

*Quarterly Financial Statements of*

**CANADA PENSION PLAN  
INVESTMENT BOARD**

*December 31, 2002*

*(Unaudited)*

# CANADA PENSION PLAN INVESTMENT BOARD

## Balance Sheet

December 31, 2002

(Unaudited)

<i>(\$ 000's)</i>	<u>December 31, 2002</u>	<u>March 31, 2002</u>	<u>December 31, 2001</u>
<b>ASSETS</b>			
Investments (Note 2)	\$ 18,402,490	\$ 14,289,378	\$ 13,797,732
Dividends receivable	31,393	-	-
Due from brokers	15,781	2,343	10,000
Premises and equipment	1,093	1,278	1,413
Other assets	325	79	227
<b>TOTAL ASSETS</b>	<b>18,451,082</b>	<b>14,293,078</b>	<b>13,809,372</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	4,629	4,730	4,753
Due to brokers	14,431	3,382	10,000
<b>TOTAL LIABILITIES</b>	<b>19,060</b>	<b>8,112</b>	<b>14,753</b>
<b>NET ASSETS</b>	<b>\$ 18,432,022</b>	<b>\$ 14,284,966</b>	<b>\$ 13,794,619</b>
<b>NET ASSETS, REPRESENTED BY</b>			
Share capital	\$ -	\$ -	\$ -
Accumulated net loss from operations	(3,093,002)	(86,626)	(342,974)
Accumulated Canada Pension Plan transfers	21,525,024	14,371,592	14,137,593
<b>NET ASSETS</b>	<b>\$ 18,432,022</b>	<b>\$ 14,284,966</b>	<b>\$ 13,794,619</b>

## CANADA PENSION PLAN INVESTMENT BOARD

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

Three-month and nine-month periods ended December 31, 2002

(Unaudited)

(\$ 000's)	Three-months ended December 31		Nine-months ended December 31	
	2002	2001	2002	2001
INVESTMENT INCOME/(LOSS)	\$ 1,002,440	\$ 1,422,184	\$ (2,996,337)	\$ 56,265
INVESTMENT AND ADMINISTRATIVE EXPENSES				
Salaries and benefits	1,528	1,118	3,972	3,085
General operating expenses	1,238	911	3,187	2,374
External investment management fees	60	736	1,808	2,137
Professional and consulting fees	395	138	1,072	391
	3,221	2,903	10,039	7,987
NET INCOME/(LOSS) FROM OPERATIONS	999,219	1,419,281	(3,006,376)	48,278
ACCUMULATED NET LOSS FROM OPERATIONS, BEGINNING OF PERIOD	(4,092,221)	(1,762,255)	(86,626)	(391,252)
ACCUMULATED NET LOSS FROM OPERATIONS, END OF PERIOD	\$ (3,093,002)	\$ (342,974)	\$ (3,093,002)	\$ (342,974)

### Statement of Changes in Net Assets

Three-month and nine-month periods ended December 31, 2002

(Unaudited)

(\$ 000's)	Three-months ended December 31		Nine-months ended December 31	
	2002	2001	2002	2001
NET ASSETS, BEGINNING OF PERIOD	\$ 16,914,512	\$ 12,011,965	\$ 14,284,966	\$ 7,154,169
CHANGES IN NET ASSETS				
Canada Pension Plan transfers	518,291	363,373	7,153,432	6,592,172
Net income/(loss) from operations	999,219	1,419,281	(3,006,376)	48,278
INCREASE IN NET ASSETS FOR THE PERIOD	1,517,510	1,782,654	4,147,056	6,640,450
NET ASSETS, END OF PERIOD	\$ 18,432,022	\$ 13,794,619	\$ 18,432,022	\$ 13,794,619

# CANADA PENSION PLAN INVESTMENT BOARD

## Statement of Investment Portfolio

December 31, 2002

(Unaudited)

