

2006
2007

OPERATIONAL
REPORT

FINANCEMENT-QUÉBEC

2006-2007 Operational Report
Financement-Québec

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TABLE OF CONTENTS

LETTER TO THE PRESIDENT OF THE NATIONAL ASSEMBLY	5
LETTER TO THE MINISTER	7
PROFILE OF FINANCEMENT-QUÉBEC	9
FISCAL YEAR AT A GLANCE	10
OBJECTIVES	11
LONG-TERM FINANCING OF ORGANIZATIONS	14
BORROWINGS ON MARKETS IN 2006-2007	17
CODE OF ETHICS AND PROFESSIONAL CONDUCT	20
REMUNERATION OF OFFICERS OF THE CORPORATION.....	20
MANAGEMENT'S REPORT	21
AUDITOR'S REPORT	22
FINANCIAL STATEMENTS	23
LIST OF MEMBERS OF THE BOARD OF DIRECTORS AND MEMBERS OF THE MANAGEMENT OF FINANCEMENT-QUÉBEC	35
APPENDIX – CODE OF ETHICS AND PROFESSIONAL CONDUCT	37

Québec City, August 1, 2007

Mr. Michel Bissonnet
President of the National Assembly
Parliament Building
1045, rue des Parlementaires
Québec City (Québec) G1A 1A4

Mr. President,

I have the honour of submitting the operational report and financial statements of Financement-Québec for the fiscal year beginning April 1, 2006 and ending March 31, 2007.

Yours truly,

Original French version signed
MONIQUE JÉRÔME-FORGET

Encl.

Québec City, July 31, 2007

Ms. Monique Jérôme-Forget
Minister of Finance
12, rue Saint-Louis, 1st Floor
Québec (Québec) G1R 5L3
Gouvernement du Québec

Madam Minister,

On behalf of the Board of Directors, I am pleased to submit the 2006-2007 operational report and financial statements of Financement-Québec.

This report and these financial statements have been prepared in accordance with the provisions of section 42 of *An Act respecting Financement-Québec* (R.S.Q., c. F-2.01) and reflect the activities carried out during fiscal year 2006-2007, i.e. from April 1, 2006 to March 31, 2007.

Yours truly,

Original French version signed
Bernard Turgeon
Chairman of the Board

Encl.

c. c. Mr. Jean Houde, Deputy Minister of Finance

PROFILE OF FINANCEMENT-QUÉBEC

Financement-Québec (the “Corporation”) was incorporated under *An Act respecting Financement-Québec* (R.S.Q., c. F-2.01) which entered into force on October 1, 1999. The Corporation’s chief mission is to offer financial services to eligible public bodies, in particular by making loans to them. Its clients include institutions of the education and the health and social services networks, including school boards, CEGEPs, universities and hospitals. As at March 31, 2007, Financement-Québec had \$12.1 billion in loans outstanding.

During fiscal year 2006-2007, Financement-Québec successfully issued long-term borrowings for a total of \$2.5 billion on financial markets. Outstanding borrowings of Financement-Québec and outstanding advances from the Consolidated Revenue Fund stood at \$11.1 billion and \$1.0 billion respectively as at March 31, 2007.

FISCAL YEAR AT A GLANCE

ACTIVITIES

	2006-2007	2005-2006
Loans made (\$ million)	2 495.1	2 548.9
Number of loans	269	282
Number of clients	184	186
Volume of borrowings made (\$ million)	2 526.9	2 000.0
Number of borrowings	8	5

FINANCIAL RESULTS

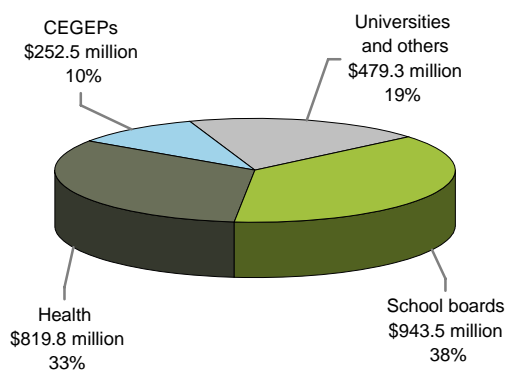
	2006-2007	2005-2006
Net earnings (\$ million)	7.7	13.6

