(Cost: December 31, 2004 - \$14,943,567 March 31, 2004 - \$4,783,899 December 31, 2003 - \$2,959,821)	14,973,513	4,777,442	2,952,225
TOTAL INVESTMENTS			
	50,425,826	32,991,204	30,923,521
INVESTMENT RECEIVABLES			
Derivative receivables (Note 2a)	176,445	34,394	104,701
Dividends receivable	74,183	65,289	52,737
Accrued interest	122,606	2,680	3,143
TOTAL INVESTMENT RECEIVABLES			
(Cost: December 31, 2004 - \$196,771 March 31, 2004 - \$68,142 December 31, 2003 - \$55,918)	373,234	102,363	160,581
INVESTMENT LIABILITIES			
Debt on real estate properties (Note 2c)	(240,006)	(170,797)	(150,923)
Derivative liabilities (Note 2a)	(18,367)	(28,561)	-
TOTAL INVESTMENT LIABILITIES			
(Cost: December 31, 2004 - \$235,828 March 31, 2004 - \$169,619 December 31, 2003 - \$150,923)	(258,373)	(199,358)	(150,923)
NET INVESTMENTS	\$ 50,540,687	\$ 32,894,209	\$ 30,933,179

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Investment Portfolio

As at December 31, 2004

(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, 2004		March 31, 2004		December 31, 2003	
	Fair Value	(%)	Fair Value	(%)	Fair Value	(%)
EQUITIES¹						
Canada	\$ 26,497,741	52.4%	\$ 22,571,543	68.6%	\$ 21,491,554	69.5%
Non-Canada	16,456,407	32.6%	9,326,240	28.4%	8,648,008	28.0%
REAL RETURN ASSETS						
Real estate ²	761,282	1.5%	611,531	1.9%	548,644	1.8%
Infrastructure	61,762	0.1%	22,013	0.1%	22,013	0.1%
NOMINAL FIXED INCOME						
Bonds ³	6,360,639	12.6%	-	-	-	-
Money market securities ⁴	402,856	0.8%	362,882	1.0%	222,960	0.6%
	\$ 50,540,687	100.0%	\$ 32,894,209	100.0%	\$ 30,933,179	100.0%

¹ Includes derivative contracts and associated money market securities.

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

³ Includes accrued interest on bonds.

⁴ Includes dividends receivable and accrued interest on money market securities.

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

December 31, 2004

(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 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 debt securities transferred to it (described in Note 2), in the best interests of the beneficiaries and contributors under that Act. The CPP Investment Board’s assets 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 CPP and the ability of the CPP to meet its financial obligations on any given business day.

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. 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, 2004 annual financial statements. The interim statements should be read in conjunction with the March 31, 2004 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, investment receivables, and investment liabilities*

Investments, investment receivables, and investment liabilities 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 is determined as follows:

- (i) Quoted market prices for publicly traded equities and unit values for public equity 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 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 methods include considerations such as earnings multiples of comparable publicly traded companies, discounted cash

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

December 31, 2004

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and infrastructure funds, 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 and forward contracts is determined based on the market prices for underlying assets. Fair value for exchange-traded futures is based on quoted market prices.
- (v) The fair value of bonds, all of which are non-marketable federal, provincial and territorial debt securities, is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, adjusted for the non-marketable of the bonds.
- (vi) Money market securities are recorded at cost which, together with accrued interest income, approximates fair value.

2. INVESTMENTS, INVESTMENT RECEIVABLES AND INVESTMENT LIABILITIES

The CPP Investment Board has established investment policies which set out the manner in which assets shall be invested. In determining its target asset weights, 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, 2004, these assets total approximately \$23.7 billion at cost (December 31, 2003 - \$31.1 billion) consisting of a bond portfolio of \$19.4 billion and a cash operating reserve of \$4.3 billion.

