

*Quarterly Consolidated Financial Statements of*

**CANADA PENSION PLAN  
INVESTMENT BOARD**

*December 31, 2005*

*(Unaudited)*

**CANADA PENSION PLAN INVESTMENT BOARD**  
**Consolidated Balance Sheet**  
**As at December 31, 2005**  
**(Unaudited)**

(\$ 000's)	<u>December 31, 2005</u>	<u>March 31, 2005</u>	<u>December 31, 2004</u>
<b>ASSETS</b>			
Investments (Note 2)	\$ 81,473,724	\$ 59,001,705	\$ 50,799,060
Amounts due from pending trades	34,430	19,468	80,122
Premises and equipment	4,991	4,040	3,415
Other assets	3,233	3,359	1,344
<b>TOTAL ASSETS</b>	<b>\$ 81,516,378</b>	<b>\$ 59,028,572</b>	<b>\$ 50,883,941</b>
<b>LIABILITIES</b>			
Investment liabilities (Note 2)	\$ 773,577	\$ 279,430	\$ 258,373
Amounts payable from pending trades	130,058	147,488	28,878
Accounts payable and accrued liabilities	37,118	21,875	15,540
<b>TOTAL LIABILITIES</b>	<b>\$ 940,753</b>	<b>\$ 448,793</b>	<b>\$ 302,791</b>
<b>NET ASSETS</b>	<b>\$ 80,575,625</b>	<b>\$ 58,579,779</b>	<b>\$ 50,581,150</b>
<b>NET ASSETS, REPRESENTED BY</b>			
Share capital (Note 4)	\$ -	\$ -	\$ -
Accumulated net income from operations	16,196,964	7,952,988	6,532,462
Accumulated Canada Pension Plan transfers (Note 5)	64,378,661	50,626,791	44,048,688
<b>NET ASSETS</b>	<b>\$ 80,575,625</b>	<b>\$ 58,579,779</b>	<b>\$ 50,581,150</b>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

**CANADA PENSION PLAN INVESTMENT BOARD**  
**Consolidated Statement of Income and**  
**Accumulated Net Income from Operations**  
**Three-month and nine-month periods ended December 31, 2005**  
**(Unaudited)**

(\$ 000's)	Three-months ended		Nine-months ended	
	December 31		December 31	
	2005	2004	2005	2004
<b>INVESTMENT INCOME, NET OF EXTERNAL INVESTMENT MANAGEMENT FEES (Note 6)</b>	\$ 2,115,608	\$ 3,152,582	\$ 8,281,841	\$ 3,584,793
<b>OPERATING EXPENSES</b>				
Salaries and benefits	7,832	3,911	18,103	9,958
General operating expenses	5,593	3,835	14,529	9,484
Professional and consulting fees	2,388	1,545	5,233	3,680
	15,813	9,291	37,865	23,122
<b>NET INCOME FROM OPERATIONS</b>	<b>2,099,795</b>	<b>3,143,291</b>	<b>8,243,976</b>	<b>3,561,671</b>
<b>ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF PERIOD</b>	<b>14,097,169</b>	<b>3,389,171</b>	<b>7,952,988</b>	<b>2,970,791</b>
<b>ACCUMULATED NET INCOME FROM OPERATIONS, END OF PERIOD</b>	<b>\$ 16,196,964</b>	<b>\$ 6,532,462</b>	<b>\$ 16,196,964</b>	<b>\$ 6,532,462</b>

**Consolidated Statement of Changes in Net Assets**  
**Three-month and nine-month periods ended December 31, 2005**  
**(Unaudited)**

(\$ 000's)	Three-months ended		Nine-months ended	
	December 31		December 31	
	2005	2004	2005	2004
<b>NET ASSETS, BEGINNING OF PERIOD</b>	\$ 76,999,241	\$ 44,215,482	\$ 58,579,779	\$ 32,795,346
<b>CHANGES IN NET ASSETS</b>				
Canada Pension Plan transfers (Note 5)				
Transfers from the Canada Pension Plan	6,298,734	6,490,627	25,261,097	18,447,055
Transfers to the Canada Pension Plan	(4,822,145)	(3,268,250)	(11,509,227)	(4,222,922)
Net income from operations	2,099,795	3,143,291	8,243,976	3,561,671
<b>INCREASE IN NET ASSETS FOR THE PERIOD</b>	<b>3,576,384</b>	<b>6,365,668</b>	<b>21,995,846</b>	<b>17,785,804</b>
<b>NET ASSETS, END OF PERIOD</b>	<b>\$ 80,575,625</b>	<b>\$ 50,581,150</b>	<b>\$ 80,575,625</b>	<b>\$ 50,581,150</b>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

