

Quarterly Consolidated Financial Statements of

**CANADA PENSION PLAN
INVESTMENT BOARD**

June 30, 2005

(Unaudited)

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Balance Sheet

As at June 30, 2005

(Unaudited)

(\$ 000's)	June 30, 2005	March 31, 2005	June 30, 2004
ASSETS			
Investments (Note 2)	\$ 68,221,619	\$ 58,422,332	\$ 38,649,249
Investment receivables (Note 2)	640,183	579,373	141,677
Amounts due from pending trades	235,660	19,468	11,279
Premises and equipment	3,992	4,040	885
Other assets	1,868	3,359	1,161
TOTAL ASSETS	\$ 69,103,322	\$ 59,028,572	\$ 38,804,251
LIABILITIES			
Investment liabilities (Note 2)	328,863	279,430	185,567
Amounts payable from pending trades	366,110	147,488	9,632
Accounts payable and accrued liabilities	16,153	21,875	5,857
TOTAL LIABILITIES	711,126	448,793	201,056
NET ASSETS	\$ 68,392,196	\$ 58,579,779	\$ 38,603,195
NET ASSETS, REPRESENTED BY			
Share capital (Note 4)	\$ -	\$ -	\$ -
Accumulated net income from operations	10,148,126	7,952,988	3,225,241
Accumulated Canada Pension Plan transfers (Note 5)	58,244,070	50,626,791	35,377,954
NET ASSETS	\$ 68,392,196	\$ 58,579,779	\$ 38,603,195

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD
Consolidated Statement of Income and
Accumulated Net Income from Operations
Three-months ended June 30
(Unaudited)

(\$ 000's)	2005	2004
INVESTMENT INCOME, NET OF EXTERNAL INVESTMENT MANAGEMENT FEES (Note 6)	\$ 2,205,355	\$ 260,866
OPERATING EXPENSES		
Salaries and benefits	5,144	2,907
General operating expenses	4,328	2,518
Professional and consulting fees	745	991
	10,217	6,416
NET INCOME FROM OPERATIONS	2,195,138	254,450
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF PERIOD	7,952,988	2,970,791
ACCUMULATED NET INCOME FROM OPERATIONS, END OF PERIOD	\$ 10,148,126	\$ 3,225,241

Consolidated Statement of Changes in Net Assets

Three-months ended June 30
(Unaudited)

(\$ 000's)	2005	2004
NET ASSETS, BEGINNING OF PERIOD	\$ 58,579,779	\$ 32,795,346
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 5)		
Transfers from the Canada Pension Plan	10,647,550	5,553,399
Transfers to the Canada Pension Plan	(3,030,271)	-
Net income from operations	2,195,138	254,450
INCREASE IN NET ASSETS FOR THE PERIOD	9,812,417	5,807,849
NET ASSETS, END OF PERIOD	\$ 68,392,196	\$ 38,603,195