Legislation to amend the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* came into force on April 1, 2004. The amended legislation and an agreement dated as of April 1, 2004, between her Majesty the Queen in right of Canada and the CPP Investment Board together provide for the transfer of certain specified CPP assets currently administered by the federal government to the CPP Investment Board beginning in the current fiscal year. These assets include a portfolio of non-marketable federal, provincial and territorial debt securities to be transferred to the CPP Investment Board in 36 equal installments over a period that began May 1, 2004 and ends on April 1, 2007 (see Note 2d). The assets also include a cash operating reserve to be transferred to the CPP Investment Board in 12 equal installments over a period that began in September 2004 and ends in August 2005.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

December 31, 2004

(Unaudited)

2. INVESTMENTS, INVESTMENT RECEIVABLES AND INVESTMENT LIABILITIES (continued)

The Consolidated Statement of Investment Portfolio provides information on the investments and related receivables and liabilities held by the CPP Investment Board as at December 31, 2004.

(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 CPP Investment Board uses derivatives primarily to replicate the return of Canadian and Non-Canadian equity indexes and to manage asset weights and currency exposure. The CPP Investment Board has equity swaps outstanding to exchange money market interest for equity returns. The CPP Investment Board also uses exchange-traded futures contracts to achieve the desired market exposure to the equity markets, and foreign exchange forwards to manage currency exposure.

All derivative contracts have a term to maturity of one year or less. Notional amounts of derivative contracts are used to compute the cash flows and for determining the fair value of the contracts. Notional amounts are not recorded as assets or liabilities on the balance sheet.

The notional amounts and fair value of derivative contracts held as at December 31 are as follows:

(\$000's)	2004		2003	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Equity swaps	\$ 5,090,252	\$ 154,778	\$ 2,276,796	\$ 103,568
Equity futures	3,594,971	(3,125)	508,351	1,133
Foreign exchange forwards	1,361,261	6,425	-	-
Total	\$ 10,046,484	\$ 158,078	\$ 2,785,147	\$ 104,701

(b) *Private equity investments*

Private equity investments are generally made by buying interests in limited partnerships with a typical term of 10 years. The private equity 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% and 2% of the total amount committed to the limited partnerships, and are included as part of the CPP Investment Board's cost of the investments. During the quarter ended December 31, 2004, management fees totalling \$19.6 million (December 31, 2003 - \$18.6 million) were included in the capital advanced to the limited partnerships and recorded as part of the cost in the investment. 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 unrealized gains or losses in investment income (see Note 5).

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

December 31, 2004

(Unaudited)

2. INVESTMENTS, INVESTMENT RECEIVABLES AND INVESTMENT LIABILITIES (continued)

(c) Real return assets

As at December 31, 2004, investments totalled \$761,282,000 in real estate investments (December 31, 2003 - \$548,644,000) and \$61,762,000 in private markets infrastructure (December 31, 2003 - \$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, 2004, the subsidiary's share of these investments includes assets of \$616,359,000 (December 31, 2003 - \$362,234,000) and \$240,006,000 of liabilities related to mortgage debt (December 31, 2003 - \$150,923,000), with a weighted average fixed interest rate of 7.54% and terms to maturity of three to 17 years.

The CPP Investment Board currently uses a limited partnership arrangement to invest in infrastructure. The underlying investments of the infrastructure limited partnership represent equity ownerships in entities that invest in infrastructure assets which are expected to provide predictable cash flows. Management fees for infrastructure investments are treated similar to private equity management fees as discussed in Note 2b. During the quarter ended December 31, 2004, management fees included in the capital advanced to the limited partnership were Nil (December 31, 2003 - \$0.2 million).

(d) Bonds

The transfer to the CPP Investment Board of the CPP portfolio of non-marketable federal, provincial and territorial debt securities began on May 1, 2004. Interests in debt securities of \$6,415,344,000 based on fair market value at the time of transfer have been transferred to date, including \$2,396,946,000 during the quarter ended December 31, 2004.

The non-marketable debt securities issued by the provinces and territories prior to 1998 contain a rollover provision which will permit these issuers, at their option, to roll over the bonds for a further 20 year term at a rate based on capital markets borrowing rates existing at the time of rollover. The non-marketable debt securities are also redeemable at the option of the issuers for redemption amounts calculated in accordance with Section 110 of the *Canada Pension Plan*.

