

Quarterly Consolidated Financial Statements of

**CANADA PENSION PLAN
INVESTMENT BOARD**

September 30, 2004

(Unaudited)

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Balance Sheet

As at September 30, 2004

(Unaudited)

| (\$ 000's) | September 30, 2004 | March 31, 2004 | September 30, 2003 |
|--|----------------------|----------------------|----------------------|
| ASSETS | | | |
| Investments (Note 2) | \$ 44,108,744 | \$ 32,991,204 | \$ 27,513,120 |
| Investment receivables (Note 2) | 312,295 | 102,363 | 91,766 |
| Due from brokers | 13,424 | 13,917 | 1,177 |
| Premises and equipment | 1,051 | 974 | 1,099 |
| Other assets | 1,762 | 1,828 | 1,809 |
| TOTAL ASSETS | 44,437,276 | 33,110,286 | 27,608,971 |
| LIABILITIES | | | |
| Investment liabilities (Note 2) | 183,102 | 199,358 | 154,161 |
| Due to brokers | 29,802 | 108,722 | 33,419 |
| Accounts payable and accrued liabilities | 8,890 | 6,860 | 4,891 |
| TOTAL LIABILITIES | 221,794 | 314,940 | 192,471 |
| NET ASSETS | \$ 44,215,482 | \$ 32,795,346 | \$ 27,416,500 |
| NET ASSETS, REPRESENTED BY | | | |
| Share capital | \$ - | \$ - | \$ - |
| Accumulated net income/(loss) from operations | 3,389,171 | 2,970,791 | (1,207,724) |
| Accumulated Canada Pension Plan transfers (Note 4) | 40,826,311 | 29,824,555 | 28,624,224 |
| NET ASSETS | \$ 44,215,482 | \$ 32,795,346 | \$ 27,416,500 |

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-month and six-month periods ended September 30, 2004

(Unaudited)

| (\$ 000's) | Three-months ended September 30 | | Six-months ended September 30 | |
|---|------------------------------------|-----------------------|----------------------------------|-----------------------|
| | 2004 | 2003 | 2004 | 2003 |
| INVESTMENT INCOME, NET OF EXTERNAL | | | | |
| INVESTMENT MANAGEMENT FEES (Note 5) | \$ 171,345 | \$ 1,364,083 | \$ 432,211 | \$ 3,039,219 |
| OPERATING EXPENSES | | | | |
| General operating expenses | 3,132 | 1,643 | 5,649 | 3,509 |
| Salaries and benefits | 3,139 | 1,910 | 6,047 | 3,630 |
| Professional and consulting fees | 1,144 | 744 | 2,135 | 888 |
| | 7,415 | 4,297 | 13,831 | 8,027 |
| NET INCOME FROM OPERATIONS | 163,930 | 1,359,786 | 418,380 | 3,031,192 |
| ACCUMULATED NET INCOME/(LOSS) FROM | | | | |
| OPERATIONS, BEGINNING OF PERIOD | 3,225,241 | (2,567,510) | 2,970,791 | (4,238,916) |
| ACCUMULATED NET INCOME/(LOSS) | | | | |
| FROM OPERATIONS, END OF PERIOD | \$ 3,389,171 | \$ (1,207,724) | \$ 3,389,171 | \$ (1,207,724) |

Consolidated Statement of Changes in Net Assets

Three-month and six-month periods ended September 30, 2004

(Unaudited)

| (\$ 000's) | Three-months ended September 30 | | Six-months ended September 30 | |
|--|------------------------------------|----------------------|----------------------------------|----------------------|
| | 2004 | 2003 | 2004 | 2003 |
| NET ASSETS, BEGINNING OF PERIOD | \$ 38,603,195 | \$ 23,624,551 | \$ 32,795,346 | \$ 17,450,744 |
| CHANGES IN NET ASSETS | | | | |
| Canada Pension Plan transfers (Note 4) | | | | |
| Transfers from the Canada Pension Plan | 6,403,029 | 2,432,163 | 11,956,428 | 6,934,564 |
| Transfers to the Canada Pension Plan | (954,672) | - | (954,672) | - |
| Net income from operations | 163,930 | 1,359,786 | 418,380 | 3,031,192 |
| INCREASE IN NET ASSETS | | | | |
| FOR THE PERIOD | 5,612,287 | 3,791,949 | 11,420,136 | 9,965,756 |
| NET ASSETS, END OF PERIOD | \$ 44,215,482 | \$ 27,416,500 | \$ 44,215,482 | \$ 27,416,500 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Investment Portfolio