**CANADA PENSION PLAN INVESTMENT BOARD**  
**Consolidated Statement of Investment Portfolio**  
**As at December 31, 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		
	December 31, 2005	March 31, 2005	December 31, 2004
<b>EQUITIES (Note 2)</b>			
Canada			
Public markets	\$ 21,196,590	\$ 21,044,008	\$ 20,828,124
Private markets	545,095	511,969	437,220
	<b>21,741,685</b>	<b>21,555,977</b>	<b>21,265,344</b>
Non-Canada			
Public markets	21,492,266	12,646,146	11,108,380
Private markets	3,474,914	2,393,996	2,015,539
	<b>24,967,180</b>	<b>15,040,142</b>	<b>13,123,919</b>
<b>TOTAL EQUITIES<sup>1</sup></b>	<b>46,708,865</b>	<b>36,596,119</b>	<b>34,389,263</b>
<b>REAL RETURN ASSETS (Note 2c)</b>			
Public markets real estate	1,045,886	384,000	384,929
Private markets real estate	3,495,759	638,200	616,359
Inflation linked bonds	1,915,664	-	-
Private markets infrastructure	334,643	230,125	61,762
<b>TOTAL REAL RETURN ASSETS<sup>2</sup></b>	<b>6,791,952</b>	<b>1,252,325</b>	<b>1,063,050</b>
<b>NOMINAL FIXED INCOME</b>			
Bonds (Note 2d)	15,330,417	8,507,114	6,244,793
Money market securities	11,837,166	12,066,774	8,728,720
<b>TOTAL NOMINAL FIXED INCOME<sup>3</sup></b>	<b>27,167,583</b>	<b>20,573,888</b>	<b>14,973,513</b>
<b>INVESTMENT RECEIVABLES</b>			
Derivative receivables (Note 2a)	397,603	240,168	176,445
Dividends receivable	112,223	85,536	74,183
Accrued interest	295,498	253,669	122,606
<b>TOTAL INVESTMENT RECEIVABLES<sup>4</sup></b>	<b>805,324</b>	<b>579,373</b>	<b>373,234</b>
<b>TOTAL INVESTMENTS</b>	<b>81,473,724</b>	<b>59,001,705</b>	<b>50,799,060</b>
<b>INVESTMENT LIABILITIES</b>			
Debt on real estate properties (Note 2c)	(674,350)	(241,752)	(240,006)
Derivative liabilities (Note 2a)	(99,227)	(37,678)	(18,367)
<b>TOTAL INVESTMENT LIABILITIES<sup>5</sup></b>	<b>(773,577)</b>	<b>(279,430)</b>	<b>(258,373)</b>
<b>NET INVESTMENTS</b>	<b>\$ 80,700,147</b>	<b>\$ 58,722,275</b>	<b>\$ 50,540,687</b>

Cost of investments is as follows:

<sup>1</sup>Equities: December 31, 2005 - \$39,929,398; March 31, 2005 - \$32,140,629; December 31, 2004 - \$30,681,426

<sup>2</sup>Real Return Assets: December 31, 2005 - \$6,547,932; March 31, 2005 - \$1,222,360; December 31, 2004 - \$1,053,996

<sup>3</sup>Nominal Fixed Income: December 31, 2005 - \$27,382,338; March 31, 2005 - \$20,613,699; December 31, 2004 - \$14,943,567

<sup>4</sup>Investment Receivables: December 31, 2005 - \$407,877; March 31, 2005 - \$339,677; December 31, 2004 - \$196,771

<sup>5</sup>Investment Liabilities: December 31, 2005 - \$668,353; March 31, 2005 - \$234,259; December 31, 2004 - \$235,828

The accompanying notes to the consolidated financial statements are an integral part of this statement.

**CANADA PENSION PLAN INVESTMENT BOARD**  
**Consolidated Statement of Investment Portfolio**  
As at December 31, 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)	December 31, 2005		March 31, 2005		December 31, 2004	
	Fair Value	(%)	Fair Value	(%)	Fair Value	(%)
<b>EQUITIES<sup>1</sup></b>						
Canada	\$ 29,554,383	36.7 %	\$ 27,668,469	47.1 %	\$ 26,497,741	52.4 %
Non-Canada	26,817,181	33.2	20,882,401	35.6	16,456,407	32.6
<b>REAL RETURN ASSETS</b>						
Real estate <sup>2</sup>	3,867,295	4.8	780,448	1.3	761,282	1.5
Infrastructure	334,643	0.4	230,125	0.4	61,762	0.1
Inflation linked bonds <sup>1,3</sup>	3,480,213	4.3	-	-	-	-
<b>NOMINAL FIXED INCOME</b>						
Bonds <sup>3</sup>	15,601,480	19.3	8,749,337	14.9	6,360,639	12.6
Money market securities <sup>4</sup>	1,044,952	1.3	411,495	0.7	402,856	0.8
	<b>\$ 80,700,147</b>	<b>100.0%</b>	<b>\$ 58,722,275</b>	<b>100.0%</b>	<b>\$ 50,540,687</b>	<b>100.0%</b>

<sup>1</sup> Includes derivative contracts and associated money market securities.

