

Quarterly Consolidated Financial Statements of

**CANADA PENSION PLAN
INVESTMENT BOARD**

March 31, 2003

(Unaudited)

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Balance Sheet

March 31, 2003

(Unaudited)

<i>(\$ 000's)</i>	<u>March 31, 2003</u>	<u>March 31, 2002</u>
ASSETS		
Investments (Note 2)	\$ 17,861,767	\$ 14,289,378
Investment receivables (Note 2)	40,624	-
Due from brokers	35,005	2,343
Premises and equipment	1,112	1,278
Other assets	980	79
TOTAL ASSETS	17,939,488	14,293,078
LIABILITIES		
Investment liabilities (Note 2)	449,757	-
Due to brokers	34,497	3,382
Accounts payable and accrued liabilities	4,490	4,730
TOTAL LIABILITIES	488,744	8,112
NET ASSETS	\$ 17,450,744	\$ 14,284,966
NET ASSETS, REPRESENTED BY		
Share capital	\$ -	\$ -
Accumulated net loss from operations	(4,238,916)	(86,626)
Accumulated Canada Pension Plan transfers	21,689,660	14,371,592
NET ASSETS	\$ 17,450,744	\$ 14,284,966

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD
Consolidated Statement of Income/(Loss) and
Accumulated Net Loss from Operations

Three-month and twelve-month periods ended March 31, 2003

(Unaudited)

(\$ 000's)	Three-months ended March 31		Twelve-months ended March 31	
	2003	2002	2003	2002
INVESTMENT INCOME/(LOSS)	\$ (1,143,087)	\$ 259,769	\$ (4,139,424)	\$ 316,034
INVESTMENT AND ADMINISTRATIVE EXPENSES				
Salaries and benefits	824	1,198	4,796	4,283
General operating expenses	1,649	830	4,835	3,204
External investment management fees	-	814	1,809	2,951
Professional and consulting fees	354	579	1,426	970
	2,827	3,421	12,866	11,408
NET INCOME/(LOSS) FROM OPERATIONS	(1,145,914)	256,348	(4,152,290)	304,626
ACCUMULATED NET LOSS FROM OPERATIONS, BEGINNING OF PERIOD	(3,093,002)	(342,974)	(86,626)	(391,252)
ACCUMULATED NET LOSS FROM OPERATIONS, END OF PERIOD	\$ (4,238,916)	\$ (86,626)	\$ (4,238,916)	\$ (86,626)

Consolidated Statement of Changes in Net Assets

Three-month and twelve-month periods ended March 31, 2003

(Unaudited)

(\$ 000's)	Three-months ended March 31		Twelve-months ended March 31	
	2003	2002	2003	2002
NET ASSETS, BEGINNING OF PERIOD	\$ 18,432,022	\$ 13,794,619	\$ 14,284,966	\$ 7,154,169
CHANGES IN NET ASSETS				
Canada Pension Plan transfers	164,636	233,999	7,318,068	6,826,171
Net income/(loss) from operations	(1,145,914)	256,348	(4,152,290)	304,626
INCREASE IN NET ASSETS FOR THE PERIOD	(981,278)	490,347	3,165,778	7,130,797
NET ASSETS, END OF PERIOD	\$ 17,450,744	\$ 14,284,966	\$ 17,450,744	\$ 14,284,966

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Investment Portfolio

March 31, 2003

(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	
	March 31, 2003	March 31, 2002
EQUITIES (Note 2)		
Canada		
Public markets	\$ 11,050,810	\$ 9,824,428
Private markets	260,609	144,207
	11,311,419	9,968,635
Non-Canada		
Public markets	4,245,184	3,832,505
Private markets	1,264,851	316,051
	5,510,035	4,148,556
TOTAL EQUITIES		
(Cost: \$20,335,762; 2002 - \$14,546,009)	16,821,454	14,117,191
REAL RETURN ASSETS (Note 2b)		
Public markets real estate	218,488	145,141
Private markets real estate	246,484	-
TOTAL REAL RETURN ASSETS		
(Cost: \$644,914; 2002 - \$144,442)	464,972	145,141
NOMINAL FIXED INCOME		
Money market securities ¹		
(Cost: \$575,377; 2002 - \$27,046)	575,341	27,046
TOTAL INVESTMENTS		
	17,861,767	14,289,378
INVESTMENT RECEIVABLES		
Dividends receivable ²	40,272	-
Accrued interest	352	-
TOTAL INVESTMENT RECEIVABLES		
(Cost: \$40,716; 2002 - \$Nil)	40,624	-
INVESTMENT LIABILITIES		
Due to private equity partnerships (Note 2c)	(171,972)	-
Debt on real estate properties (Note 2b)	(152,000)	-
Credit facility (Note 3)	(125,000)	-
Derivative liabilities (Note 2a)	(785)	-
TOTAL INVESTMENT LIABILITIES		
(Cost: \$452,067; 2002 - \$Nil)	(449,757)	-
NET INVESTMENTS		
	\$ 17,452,634	\$ 14,289,378

¹ As described more fully in Note 2a, at March 31, 2003, \$250 million of money market securities, together with Canadian equity index swaps, provide additional exposure to Canadian public market equities.