(\$ 000's)	Fair Value of Investments					
	December 31, 2002		March 31, 2002		December 31, 2001	
<b>EQUITIES (Note 2)</b>						
Canada						
Public Markets	\$ 11,802,440	64.1%	\$ 9,824,428	68.8%	\$ 9,427,918	68.3%
Private Markets	240,756	1.3%	144,207	1.0%	117,466	0.9%
	<b>12,043,196</b>	<b>65.4%</b>	<b>9,968,635</b>	<b>69.8%</b>	<b>9,545,384</b>	<b>69.2%</b>
United States						
Public Markets	2,488,288	13.5%	1,861,021	13.0%	1,807,688	13.1%
Private Markets	605,903	3.3%	304,445	2.1%	266,867	1.9%
	<b>3,094,191</b>	<b>16.8%</b>	<b>2,165,466</b>	<b>15.1%</b>	<b>2,074,555</b>	<b>15.0%</b>
Non-North America						
Public Markets	2,447,953	13.3%	1,971,484	13.8%	1,960,394	14.2%
Private Markets	146,234	0.8%	11,606	0.1%	-	-
	<b>2,594,187</b>	<b>14.1%</b>	<b>1,983,090</b>	<b>13.9%</b>	<b>1,960,394</b>	<b>14.2%</b>
<b>TOTAL EQUITIES</b>						
(Cost December 2002 - \$ 20,170,163 March 2002 - \$ 14,546,009 December 2001 - \$14,267,007)	<b>17,731,574</b>	<b>96.3%</b>	<b>14,117,191</b>	<b>98.8%</b>	<b>13,580,333</b>	<b>98.4%</b>
<b>REAL ESTATE (Note 2)</b>						
Publicly Traded Securities (Cost December 2002 - \$ 398,611 March 2002 - \$ 144,442 December 2001 - \$ Nil )	<b>219,663</b>	<b>1.2%</b>	<b>145,141</b>	<b>1.0%</b>	<b>-</b>	<b>-</b>
<b>OTHER INVESTMENTS</b>						
Money Market Securities <sup>1</sup> (Cost December 2002 - \$ 446,137 March 2002 - \$ 27,046 December 2001 - \$217,399)	<b>451,253</b>	<b>2.5%</b>	<b>27,046</b>	<b>0.2%</b>	<b>217,399</b>	<b>1.6%</b>
<b>TOTAL INVESTMENTS</b>	<b>\$ 18,402,490</b>	<b>100.0%</b>	<b>\$ 14,289,378</b>	<b>100.0%</b>	<b>\$ 13,797,732</b>	<b>100.0%</b>

1. As described more fully in Note 2c, at December 31, 2002, \$97.1 million of the Money Market Securities together with S&P/TSX 60 Index futures contracts provide exposure to the Canadian Public Market and \$324.6 million of the Money Market Securities together with S&P 500 Index futures contracts provide exposure to the United States Public Market.

# CANADA PENSION PLAN INVESTMENT BOARD

## Notes to the Financial Statements

December 31, 2002

(Unaudited)

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### 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

#### *Basis of presentation*

These financial statements present the consolidated financial position and operations of the CPP Investment Board and its wholly-owned subsidiary. 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, 2002 annual financial statements. The interim statements should be read in conjunction with the March 31, 2002 annual financial statements, as they do not include all information and notes required by GAAP for annual financial statements.

#### *Valuation of investments*

Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act.

Quoted market prices for publicly traded securities and exchange traded futures, 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. In the case of private equity investments, where quoted market prices are not available, fair value is determined primarily on an annual basis, 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, 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 investments, unless there is an indication of permanent impairment of value.

# CANADA PENSION PLAN INVESTMENT BOARD

## Notes to the Financial Statements

December 31, 2002

(Unaudited)

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### 2. INVESTMENTS

The CPP Investment Board has established an Investment Statement and Investment Policies, which set out the manner in which assets shall be invested. In determining the asset mix, the CPP Investment Board must take into consideration certain assets of the CPP which are held outside of the CPP Investment Board. As at December 31, 2002, these assets total approximately \$31.4 billion at cost (December 31, 2001 - \$32.9 billion) and consist primarily of government debt obligations.

#### *a) Equity investments*

The majority of the CPP Investment Board's investments are allocated to public and private equities in Canadian, United States and Non-North American markets.

As at December 31, 2002, 5.4% (December 31, 2001 - 2.8%) of investments are held in private market equities. These investments are generally made by taking interests in limited partnerships with a typical investment period 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 cost of the private equity investments.

#### *b) Real estate*

The CPP Investment Board currently obtains exposure to real estate through investments in publicly traded securities. As at December 31, 2002, 1.2% (December 31, 2001 - 0.0%) of investments are held in real estate equities.

#### *c) Derivative contracts*

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency exchange rates. Notional amounts represent the contractual amounts used to compute the cash flows to be exchanged, 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.

During the quarter ended December 31, 2002, the CPP Investment Board purchased exchange traded futures contracts to equitize cash that is being held to fund investment activities. As at December 31, 2002, the CPP Investment Board held S&P/TSX 60 Index and S&P 500 Index futures contracts with a notional amount of \$97.1 million and \$324.6 million respectively, and a term to maturity of less than one year (December 31, 2001 - \$Nil). The fair value of these contracts is \$(5.9) million (December 31, 2001 - \$Nil). Consistent with the Investment Policies, the futures contracts are fully backed with cash and cash equivalents.

# CANADA PENSION PLAN INVESTMENT BOARD

## Notes to the Financial Statements

December 31, 2002

(Unaudited)

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### 3. COMMITMENTS

The CPP Investment Board has committed to enter into private equity investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at December 31, 2002, these outstanding commitments totaled \$3.9 billion (December 31, 2001 – \$1.6 billion).

### 4. LEGISLATIVE AMENDMENT

Legislation to amend the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* was re-introduced in the House of Commons of Canada on October 3, 2002. If enacted, it will permit the cash balance held in the Canada Pension Plan Account to be transferred to the CPP Investment Board and will provide a means by which the CPP Investment Board will be required to transfer funds to the government to meet immediate obligations. It will also provide for the transfer to the CPP Investment Board, over a three-year period on a pro-rata basis, the right, title or interest in each security held in the CPP's government bond portfolio, currently administered by the Minister of Finance.

### 5. COMPARATIVE FIGURES

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