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

<sup>3</sup> Includes accrued interest.

<sup>4</sup> Includes dividends receivable and accrued interest.

The accompanying notes to the consolidated financial statements are an integral part of this statement.

# CANADA PENSION PLAN INVESTMENT BOARD

## Notes to the Consolidated Financial Statements

Three-month and nine-month periods ended December 31, 2005

(Unaudited)

(\$000's)

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### 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 consolidated financial statements provide information on the net assets managed by the CPP Investment Board as at December 31, 2005. They exclude certain assets held by the CPP but which will ultimately be transferred to the CPP Investment Board. The remaining CPP holdings yet to be transferred to the CPP Investment Board consist of a portfolio of non-marketable federal, provincial and territorial debt securities and are discussed in Note 2. 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.

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

**CANADA PENSION PLAN INVESTMENT BOARD**  
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**Three-month and nine-month periods ended December 31, 2005**  
**(Unaudited)**  
**(\$000's)**

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Fair value is determined as follows:

- (i) Quoted closing 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 based on carrying values and other relevant information reported by 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 a permanent impairment in value.
- (iii) The fair value of private market investments in real estate properties is determined 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 a permanent impairment in 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 markets 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.

**CANADA PENSION PLAN INVESTMENT BOARD**  
**Notes to the Consolidated Financial Statements**  
**Three-month and nine-month periods ended December 31, 2005**  
**(Unaudited)**  
**(\$000's)**

**2. INVESTMENTS 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 specified CPP assets which are held outside of the CPP Investment Board and which are in the process of being transferred to the CPP Investment Board as set out in the following paragraph.

The *Canada Pension Plan*, the 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 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). As at December 31, 2005, the remaining assets yet to be transferred total approximately \$10.5 billion at cost (March 31, 2005 - \$20.1 billion; December 31, 2004 - \$23.7 billion).

(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 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 payments. 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 are as follows:

(\$ 000's)	December 31, 2005		March 31, 2005		December 31, 2004	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Equity swaps	\$ 7,473,001	\$ 311,922	\$ 5,918,228	\$ 206,321	\$ 5,090,252	\$ 154,778
Equity futures	2,474,529	(9,690)	6,061,262	(6,190)	3,594,971	(3,125)
Foreign exchange forwards	3,364,351	(10,647)	2,093,348	2,359	1,361,261	6,425
Inflation linked bond swaps	1,531,465	6,791	-	-	-	-
Total	\$ 14,843,346	\$ 298,376	\$ 14,072,838	\$ 202,490	\$ 10,046,484	\$ 158,078



**CANADA PENSION PLAN INVESTMENT BOARD**  
**Notes to the Consolidated Financial Statements**  
**Three-month and nine-month periods ended December 31, 2005**  
**(Unaudited)**  
**(\$000's)**

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(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 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-month and nine-month periods ended December 31, 2005, management fees of \$25.0 million and \$62.9 million, respectively (three-month and nine-month periods ended December 31, 2004 - \$19.6 million and \$48.5 million, respectively) 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*

The CPP Investment Board obtains exposure to real estate through investments in publicly traded securities and privately held real estate.

Private markets real estate investments are held by a wholly owned subsidiary and are managed on behalf of the CPP Investment Board by external advisors and managers through co-ownership arrangements. As at December 31, 2005, the subsidiary's share of these investments includes assets of \$3,495,759 (March 31, 2005 - \$638,200; December 31, 2004 - \$616,359) and \$674,350 of liabilities related to mortgage debt (March 31, 2005 - \$241,752; December 31, 2004 - \$240,006), with a weighted average fixed interest rate of 7.01% and terms to maturity of two to 22 years.

The CPP Investment Board currently uses direct ownership and ownership through limited partnership arrangements to invest in infrastructure. The investments 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-month and nine-month periods ended December 31, 2005, management fees included in the capital advanced to the limited partnerships were \$nil and \$nil, respectively (three-month and nine-month periods ended December 31, 2004 - \$nil and \$1.1 million, respectively).

(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. Debt securities of \$2,254,589

# CANADA PENSION PLAN INVESTMENT BOARD

## Notes to the Consolidated Financial Statements

Three-month and nine-month periods ended December 31, 2005

(Unaudited)

(\$000's)

based on fair market value at the time of transfer were transferred during the three-month period ended December 31, 2005.

The non-marketable debt securities issued by the provinces and territories and purchased by the CPP 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*.

