

Quarterly Consolidated Financial Statements of

**CANADA PENSION PLAN
INVESTMENT BOARD**

June 30, 2004

(Unaudited)

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Balance Sheet

As at June 30, 2004

(Unaudited)

(\$ 000's)	June 30, 2004	March 31, 2004	June 30, 2003
ASSETS			
Investments (Note 2)	\$ 38,649,249	\$ 32,991,204	\$ 23,886,962
Investment receivables (Note 2)	141,677	102,363	116,597
Due from brokers	11,279	13,917	1,730
Premises and equipment	885	974	1,050
Other assets	1,161	1,828	791
TOTAL ASSETS	38,804,251	33,110,286	24,007,130
LIABILITIES			
Investment liabilities (Note 2)	185,567	199,358	326,915
Due to brokers	9,632	108,722	51,656
Accounts payable and accrued liabilities	5,857	6,860	4,008
TOTAL LIABILITIES	201,056	314,940	382,579
NET ASSETS	\$ 38,603,195	\$ 32,795,346	\$ 23,624,551
NET ASSETS, REPRESENTED BY			
Share capital	\$ -	\$ -	\$ -
Accumulated net income/(loss) from operations	3,225,241	2,970,791	(2,567,510)
Accumulated Canada Pension Plan transfers	35,377,954	29,824,555	26,192,061
NET ASSETS	\$ 38,603,195	\$ 32,795,346	\$ 23,624,551

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

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

Three-months ended June 30, 2004

(Unaudited)

<i>(\$ 000's)</i>	<u>2004</u>	<u>2003</u>
INVESTMENT INCOME, NET OF EXTERNAL INVESTMENT MANAGEMENT FEES (Note 5)	\$ 260,866	\$ 1,675,136
OPERATING EXPENSES		
General operating expenses	2,518	1,865
Salaries and benefits	2,907	1,720
Professional and consulting fees	991	145
	6,416	3,730
NET INCOME FROM OPERATIONS	254,450	1,671,406
ACCUMULATED NET INCOME/(LOSS) FROM OPERATIONS, BEGINNING OF PERIOD	2,970,791	(4,238,916)
ACCUMULATED NET INCOME/(LOSS) FROM OPERATIONS, END OF PERIOD	\$ 3,225,241	\$ (2,567,510)

Consolidated Statement of Changes in Net Assets

Three-months ended June 30, 2004

(Unaudited)

<i>(\$ 000's)</i>	<u>2004</u>	<u>2003</u>
NET ASSETS, BEGINNING OF PERIOD	\$ 32,795,346	\$ 17,450,744
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 4)	5,553,399	4,502,401
Net income from operations	254,450	1,671,406
INCREASE IN NET ASSETS FOR THE PERIOD	5,807,849	6,173,807
NET ASSETS, END OF PERIOD	\$ 38,603,195	\$ 23,624,551

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Investment Portfolio

As at June 30, 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		
	June 30, 2004	March 31, 2004	June 30, 2003
EQUITIES (Note 2)			
Canada			
Public markets	\$ 19,410,617	\$ 18,045,921	\$ 14,358,745
Private markets	327,854	281,602	247,480
	19,738,471	18,327,523	14,606,225
Non-Canada			
Public markets	8,922,742	7,552,200	5,541,485
Private markets	1,819,615	1,529,698	1,235,584
	10,742,357	9,081,898	6,777,069
TOTAL EQUITIES			
(Cost: June 30, 2004 - \$28,305,540 March 31, 2004 - \$25,034,281 June 30, 2003 - \$23,279,980)	30,480,828	27,409,421	21,383,294
REAL RETURN ASSETS (Note 2b)			
Public markets real estate	352,785	350,480	271,342
Private markets real estate	433,328	431,848	260,693
Private markets infrastructure	53,196	22,013	-
TOTAL REAL RETURN ASSETS			
(Cost: June 30, 2004 - \$865,654 March 31, 2004 - \$829,325 June 30, 2003 - \$657,997)	839,309	804,341	532,035
NOMINAL FIXED INCOME			
Bonds (Note 2c)	1,563,187	-	-
Money market securities	5,765,925	4,777,442	1,971,633
TOTAL NOMINAL FIXED INCOME			
(Cost: June 30, 2004 - \$7,357,472 March 31, 2004 - \$4,783,899 June 30, 2003 - \$1,973,515)	7,329,112	4,777,442	1,971,633
TOTAL INVESTMENTS			
	38,649,249	32,991,204	23,886,962
INVESTMENT RECEIVABLES			
Derivative receivables (Note 2a)	35,848	34,394	71,258
Dividends receivable	61,234	65,289	40,612
Accrued interest	44,595	2,680	4,727
TOTAL INVESTMENT RECEIVABLES			
(Cost: June 30, 2004 - \$106,016 March 31, 2004 - \$68,142 June 30, 2003 - \$45,381)	141,677	102,363	116,597
INVESTMENT LIABILITIES			
Due to private equity partnerships (Note 2d)	-	-	(167,175)
Debt on real estate properties (Note 2b)	(170,168)	(170,797)	(152,000)
Derivative liabilities (Note 2a)	(15,399)	(28,561)	(7,740)
TOTAL INVESTMENT LIABILITIES			
(Cost: June 30, 2004 - \$168,990 March 31, 2004 - \$169,619 June 30, 2003 - \$326,282)	(185,567)	(199,358)	(326,915)
NET INVESTMENTS			
	\$ 38,605,359	\$ 32,894,209	\$ 23,676,644

