ANNEX VI

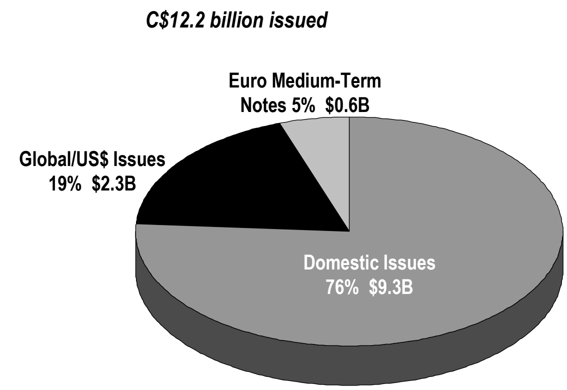
BORROWING AND DEBT MANAGEMENT

LONG-TERM PUBLIC BORROWING

The total long-term public borrowing requirement for the Province and the Ontario Electricity Financial Corporation (OEFC) in 2006–07 is projected at $20.4 billion, down $0.4 billion from the $20.8 billion estimated in the 2006 Budget Plan, and down $0.1 billion from the estimate published in the First Quarter Ontario Finances.

As at September 30, 2006, the Province had raised approximately $10.5 billion or 51 per cent of the long-term public borrowing requirement. Since the end of the quarter, the Province has raised an additional $1.7 billion, for a total of $12.2 billion as at October 16, 2006, leaving $8.2 billion of borrowing to be completed.

Borrowing — All Markets



Source: Ontario Financing Authority (October 16, 2006).

Of the $12.2 billion, approximately $9.3 billion or 76 per cent has been issued in the domestic market through a number of instruments. These included:

- Syndicated issues
- Ontario Savings Bonds
- Medium-Term Notes
- Bond auctions.

The Province also issued debt successfully in the international capital markets, including:

- two US$1 billion Global bond issues
- Euro Medium-Term Notes (EMTNs) in U.S. dollars and South African rand.

The Canadian domestic market will continue to be the main funding source in 2006–07. However, the Province will maintain a flexible approach to borrowing, monitoring both domestic and international capital markets for diversified borrowing opportunities that minimize debt servicing costs. Should cost-effective opportunities continue to be available, approximately 25 per cent of the long-term borrowing program will be raised from international markets.

2006–07 Borrowing Program: Province and OEFC
($ Billions)

	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	2.4	1.9	(0.4)
Adjustments for:			
Non-Cash Items Included in Deficit	1.1	0.4	(0.6)
Amortization of Major Tangible Capital Assets	(2.2)	(2.3)	(0.1)
Investment in Capital Assets	2.5	2.6	–
Debt Maturities	15.1	14.9	(0.2)
Debt Redemptions	0.7	0.9	0.2
Canada Pension Plan Borrowing	(0.4)	(0.3)	0.1
Increase/(Decrease) in Cash and Cash Equivalents	–	–	–
Decrease/(Increase) in Short-Term Borrowing	1.4	1.3	–
Other Uses/(Sources) of Cash	0.2	0.9	0.6
Total Long-Term Public Borrowing Requirement	**20.8**	**20.4**	**(0.4)**

Note: Numbers may not add due to rounding.

The change in the total long-term public borrowing requirement for 2006–07 is primarily due to a $0.4 billion decline in the deficit from the 2006 Budget plan. The $0.6 billion decline in non-cash items included in the deficit reflects the net cash impact of the $1.1 billion cash transfer from the federal trusts. This decline in non-cash items is offset by the $0.6 billion increase in other uses of cash, resulting from new loans to school boards under the Good Places to Learn initiative.