STATEMENT OF CONDITION AS AT MARCH 31

	2006-2007	2005-2006
Outstanding loans ¹ (\$ million)	12 097.2	11 016.2
Number of loans	1 868	1 702
Number of clients	525	502
Outstanding advances (\$ million)	1 003.8	1 011.2
Outstanding borrowings (\$ million)	11 056.0	9 914.7
Total (\$ million)	12 059.8	10 925.9

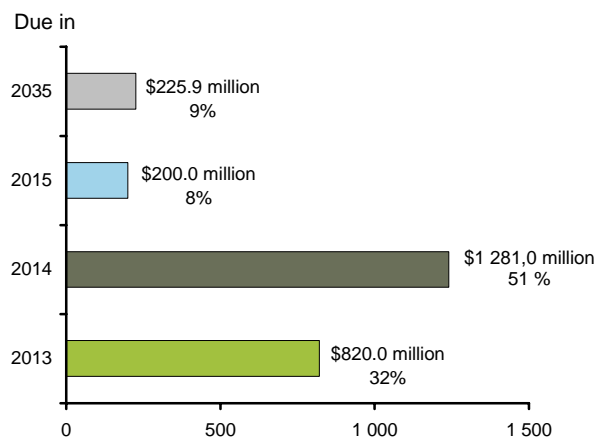
BREAKDOWN OF LONG-TERM LOANS MADE IN 2006-2007

Total: \$2 495.1 million



BREAKDOWN BY MATURITY OF LONG-TERM BORROWINGS MADE IN 2006-2007

Total: \$2 526.9 million



¹ The amounts shown in this table correspond to face values, contrary to those shown in the financial statements that are adjusted to reflect discounts and premiums.

OBJECTIVES

Financement-Québec seeks to achieve specific objectives as part of its mission. This section provides a better understanding of how Financement-Québec's activities contribute to the achievement of its objectives.

First objective: Minimize the cost of financing of network organizations

Financement-Québec makes long-term loans to school boards, CEGEPs and universities, as well as to health and social services network regional bodies and institutions. With Québec's unconditional guarantee on the Corporation's borrowings, it provides its clients with access to financing opportunities that would be inaccessible otherwise. Tapping various markets via Financement-Québec helps reduce supply on the traditional market where network organizations and municipalities issue their securities and, consequently, reduce the financing costs of these issuers to a level comparable to that of Québec securities.

A short-term loan service is offered to school boards, CEGEPs and universities as well as to regional institutions and establishments of the health and social services network that cannot borrow at the conditions stipulated by the short-term borrowing interest subsidy rule. This rule stipulates that interest is subsidized at the level of one-month bankers' acceptances plus 0.30%. Most organizations obtain financing, from financial institutions, at levels below or equal to what the rule stipulates.

The savings associated with the pooled financing process consist of direct savings of interest and issuance expenses for organizations that borrow from Financement-Québec.

Second objective: Offer the customer quality service

Financement-Québec understands its customers' needs and thus improves existing financing processes, adds new services and works with certain organizations to negotiate and assess traditional or structured financing offers.

Provide organizations with a simpler way to obtain financing

Long-term financing consists of loans against notes. Financement-Québec's clients continued to introduce borrowing plans in 2006-2007. Borrowing plans help streamline the long-term financing process for organizations that make use of them. More specifically, two senior executives are delegated to approve the terms and conditions of subsidized financial transactions according to guidelines set in the borrowing plan, such as: the maximum amount that can be borrowed, the plan's period of validity and certain limits regarding interest rates applicable to borrowings.

Borrowing plans were used for 88.4% of long-term financings carried out in 2006-2007. The following table gives some statistics regarding borrowing plans.