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Investment Portfolio

As at June 30, 2005

(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, 2005	March 31, 2005	June 30, 2004
EQUITIES (Note 2)			
Canada			
Public markets	\$ 22,077,360	\$ 21,044,008	\$ 19,410,617
Private markets	541,058	511,969	327,854
	22,618,418	21,555,977	19,738,471
Non-Canada			
Public markets	13,640,626	12,646,146	8,922,742
Private markets	2,559,480	2,393,996	1,819,615
	16,200,106	15,040,142	10,742,357
TOTAL EQUITIES			
(Cost: June 30, 2005 - \$33,626,367			
March 31, 2005 - \$32,140,629			
June 30, 2004 - \$28,305,540)	38,818,524	36,596,119	30,480,828
REAL RETURN ASSETS (Note 2c)			
Public markets real estate	975,305	384,000	352,785
Private markets real estate	1,687,178	638,200	433,328
Inflation linked bonds	422,392	-	-
Private markets infrastructure	308,754	230,125	53,196
TOTAL REAL RETURN ASSETS			
(Cost: June 30, 2005 - \$3,330,109			
March 31, 2005 - \$1,222,360			
June 30, 2004 - \$865,654)	3,393,629	1,252,325	839,309
NOMINAL FIXED INCOME			
Bonds (Note 2d)	11,110,381	8,507,114	1,563,187
Money market securities	14,899,085	12,066,774	5,765,925
TOTAL NOMINAL FIXED INCOME			
(Cost: June 30, 2005 - \$25,820,261			
March 31, 2005 - \$20,613,699			
June 30, 2004 - \$7,357,472)	26,009,466	20,573,888	7,329,112
TOTAL INVESTMENTS	68,221,619	58,422,332	38,649,249
INVESTMENT RECEIVABLES			
Derivative receivables (Note 2a)	335,345	240,168	35,848
Dividends receivable	94,214	85,536	61,234
Accrued interest	210,624	253,669	44,595
TOTAL INVESTMENT RECEIVABLES			
(Cost: June 30, 2005 - \$305,808			
March 31, 2005 - \$339,677			
June 30, 2004 - \$106,016)	640,183	579,373	141,677
INVESTMENT LIABILITIES			
Debt on real estate properties (Note 2c)	(238,662)	(241,752)	(170,168)
Derivative liabilities (Note 2a)	(90,201)	(37,678)	(15,399)
TOTAL INVESTMENT LIABILITIES			
(Cost: June 30, 2005 - \$232,664			
March 31, 2005 - \$234,259			
June 30, 2004 - \$168,990)	(328,863)	(279,430)	(185,567)
NET INVESTMENTS	\$ 68,532,939	\$ 58,722,275	\$ 38,605,359

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Investment Portfolio

As at June 30, 2005

(Unaudited)

The CPP Investment Board's investments, after allocating derivative contracts, 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, 2005		March 31, 2005		June 30, 2004	
	Fair Value	(%)	Fair Value	(%)	Fair Value	(%)
EQUITIES¹						
Canada	\$ 28,998,643	42.3%	\$ 27,668,469	47.1%	\$ 24,063,132	62.3%
Non-Canada	22,180,992	32.4%	20,882,401	35.6%	11,051,632	28.6%
REAL RETURN ASSETS						
Real estate ²	2,423,821	3.5%	780,448	1.3%	615,945	1.6%
Infrastructure	308,754	0.5%	230,125	0.4%	53,196	0.1%
Inflation linked bonds ³	701,260	1.0%	-	-	-	-
NOMINAL FIXED INCOME						
Bonds ³	11,303,227	16.5%	8,749,337	14.9%	1,593,478	4.1%
Money market securities ⁴	2,616,242	3.8%	411,495	0.7%	1,227,976	3.3%
	\$ 68,532,939	100.0%	\$ 58,722,275	100.0%	\$ 38,605,359	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

Three-months ended June 30, 2005

(Unaudited)

(\$000's)

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 a federal Crown corporation all of the shares of which are owned by Her Majesty the Queen in right of Canada. 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 and include the proportionate share of the fair value of assets, liabilities and operations of privately held real estate investments in joint ventures.

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, 2005 annual financial statements. The interim financial statements should be read in conjunction with the March 31, 2005 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 on a trade date basis 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 and infrastructure 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

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

Three-months ended June 30, 2005

(Unaudited)

(\$000's)

external managers of the investments. 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 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 and infrastructure 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. Debt on real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics. 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 real estate unless there is an indication of permanent impairment of value.
- (iv) Fair value for over-the-counter derivatives such as swaps and forward contracts is determined based on the quoted market prices for underlying assets. Fair value for exchange-traded futures is based on quoted market prices.
- (v) Quoted market prices are used to represent the fair value for inflation linked bonds.
- (vi) Quoted market prices are used to represent the fair value for public market real estate.
- (vii) Fair value for 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-marketability and rollover provisions of the bonds.
- (viii) 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, 2005, these assets total approximately \$16.1 billion at cost (June 30, 2004 - \$31.5 billion) consisting of a bond portfolio of \$15.0 billion and a cash operating reserve of \$1.1 billion.