MEDIUM-TERM BORROWING OUTLOOK: PROVINCE AND OEFC ($ BILLIONS)

	2006–07	2007–08	2008–09
Deficit/(Surplus)	1.9	2.2	1.0
Adjustments for:			
Non-Cash Items Included in Deficit	0.4	1.8	1.5
Amortization of Major Tangible Capital Assets	(2.3)	(2.4)	(2.6)
Investment in Capital Assets	2.6	2.7	2.7
Debt Maturities:			
Currently Outstanding	14.9	13.8	20.2
Incremental Impact of Future Refinancing	–	1.0	–
Debt Redemptions	0.9	0.7	0.7
Canada Pension Plan Borrowing	(0.3)	(0.4)	(0.6)
Increase/(Decrease) in Cash and Cash Equivalents	–	0.2	0.6
Decrease/(Increase) in Short-Term Borrowing	1.3	0.3	–
Other Uses/(Sources) of Cash	0.9	0.6	0.8
Total Long-Term Public Borrowing Requirement	20.4	20.5	24.4

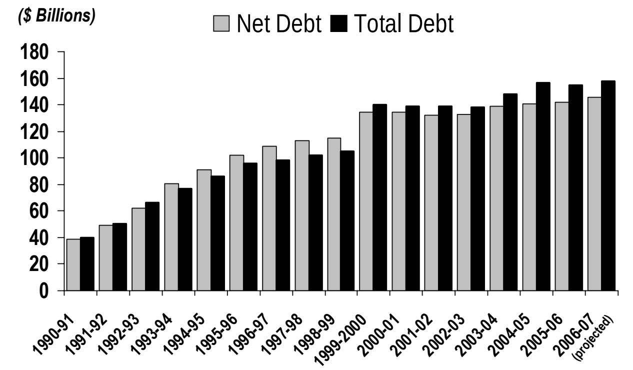
Note: Numbers may not add due to rounding.

Refinancing maturing debt remains a primary component of the medium-term borrowing outlook. Total long-term public borrowing is forecast to increase by $0.7 billion in 2007–08, and $1.0 billion in 2008–09 from the forecast at the time of the 2006 Budget to reflect the revised deficit projections in those years.

DEBT

The Province's total debt as at September 30, 2006 was $156.1 billion. Total debt, which represents all borrowing by the Province without including offsetting financial assets, is projected to be $158.1 billion as at March 31, 2007, compared to $154.9 billion as at March 31, 2006. Total debt is forecast to increase by more than the projected deficit because of an increase in the Province's net investment in capital assets. This investment represents capital assets acquired by the Province (including land, buildings, highways and bridges) net of corresponding amortization expense.

Debt



Sources: Ontario Public Accounts 1991–2006, Ontario Ministry of Finance and Ontario Financing Authority (September 30, 2006).

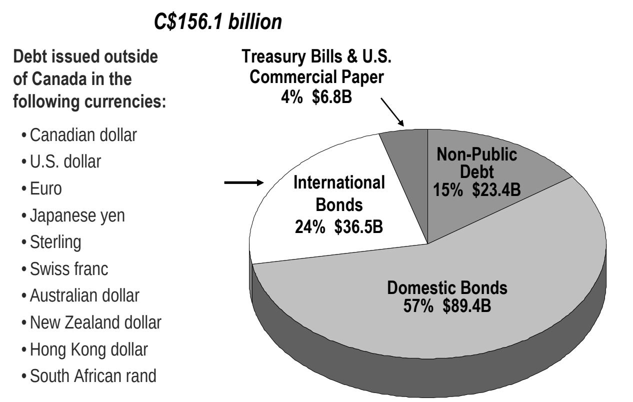
Ontario's net debt — the difference between the Province's total liabilities and total financial assets — is projected to be $145.3 billion as at March 31, 2007, compared to $141.9 billion as at March 31, 2006. As with total debt, net debt is forecast to increase by more than the projected deficit primarily because of the increase in the Province's net investment in capital assets.

TOTAL DEBT COMPOSITION

Total debt of $156.1 billion as at September 30, 2006 consists of bonds and debentures issued in both the short- and long-term public capital markets and non-public debt held by certain federal and provincial public-sector pension plans and government agencies.

Public debt totals $132.7 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 10 currencies. Ontario also had $23.4 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of non-marketable debt instruments issued to public-sector pension funds, including the Canada Pension Plan (CPP), mainly in the 1980s.

Total Debt Composition



Source: Ontario Financing Authority (September 30, 2006).