In June 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 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. The maximum term of such securities is 30 years including rollover periods. 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 five years and not greater than 30 years. Such replacement debt securities contain rollover provisions which will permit the issuer, at its option, to roll over the debt security for successive terms of not less than five 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. Agreements between the CPP Investment Board and the relevant provinces or territories were effective July 1, 2005.

The terms to maturity of the bonds held by CPP Investment Board as at December 31, 2005, not including any rollover options, are as follows:

(\$ 000's)	Terms to Maturity				
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total
Government of Canada bonds	\$ 698,579	1,212,688	18,976	-	\$ 1,930,243
Provincial and Territorial bonds	866,235	4,266,310	2,603,814	5,663,815	13,400,174
Total	\$ 1,564,814	5,478,998	2,622,790	5,663,815	\$ 15,330,417

### (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, 2005, the CPP Investment Board's investments include securities loaned with an estimated fair value of \$1,154 million (March 31, 2005 - \$1,423 million; December 31, 2004 - \$1,209 million). The

# CANADA PENSION PLAN INVESTMENT BOARD

## Notes to the Consolidated Financial Statements

Three-month and nine-month periods ended December 31, 2005

(Unaudited)

(\$000's)

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fair value of collateral received in respect of the securities loaned is \$1,213 million (March 31, 2005 - \$1,496 million; December 31, 2004 - \$1,273 million).

### 3. CREDIT FACILITIES

The CPP Investment Board maintains \$1.5 billion (March 31, 2005 - \$1.6 billion; December 31, 2004 - \$1.6 billion) of unsecured credit facilities to meet potential liquidity requirements. As at December 31, 2005, the total amount drawn on the credit facilities is \$nil (March 31, 2005 - \$nil; December 31, 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

Canada Pension Plan transfers consist of debt securities and cash 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 debt held in a portfolio administered by the federal government, and interest income generated from these securities.

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 benefits and expenses.

During the three-month period ended December 31, 2005, a total of \$6,298,734 was transferred to the CPP Investment Board including debt securities of \$2,254,589 based on fair market value at the time of transfer, and cash of \$4,044,145. During the same period, a total of \$4,822,145 was returned to the CPP to meet its liquidity requirements.

The accumulated transfers are as follows:

(\$ 000's)	December 31, 2005	March 31, 2005	December 31, 2004
Accumulated transfers from CPP	\$ 82,556,848	\$ 57,295,751	\$ 48,271,610
Accumulated transfers to CPP	18,178,187	6,668,960	4,222,922
Accumulated net CPP transfers	\$ 64,378,661	\$ 50,626,791	\$ 44,048,688

**CANADA PENSION PLAN INVESTMENT BOARD**  
**Notes to the Consolidated Financial Statements**  
**Three-month and nine-month periods ended December 31, 2005**  
**(Unaudited)**  
**(\$000's)**

**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:

(\$ 000's)	Three-months ended December 31		Nine-months ended December 31	
	2005	2004	2005	2004
Equities	\$ 1,812,381	\$ 2,923,228	\$ 7,445,737	\$ 3,266,576
Less: Public markets external investment management fees	(2,929)	(5,492)	(24,969)	(8,125)
	<b>1,809,452</b>	<b>2,917,736</b>	<b>7,420,768</b>	<b>3,258,451</b>
Real return assets	149,026	58,287	336,467	70,018
Less: Private markets real estate external investment management fees	(2,327)	(945)	(5,347)	(2,796)
	<b>146,699</b>	<b>57,342</b>	<b>331,120</b>	<b>67,222</b>
Nominal fixed income	159,457	177,504	529,953	259,120
Investment income, net of external investment management fees <sup>1</sup>	\$ 2,115,608	\$ 3,152,582	\$ 8,281,841	\$ 3,584,793

<sup>1</sup>Includes realized gains and losses on disposal of investments; unrealized gains and losses on investments held at quarter end; dividend income (recognized on ex-dividend date); interest income; operating income from private markets real estate investments, net of external investment management fees.

**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 December 31, 2005, the remaining commitments total \$7.3 billion (March 31, 2005 - \$5.4 billion; December 31, 2004 - \$4.7 billion).

As at December 31, 2005, the CPP Investment Board has made lease commitments of \$26.0 million (March 31, 2005 - \$20 million; December 31, 2004 - \$14.5 million) over the next nine years.

**CANADA PENSION PLAN INVESTMENT BOARD**  
**Notes to the Consolidated Financial Statements**  
**Three-month and nine-month periods ended December 31, 2005**  
**(Unaudited)**  
**(\$000's)**

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**8. GUARANTEES AND INDEMNIFICATIONS**

The CPP Investment Board provides indemnifications to its officers, directors and in certain circumstances, to various counterparties. 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.