As at September 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 | | |
|---|----------------------|----------------------|----------------------|
| | September 30, 2004 | March 31, 2004 | September 30, 2003 |
| EQUITIES (Note 2) | | | |
| Canada | | | |
| Public markets | \$ 19,839,808 | \$ 18,045,921 | \$ 16,525,035 |
| Private markets | 359,627 | 281,602 | 250,892 |
| | 20,199,435 | 18,327,523 | 16,775,927 |
| Non-Canada | | | |
| Public markets | 9,330,924 | 7,552,200 | 6,255,132 |
| Private markets | 1,847,580 | 1,529,698 | 1,333,116 |
| | 11,178,504 | 9,081,898 | 7,588,248 |
| TOTAL EQUITIES | | | |
| (Cost: September 30, 2004 - \$29,503,563 March 31, 2004 - \$25,034,281 September 30, 2003 - \$25,100,057) | 31,377,939 | 27,409,421 | 24,364,175 |
| REAL RETURN ASSETS (Note 2b) | | | |
| Public markets real estate | 336,985 | 350,480 | 285,929 |
| Private markets real estate | 451,928 | 431,848 | 352,169 |
| Private markets infrastructure | 55,792 | 22,013 | - |
| TOTAL REAL RETURN ASSETS | | | |
| (Cost: September 30, 2004 - \$885,612 March 31, 2004 - \$829,325 September 30, 2003 - \$748,115) | 844,705 | 804,341 | 638,098 |
| NOMINAL FIXED INCOME | | | |
| Bonds (Note 2c) | 3,912,029 | - | - |
| Money market securities | 7,974,071 | 4,777,442 | 2,510,847 |
| TOTAL NOMINAL FIXED INCOME | | | |
| (Cost: September 30, 2004 - \$11,902,738 March 31, 2004 - \$4,783,899 September 30, 2003 - \$2,514,947) | 11,886,100 | 4,777,442 | 2,510,847 |
| TOTAL INVESTMENTS | | | |
| | 44,108,744 | 32,991,204 | 27,513,120 |
| INVESTMENT RECEIVABLES | | | |
| Derivative receivables (Note 2a) | 132,173 | 34,394 | 37,273 |
| Dividends receivable | 63,442 | 65,289 | 51,242 |
| Accrued interest | 116,680 | 2,680 | 3,251 |
| TOTAL INVESTMENT RECEIVABLES | | | |
| (Cost: September 30, 2004 - \$180,438 March 31, 2004 - \$68,142 September 30, 2003 - \$54,625) | 312,295 | 102,363 | 91,766 |
| INVESTMENT LIABILITIES | | | |
| Debt on real estate properties (Note 2b) | (169,207) | (170,797) | (151,786) |
| Derivative liabilities (Note 2a) | (13,895) | (28,561) | (2,375) |
| TOTAL INVESTMENT LIABILITIES | | | |
| (Cost: September 30, 2004 - \$168,029 March 31, 2004 - \$169,619 September 30, 2003 - \$151,786) | (183,102) | (199,358) | (154,161) |
| NET INVESTMENTS | \$ 44,237,937 | \$ 32,894,209 | \$ 27,450,725 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Investment Portfolio

As at September 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) | September 30, 2004 | | March 31, 2004 | | September 30, 2003 | |
|--------------------------------------|----------------------|---------------|----------------------|---------------|----------------------|---------------|
| | Fair Value | (%) | Fair Value | (%) | Fair Value | (%) |
| EQUITIES¹ | | | | | | |
| Canada | \$ 24,621,256 | 55.7% | \$ 22,571,543 | 68.6% | \$ 18,220,103 | 66.4% |
| Non-Canada | 14,192,812 | 32.1% | 9,326,240 | 28.4% | 7,825,403 | 28.5% |
| REAL RETURN ASSETS | | | | | | |
| Real estate ² | 619,706 | 1.4% | 611,531 | 1.9% | 486,312 | 1.8% |
| Infrastructure | 55,792 | 0.1% | 22,013 | 0.1% | - | - |
| NOMINAL FIXED INCOME | | | | | | |
| Bonds ³ | 4,025,621 | 9.1% | - | - | - | - |
| Money market securities ⁴ | 722,750 | 1.6% | 362,882 | 1.0% | 918,907 | 3.3% |
| | \$ 44,237,937 | 100.0% | \$ 32,894,209 | 100.0% | \$ 27,450,725 | 100.0% |

¹ Includes derivative contracts and associated money market securities as described more fully in Note 2a.

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

³ Includes accrued interest on bonds.