The terms to maturity of the bonds, not including any rollover options, are as follows:

(\$000's)

	Term to Maturity			Total
	Within 1 Year	1 to 5 Years	Over 5 Years	
Government of Canada bonds	\$ 39,499	683,863	\$ 134,761	\$ 858,123
Provincial and territorial bonds	428,388	1,691,225	3,267,057	5,386,670
Total	\$ 467,887	\$ 2,375,088	\$ 3,401,818	\$ 6,244,793

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

December 31, 2004

(Unaudited)

2. INVESTMENTS, INVESTMENT RECEIVABLES AND INVESTMENT LIABILITIES (continued)

(e) *Securities lending*

The CPP Investment Board participates in a securities lending program to enhance portfolio returns. Credit risk associated with the securities lending program 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, 2004, the CPP Investment Board's investments include loaned securities with an estimated fair value of \$1.2 billion (December 31, 2003 - \$Nil). The fair value of collateral received in respect of these loans is \$1.3 billion (December 31, 2003 - \$Nil).

3. CREDIT FACILITIES

The CPP Investment Board maintains \$1.6 billion of unsecured credit facilities to meet potential liquidity requirements. As at December 31, 2004, the total amount drawn on the credit facilities was \$Nil (December 31, 2003 - \$Nil).

4. CANADA PENSION PLAN TRANSFERS

Pursuant to Section 108.1 and the agreement dated as of April 1, 2004, referred to in Note 2 above, amounts not required to meet specified obligations of the CPP are transferred to the CPP Investment Board. The funds come 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. As discussed in Note 2, beginning in fiscal 2005, CPP transfers include an interest in the bond portfolio administered by the federal government and a portion of the CPP's cash operating reserve. In September 2004, the CPP Investment Board assumed responsibility for providing cash management services to the CPP, including the periodic return, on at least a monthly basis, of funds required to meet expenses and benefits. In accordance with the agreement dated April 1, 2004, the 12 monthly payments to the CPP Investment Board of the cash operating reserve will be used to reduce the cash returned to the CPP for expenses and benefits as noted above.

During the quarter ended December 31, 2004, the total of \$6,490,627,000 transferred to the CPP Investment Board includes bonds of \$2,396,946,000 based on fair market value at the time of transfer, and cash of \$4,093,681,000. During the same period, a total of \$3,268,250,000 (net of the cash operating reserve entitlement of \$1,630,482,000 for the quarter ended December 31, 2004) was returned to the CPP to meet the liquidity requirements of the CPP.

As at December 31, 2004, accumulated transfers of \$44,048,688,000 from the Canada Pension Plan include transfers from the CPP of \$48,271,610,000, net of transfers to the CPP of \$4,222,922,000.

5. INVESTMENT INCOME, NET OF EXTERNAL INVESTMENT MANAGEMENT FEES

Investment income is reported net of external investment management fees. Investment management fees in respect of public markets investments are expensed as incurred. These fees include an incentive portion that fluctuates with investment performance. Investment management fees for private markets real estate investments are deducted by the asset manager before the CPP

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

December 31, 2004

(Unaudited)

5. INVESTMENT INCOME, NET OF EXTERNAL INVESTMENT MANAGEMENT FEES (continued)

Investment Board receives its share of net operating income from the properties. For a discussion of private equity and infrastructure management fees, see Notes 2b and 2c.

Investment income by asset class, net of external investment management fees and after giving effect to derivative contracts and investment receivables and liabilities, is as follows:

(\$000's)

	Three-months ended		Nine-months ended	
	December 31		December 31	
	2004	2003	2004	2003
Equities	\$ 2,923,228	\$ 2,770,505	\$ 3,266,576	\$ 5,741,683
Less: Public markets external investment management fees	(5,492)	-	(8,125)	-
	2,917,736	2,770,505	3,258,451	5,741,683
Real return assets	58,287	62,822	70,018	145,029
Less: Private markets real estate external investment management fees	(945)	(1,071)	(2,796)	(2,413)
	57,342	61,751	67,222	142,616
Nominal fixed income	177,504	(36,754)	259,120	(49,578)
Investment income, net of external investment management fees	\$ 3,152,582	\$ 2,795,502	\$ 3,584,793	\$ 5,834,721

6. 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, 2004, these outstanding commitments total \$4.7 billion (December 31, 2003 – \$3.9 billion).