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Investment Portfolio

As at June 30, 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)	June 30, 2004		March 31, 2004		June 30, 2003	
	Fair Value	(%)	Fair Value	(%)	Fair Value	(%)
EQUITIES¹						
Canada	\$ 24,063,132	62.3%	\$ 22,571,543	68.6%	\$ 15,957,605	67.4%
Non-Canada ²	11,051,632	28.6%	9,326,240	28.4%	7,007,753	29.6%
REAL RETURN ASSETS						
Real estate ³	615,945	1.6%	611,531	1.9%	380,035	1.6%
Infrastructure	53,196	0.1%	22,013	0.1%	-	-
NOMINAL FIXED INCOME						
Bonds ⁴	1,593,478	4.1%	-	-	-	-
Money market securities ⁵	1,227,976	3.3%	362,882	1.0%	331,251	1.4%
	\$ 38,605,359	100.0%	\$ 32,894,209	100.0%	\$ 23,676,644	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 2d.

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

⁴ Includes accrued interest on bonds.

⁵ Includes accrued interest on money market securities and dividends receivable.

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

June 30, 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. All 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.

(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 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

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

June 30, 2004

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 with similar characteristics. 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.
- (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 June 30, 2004, these assets total approximately \$31.5 billion at cost (June 30, 2003 - \$33.1 billion) consisting of a bond portfolio of \$24.0 billion and a cash operating reserve of \$7.5 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 2c). The assets also include a cash operating reserve which will be transferred in equal installments over a 12-month period beginning in September 2004.

The Consolidated Statement of Investment Portfolio provides information on the investments and related receivables and liabilities held by the CPP Investment Board as at June 30, 2004.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

June 30, 2004

(Unaudited)

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

(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 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 broad market exposure to the equity markets while cash is being held to fund investment activities, 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 June 30 are as follows:

(000's)	2004		2003	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Equity swaps	\$ 4,207,741	\$ 19,000	\$ 1,272,886	\$ 71,258
Equity futures	405,885	1,310	231,432	(7,740)
Foreign exchange forwards	52,604	139	-	-
Total	\$ 4,666,230	\$ 20,449	\$ 1,504,318	\$ 63,518

Consistent with the investment policies, the derivative contracts are fully covered by money market securities. The economic impact is to increase Canada and Non-Canada equities exposure by 11.2% and 0.8% respectively, with a corresponding decrease in money market securities exposure.

(b) Real return assets

As at June 30, 2004, investments totalled \$53,196,000 in a private markets infrastructure fund (June 30, 2003 - \$Nil) and \$615,945,000 in real estate investments (June 30, 2003 - \$380,035,000). 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 June 30, 2004, the subsidiary's share of these investments includes assets of \$433,328,000 (June 30, 2003 - \$260,693,000) and \$170,168,000 of liabilities related to mortgage debt (June 30, 2003 - \$152,000,000), with a weighted average fixed interest rate of 6.86% and terms to maturity of three to seven years.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

June 30, 2004

(Unaudited)

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

(c) 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 \$1,617,444,000 based on fair market value at the time of transfer were transferred during the quarter ended June 30, 2004.

(d) Due to private equity partnerships

Amounts due to partnerships at June 30, 2003 represented the second installment owing to a limited partnership relating to the purchase by the partnership during that year of a portfolio of private equity investments. The amount was paid in September 2003.

(e) Private equity and infrastructure management fees

Private equity and infrastructure 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 June 30, 2004, management fees totalling \$16.0 million (June 30, 2003 - \$9.5 million) were included in the capital advanced to the limited partnerships. As discussed more fully in Note 1b, the carrying values of these investments, which include these management fees, are reviewed at least annually and any resulting adjustments are reflected as unrealized gains or losses in investment income (see Note 5).

(f) 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 June 30, 2004, the CPP Investment Board's investments include loaned securities with an estimated fair value of \$1.6 billion (June 30, 2003 - \$Nil). The fair value of collateral received in respect of these loans is \$1.7 billion (June 30, 2003 - \$Nil).

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

June 30, 2004

(Unaudited)

3. CREDIT FACILITY

The CPP Investment Board maintains \$800,000,000 of unsecured credit facilities to meet potential liquidity requirements relating to investment activities. As at June 30, 2004, the total amount drawn on the credit facility was \$Nil (June 30, 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 also include an interest in the bond portfolio administered by the federal government. During the quarter ended June 30, 2004, the total of \$5,553,399,000 transferred to the CPP Investment Board includes bonds of \$1,617,444,000 based on fair market value at the time of transfer, and cash of \$3,935,955,000.

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. Investment management fees for private markets real estate investments are deducted by the asset manager before the CPP Investment Board receives its share of net operating income from the properties. For a discussion of private equity and infrastructure management fees, see Note 2e. Investment income for the quarter ended June 30, 2004 is net of public markets external investment management fees of \$612,000 (June 30, 2003 - \$Nil) and private markets real estate management fees of \$977,000 (June 30, 2003 - \$504,000).

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 June 30, 2004, these outstanding commitments total \$4.3 billion (June 30, 2003 – \$3.8 billion).