⁴ 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

September 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. 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

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

September 30, 2004

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 September 30, 2004, these assets total approximately \$27.7 billion at cost (September 30, 2003 - \$32.2 billion) consisting of a bond portfolio of \$21.7 billion and a cash operating reserve of \$6.0 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

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

September 30, 2004

(Unaudited)

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

on April 1, 2007 (see Note 2c). 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 Consolidated Statement of Investment Portfolio provides information on the investments and related receivables and liabilities held by the CPP Investment Board as at September 30, 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 September 30 are as follows:

| (\$000's) | 2004 | | 2003 | |
|---------------------------|--------------------|------------|--------------------|------------|
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| Equity swaps | \$ 4,339,601 | \$ 122,005 | \$ 1,401,347 | \$ 37,273 |
| Equity futures | 2,975,246 | (723) | 239,531 | (2,375) |
| Foreign exchange forwards | 1,397,882 | (3,004) | - | - |
| Total | \$ 8,712,729 | \$ 118,278 | \$ 1,640,878 | \$ 34,898 |

Consistent with the investment policies, the derivative contracts are covered by money market securities. Allocating the derivative contracts and associated money market securities to the asset classes to which they relate results in an increase in Canada and Non-Canada equities exposure by 10.0% and 6.8% respectively, with a corresponding decrease in money market securities exposure.

(b) Real return assets

As at September 30, 2004, investments totalled \$55,792,000 in a private markets infrastructure fund (September 30, 2003 - \$Nil) and \$619,706,000 in real estate investments (September 30, 2003 - \$486,312,000). The CPP Investment Board obtains exposure to real estate through investments in publicly traded securities and privately held real estate. Private real estate

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

September 30, 2004

(Unaudited)

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

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 September 30, 2004, the subsidiary's share of these investments includes assets of \$451,928,000 (September 30, 2003 – \$352,169,000) and \$169,207,000 of liabilities related to mortgage debt (September 30, 2003 – \$151,786,000), with a weighted average fixed interest rate of 6.85% and terms to maturity of three to seven years.

(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 \$4,018,399,000 based on fair market value at the time of transfer have been transferred to date, including \$2,400,955,000 during the quarter ended September 30, 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 | \$ 19,959 | 430,604 | \$ 88,418 | \$ 538,981 |
| Provincial and territorial bonds | 281,611 | 1,029,316 | 2,062,121 | 3,373,048 |
| Total | \$ 301,570 | \$ 1,459,920 | \$ 2,150,539 | \$ 3,912,029 |

(d) Private equity and infrastructure investments

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 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.

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

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

September 30, 2004

(Unaudited)

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

quarter ended September 30, 2004, management fees totalling \$14.0 million (September 30, 2003 - \$16.0 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).

(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 September 30, 2004, the CPP Investment Board's investments include loaned securities with an estimated fair value of \$671 million (September 30, 2003 - \$Nil). The fair value of collateral received in respect of these loans is \$705 million (September 30, 2003 - \$Nil).

3. CREDIT FACILITIES

The CPP Investment Board maintains \$1.5 billion of unsecured credit facilities to meet potential liquidity requirements. As at September 30, 2004, the total amount drawn on the credit facility was \$Nil (September 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 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 September 30, 2004, the total of \$6,403,029,000 transferred to the CPP Investment Board includes bonds of \$2,400,955,000 based on fair market value at the time of transfer, and cash of \$4,002,074,000. During the same period, a total of \$954,672,000 (net of the cash operating reserve entitlement of \$543,494,000 for September 2004) was returned to the CPP to meet the liquidity requirements of the CPP.

As at September 30, 2004, accumulated transfers of \$40,826,311,000 from the Canada Pension Plan include transfers from the CPP of \$41,780,983,000 net of transfers to the CPP of \$954,672,000.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

September 30, 2004

(Unaudited)

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

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 September 30 | | Six-months ended September 30 | |
|--|------------------------------------|--------------|----------------------------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| Equities | \$ 90,687 | \$ 1,345,178 | \$ 343,348 | \$ 2,971,178 |
| Less: Public markets external investment management fees | (2,022) | - | (2,634) | - |
| | 88,665 | 1,345,178 | 340,714 | 2,971,178 |
| Real return assets | (324) | 22,410 | 11,737 | 82,206 |
| Less: Private markets real estate external investment management fees | (874) | (837) | (1,856) | (1,341) |
| | (1,198) | 21,573 | 9,881 | 80,865 |
| Nominal fixed income | 83,878 | (2,668) | 81,616 | (12,824) |
| Investment income, net of external investment management fees | \$ 171,345 | \$ 1,364,083 | \$ 432,211 | \$ 3,039,219 |

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 September 30, 2004, these outstanding commitments total \$4.5 billion (September 30, 2003 – \$3.7 billion).