The *Canada Pension Plan*, the *Canada Pension Plan Investment Board Act* and an administrative agreement between Her Majesty the Queen in right of Canada and the CPP Investment Board (the "Agreement") together provide for the transfer of certain specified CPP assets currently administered by the federal government to the CPP Investment Board. These assets include a

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

Three-months ended June 30, 2005

(Unaudited)

(\$000's)

portfolio of non-marketable federal, provincial and territorial debt securities to be transferred to the CPP Investment Board in 36 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. The remaining assets to be transferred as at June 30, 2005 consist of the bond portfolio and cash operating reserve referred to in the first paragraph of Note 2.

During the three month period ended June 30, 2005, the Agreement was amended to permit the CPP Investment Board to purchase replacement debt securities directly from a province or territory upon the maturity of a bond held in the CPP bond portfolio. Such purchase of debt securities by the CPP Investment Board is effected pursuant to an agreement between the CPP Investment Board and the relevant province or territory and must be for a total principal amount not exceeding the principal amount of the maturing securities.

The Consolidated Statement of Investment Portfolio provides information on the investments and related receivables and liabilities held as at June 30, 2005.

(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 to replicate the return of Canadian and Non-Canadian equities and Non-Canadian inflation linked bonds and to manage asset weights and currency exposure. The CPP Investment Board has swaps outstanding to exchange money market interest payments for equity and inflation linked bond returns. The CPP Investment Board also uses exchange-traded futures contracts and foreign exchange forwards to either increase or reduce exposure to underlying equity market or currency movements.

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)	2005		2004	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Equity swaps	\$ 6,364,002	\$ 265,515	\$ 4,207,741	\$ 19,000
Equity futures	6,037,975	(35,546)	405,885	1,310
Foreign exchange forwards	2,402,094	11,352	52,604	139
Inflation linked bond swaps	274,088	3,823	-	-
Total	\$ 15,078,159	\$ 245,144	\$ 4,666,230	\$ 20,449

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

Three-months ended June 30, 2005

(Unaudited)

(\$000's)

(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 three months ended June 30, 2005, management fees totalling \$20.4 million (2004 - \$16.0 million) were included in the capital advanced to the limited partnerships and recorded as part of the cost of 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.

(c) *Real return assets*

As at June 30, 2005, investments total \$2,662,483 in real estate investments (June 30, 2004 - \$786,113), \$422,392 in inflation linked bonds (June 30, 2004 - \$nil) and \$308,754 in private markets infrastructure (June 30, 2004 - \$53,196).

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, 2005, the subsidiary's share of these investments includes assets of \$1,687,178 (June 30, 2004 - \$433,328) and \$238,662 of liabilities related to mortgage debt (June 30, 2004 - \$170,168), with a weighted average fixed interest rate of 7.62% and terms to maturity of two to 16 years.

The CPP Investment Board currently uses direct ownership and limited partnership arrangements to invest in infrastructure. The direct investments and the underlying investments of the limited partnerships represent 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 three months ended June 30, 2005, management fees included in the capital advanced to the limited partnerships were \$nil (June 30, 2004 - \$214).

(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 \$2,372,104 based on fair market value at the time of transfer were transferred during the three months ended June 30, 2005.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

Three-months ended June 30, 2005

(Unaudited)

(\$000's)

The non-marketable debt securities issued by the provinces and territories and purchased by the Canada Pension Plan 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.

Effective May 31, 2005, as referred to in Note 2, upon the maturity of the non-marketable debt securities issued by the provinces and territories prior to 1998, and subject to the relevant province or territory having entered into an agreement with the CPP Investment Board in this regard, the issuer may elect to have the CPP Investment Board purchase a replacement debt security or securities in a total principal amount not exceeding the principal amount of the maturing security for a term of not less than 5 years and not greater than 30 years. Such replacement debt securities will contain rollover provisions which will permit the issuer, at its option, to roll over the debt security for successive terms of not less than 5 years and subject in all cases to the maximum 30 year outside maturity date. The replacement debt securities are also redeemable at the option of the provinces or territories prior to maturity. As of July 22, 2005, the CPP Investment Board had entered into such agreements with 6 provinces, all with an effective date of July 1, 2005.