² At March 31, 2002, the CPP Investment Board held units of pooled and mutual funds and did not receive dividends directly in respect of these investments.

CANADA PENSION PLAN INVESTMENT BOARD
Consolidated Statement of Investment Portfolio
March 31, 2003
(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)	March 31, 2003		March 31, 2002	
	Fair Value	(%)	Fair Value ⁵	(%)
EQUITIES				
Canada ¹	\$ 11,560,652	66.2%	\$ 9,968,635	69.8%
Non-Canada ²	5,510,035	31.6%	4,148,556	29.0%
REAL RETURN ASSETS				
Real Estate ³	312,972	1.8%	145,141	1.0%
NOMINAL FIXED INCOME				
Money Market Securities ⁴	68,975	0.4%	27,046	0.2%
	\$ 17,452,634	100.0%	\$ 14,289,378	100.0%

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

² Includes private equity liabilities offset by money market securities held to discharge those liabilities.

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

⁴ Includes credit facility liability, accrued interest and dividends receivable.

⁵ For the year ended March 31, 2002, there were no derivative contracts or investment liabilities or receivables and therefore no allocations were required.

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

March 31, 2003

(Unaudited)

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

(a) *Basis of presentation*

These financial statements present the consolidated financial position and operations of the CPP Investment Board and its wholly-owned subsidiaries. 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 most recent annual financial statements. The interim statements should be read in conjunction with the most recent 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*

Investments 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 for investments is determined as follows:

- (i) Quoted market prices for publicly traded equities 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.
- (ii) In the case of private equity 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 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

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

March 31, 2003

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, unless there is an indication of permanent impairment of value.

- (iii) The fair value of private market investments in income producing 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 is determined based on discounted cash flows and market prices for underlying assets with similar characteristics.
- (v) Money market securities are recorded at cost which, together with accrued interest income, approximates fair value.

2. INVESTMENTS

The CPP Investment Board has established investment policies which set out the manner in which assets shall be invested. In determining the asset mix, the CPP Investment Board takes into consideration certain assets of the CPP which are held outside of the CPP Investment Board. As at March 31, 2003, these assets totaled approximately \$33.7 billion at cost (2002 - \$35.0 billion) and consisted primarily of provincial debt obligations.

The Consolidated Statement of Investment Portfolio provides information on the investments and related receivables and liabilities held as at March 31, 2003.

(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.

As at March 31, 2003, the CPP Investment Board had equity swap contracts outstanding to exchange money market interest payments for the return on a Canadian equity index. The contracts had a notional amount of \$250 million and a term to maturity of one year. Notional amounts are used to compute the cash flows 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.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

March 31, 2003

(Unaudited)

2. INVESTMENTS (continued)

The fair value of derivative contracts is \$(785,000) at March 31, 2003 (2002 - \$Nil) and is recorded as a liability on the balance sheet. Consistent with the investment policies, the swap contracts are fully covered by cash and cash equivalents. The economic impact on the total investment asset mix is to increase Canadian public market equities exposure by 1.4%, with a corresponding decrease in money market securities exposure.

(b) *Real return assets*

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 March 31, 2003, the CPP Investment Board's share of these investments include \$246,484,000 of assets primarily related to properties (2002 - \$Nil) and \$152,000,000 of liabilities related to short-term mortgage debt (2002 - \$Nil), which will be replaced with permanent financing within one year of the initial financing date.

(c) *Due to private equity partnerships*

Amounts due to partnerships represent the second installment owing to a limited partnership relating to the purchase by the partnership during the year of a portfolio of private equity investments.

(d) *Management fees*

Private equity investments are generally made by taking interests in limited partnerships with a typical term 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 CPP Investment Board's cost of the investments. 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 gains or losses.

3. CREDIT FACILITY

The CPP Investment Board maintains a \$300,000,000 unsecured credit facility to meet potential liquidity requirements relating to investment activities. As at March 31, 2003, the total amount drawn on the credit facility was \$125,000,000 (2002 - \$Nil). Consistent with the investment policies, the credit facility will be repaid within 45 days of draw date.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

March 31, 2003

(Unaudited)

4. COMMITMENTS

The CPP Investment Board has committed to enter into private equity and real estate investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at March 31, 2003, these outstanding commitments totaled \$3.9 billion (2002 – \$2.0 billion).

5. LEGISLATIVE AMENDMENT

Legislation to amend the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* was passed by Parliament on April 3, 2003, and is now subject to provincial approval. The provisions of the amending legislation contemplate a transfer of the CPP assets currently managed by the federal government. If the legislative change is approved by the provinces, these assets will be transferred to the CPP Investment Board over a period of three years. The CPP assets consist of a bond portfolio and a cash operating balance and as at March 31, 2003 totaled approximately \$33.7 billion at cost.