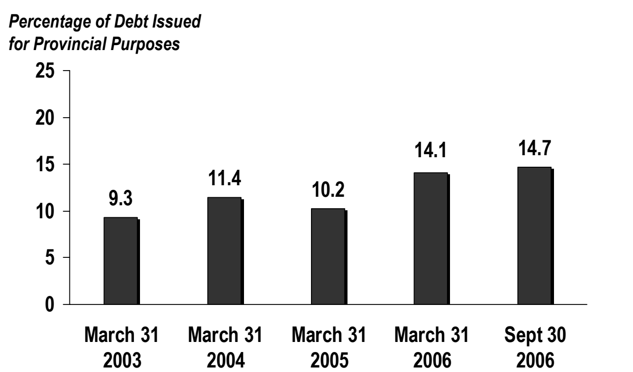
Debt Management

The Province mitigates the financial risks associated with its capital market activities by adhering to prudent risk management policies and exposure limits.

The Province limits itself to a maximum interest rate reset exposure of 25 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes.

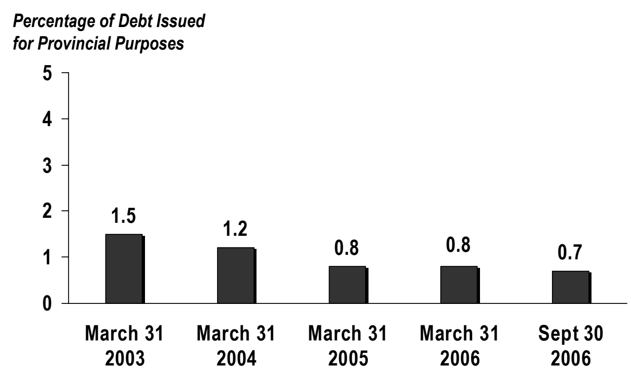
The Province's interest rate reset and foreign exchange exposures have remained well below policy limits during the first half of 2006–07.

Interest Rate Reset Exposure



Source: Ontario Financing Authority (September 30, 2006). Excludes OEFC debt.

Foreign Exchange Exposure

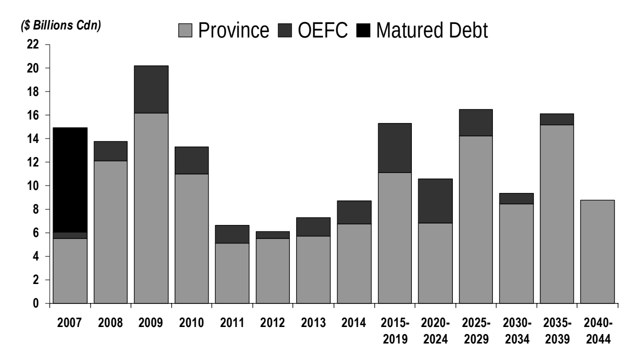


Source: Ontario Financing Authority (September 30, 2006). Excludes OEFC debt.

Debt Maturities

The most significant component of the borrowing program is the refinancing of debt maturities. The Ontario Financing Authority (OFA), on behalf of the Province, will continue to aim for a balanced maturity profile and take advantage of opportunities to schedule maturities into years that currently have lower levels of maturing debt.

Debt Maturities



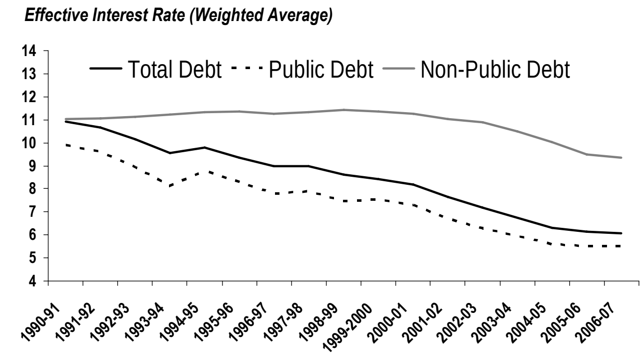
Excludes Province of Ontario and OEFC short-term debt and other liabilities.
Assumes issues with options will be retired at the earliest possible date.
Excludes the incremental impact of future refinancing.

Source: Ontario Financing Authority (September 30, 2006).

Cost of Debt

The effective interest rate (on a weighted-average basis) on total debt of $156.1 billion as at September 30, 2006 was 6.08 per cent, compared to 6.14 per cent as at March 31, 2006. As at March 31, 1991, the effective interest rate on total debt was 10.92 per cent.