The terms to maturity of the bonds as at June 30, 2005, not including any rollover options, are as follows:

(\$ 000's)	Term to Maturity				
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total
Government of Canada bonds	\$ 335,527	\$ 1,064,897	\$ 33,614	\$ -	\$ 1,434,038
Provincial and Territorial bonds	636,111	3,246,898	2,102,340	3,690,994	9,676,343
Total	\$ 971,638	\$ 4,311,795	\$ 2,135,954	\$ 3,690,994	\$ 11,110,381

(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 June 30, 2005, the CPP Investment Board's investments include loaned securities with an estimated fair value of \$1.1 billion (June 30, 2004 - \$1.6 billion). The fair value of collateral received in respect of these loans is \$1.2 billion (June 30, 2004 - \$1.7 billion).

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

Three-months ended June 30, 2005

(Unaudited)

(\$000's)

3. CREDIT FACILITIES

The CPP Investment Board maintains \$1.5 billion (June 30, 2004 - \$800 million) of unsecured credit facilities to meet potential liquidity requirements. As at June 30, 2005, the total amount drawn on the credit facilities is \$nil (June 30, 2004 - \$nil).

4. SHARE CAPITAL

The issued and authorized share capital of the CPP Investment Board is \$100 divided into 10 shares having a par value of \$10 each. The shares are owned by Her Majesty the Queen in right of Canada.

5. CANADA PENSION PLAN TRANSFERS

Pursuant to Section 108.1 of the Canada Pension Plan and the Agreement 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 originate 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 CPP transfers include an interest in the bond portfolio administered by the federal government and a portion of the CPP's cash operating reserve. The CPP Investment Board is responsible for providing cash management services to the CPP, including the periodic return, on at least a monthly basis, of funds required to meet CPP expenses and benefits. In accordance with the Agreement, 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 three months ended June 30, 2005, the total of \$10,647,550 transferred to the CPP Investment Board includes bonds of \$2,372,104 based on fair market value at the time of transfer, and cash of \$8,275,446. During the same period, a total of \$3,030,271 (net of the cash operating reserve entitlement of \$1,630,482) was returned to the CPP to meet the liquidity requirements of the CPP.

As at June 30, 2005, accumulated transfers of \$58,244,070 (June 30, 2004 - \$35,377,954) from the Canada Pension Plan include transfers from the CPP of \$67,943,301 (June 30, 2004 - \$35,377,954), net of transfers to the CPP of \$9,699,231 (June 30, 2004 - \$nil).

6. 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 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:

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

Three-months ended June 30, 2005

(Unaudited)

(\$000's)

(\$000's)	Three-months ended June 30	
	2005	2004
Equities	\$ 1,740,493	\$ 252,661
Less: Public markets external investment management fees	(7,386)	(612)
	<u>1,733,107</u>	<u>252,049</u>
Real return assets	42,830	12,056
Less: Private markets real estate external investment management fees	(713)	(977)
	<u>42,117</u>	<u>11,079</u>
Nominal fixed income	430,131	(2,262)
Investment income, net of external investment management fees	\$ 2,205,355	\$ 260,866

7. 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, 2005, the remaining commitments total \$6.2 billion (June 30, 2004 – \$4.3 billion).

As at June 30, 2005, the organization has made lease commitments of \$19.7 million (June 30, 2004 - \$20.7 million) over the next nine years.

8. GUARANTEES AND INDEMNIFICATIONS

The CPP Investment Board provides guarantees to its officers, directors and various counterparties as part of its standard indemnification agreements. Under these agreements, the CPP Investment Board may be required to compensate these parties for costs incurred as a result of various contingencies such as changes in laws and regulations and litigation claims. The contingent nature of the indemnification agreements prevents the CPP Investment Board from making a reasonable estimate of the maximum potential payments the CPP Investment Board could be required to make. To date, the CPP Investment Board has not received any claims nor made any payments for such indemnifications.