Effective Interest Rate (Weighted Average) of Debt



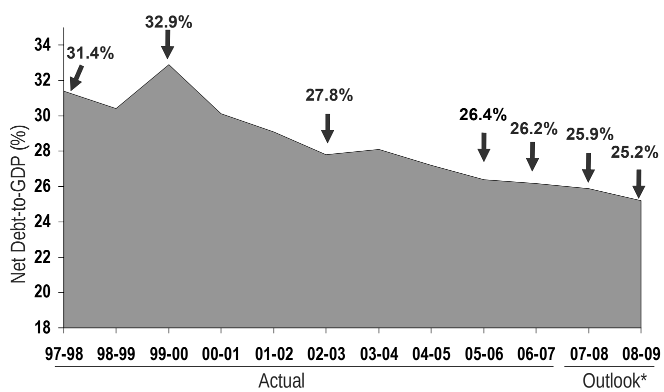
Sources: Ontario Public Accounts 1991–2005 and Ontario Financing Authority (September 30, 2006).

The effective interest rate on public debt was 5.51 per cent as at September 30, 2006, a decrease from 5.52 per cent as at March 31, 2006. The effective interest rate on non-public debt was 9.35 per cent as at September 30, 2006, a decrease from 9.49 per cent as at March 31, 2006.

Net Debt-to-GDP

Net debt-to-GDP peaked at 32.9 per cent in 1999–2000, the year the Province first consolidated the unfunded liability (or "stranded debt") of OEFC, which manages the debt and certain other liabilities of the former Ontario Hydro. Since then, Ontario's net debt-to-GDP ratio has trended downward, declining to 26.4 per cent in 2005–06. The current outlook projects a ratio of 26.2 per cent in 2006–07, 25.9 per cent in 2007–08 and 25.2 per cent in 2008–09.

Net Debt-to-GDP



* Second-quarter fiscal forecast as at September 30, 2006.
Source: Ontario Ministry of Finance (September 30, 2006).

GLOSSARY OF FINANCIAL TERMS USED IN ANNEX VI

Amortization of Major Tangible Capital Assets: the portion of the cost of major tangible capital assets owned by the Province allocated to annual expense, the portion of the cost of tangible capital assets of fully consolidated government organizations allocated to annual expense, and the Province's portion of the cost of major tangible capital assets of hospitals, school boards and colleges allocated to annual expense.

Canada Pension Plan Borrowing: the Province has the option of borrowing from the Canada Pension Plan as a source of long-term borrowing.

Debt Maturities: total forecasted amount of debt that will be due for repayment in the fiscal year.

Debt Redemptions: total forecasted amount of Ontario Savings Bonds expected to be presented for redemption prior to maturity.

Domestic Bonds: debt securities issued in the domestic market, settling through the domestic clearing system.

Euro Medium-Term Notes (EMTNs): debt issued outside the United States and Canada and structured to meet individual investor requirements.

Global Bonds: debt securities issued simultaneously in the international and domestic markets, settling through various worldwide clearing systems. These can be issued in a variety of currencies, including Canadian and U.S. dollars.

Increase/(Decrease) in Cash and Cash Equivalents: the change in cash and other short-term liquid instruments.

Investment in Capital Assets: the cost of acquiring major tangible capital assets owned by the Province during the year, including land, buildings, highways and bridges; the cost of tangible capital assets acquired by fully consolidated government organizations, including land, buildings and equipment; and the Province's portion of the cost of tangible capital assets acquired by hospitals and colleges during the year, including land, buildings and equipment.

Medium-Term Notes (MTNs): debt instruments offered under a program and structured to meet specific investor needs.

Net Debt: the difference between the Province's total liabilities and total financial assets. The annual change in net debt is equal to the surplus/deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges.

Non-Cash Items Included in Deficit: adjustments to the deficit (reported on an accrual basis) to determine cash flows to be used in operating activities. Non-cash adjustments include revenues that are earned but not received and/or expenses that were recognized but not paid during the fiscal year.

Syndicated Issues: debt securities that are underwritten by a group of investment dealers.

Total Debt: the Province's total borrowings outstanding without taking into consideration any of the Province's assets.

Treasury Bills: short-term debt instruments issued by governments on a discount basis, usually for durations of 91 days, 182 days or 52 weeks.

Weighted-Average Interest Rate: takes into account the proportion of debt at each level of interest rate in the debt portfolio.