PROPORTION OF TRANSACTIONS CARRIED OUT USING BORROWING PLANS IN 2006-2007 (Per cent)

	Type of financing		
	Notes	Bonds	Notes and bonds
School boards	78.6	100.0	78.8
CEGEPs	87.2	n/a	87.2
Universities and others	66.7	80.0	70.6
Health and social services	97.0	100.0	97.0
All organizations	88.5	85.7	88.4

Short-term financing also consists of loans against notes. The administrative process and documentation required are reduced to the minimum for quick turnaround, since the loans are delivered the same day they are negotiated.

Adapt loan conditions to the customer's needs

Loan conditions are adapted to the needs of the borrowing organizations or the ministries concerned.

Third objective: Adequately manage financial risks**Credit risk of borrowers**

Network organizations receive a subsidy for the repayment of the debt service of their loans. Financement-Québec generally requires that a movable hypothec without delivery in its favour be attached to this subsidy as security against the repayment of the loans it makes.

Currency risk

Financement-Québec's debt management policy consists in incurring no currency risk. Accordingly, on the issue date, borrowings in foreign currencies are translated using a currency swap contract into Canadian dollars.

Interest rate risk

Financement-Québec manages interest rate risk using matching methods such as those used by financial institutions for their intermediation activities, thus limiting the exposure of the Corporation's assets and liabilities to fluctuations in interest rates.

Fourth objective: Self-financing and efficient operations

Financement-Québec must be self-financing while offering its customers the best financing conditions. To do so, it must maintain an adequate and competitive rate structure for the products and services it offers. It must also optimize its operational processes to minimize operating costs.

To minimize the resources the Corporation needs, an agreement was signed with the ministère des Finances under which Financement-Québec receives, for compensation, the following services:

- negotiation, completion, accounting and settlement of borrowings and derivatives;
- management of loans to organizations and follow-up; and
- support services regarding human and physical resources management.

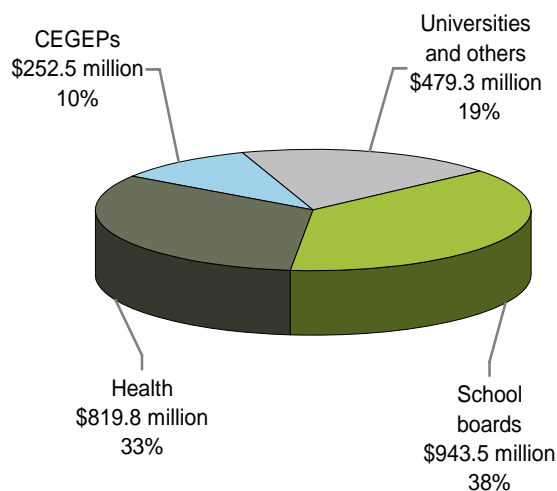
LONG-TERM FINANCING OF ORGANIZATIONS

Financement-Québec loans made in 2006-2007

During fiscal year 2006-2007, Financement-Québec made 269 long-term loans to organizations of the education and the health and social services networks for a total of \$2 495.1 million.

BREAKDOWN OF LONG-TERM LOANS MADE IN 2006-2007

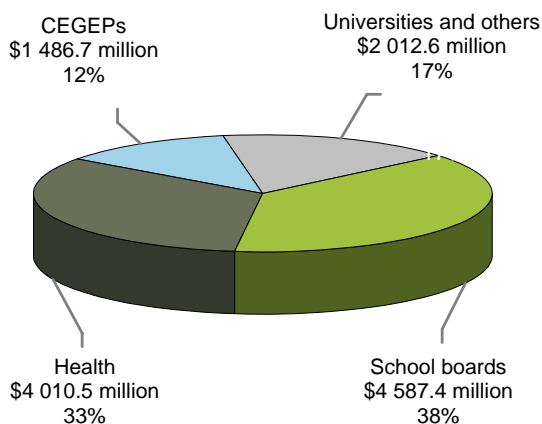
Loans to institutions and regional bodies of the health and social services network accounted for 33% of the amounts loaned. School boards received 38% of the amounts loaned. Lastly, loans to CEGEPs and universities accounted for 10% and 19% respectively of total loans made in 2006-2007.



Outstanding long-term loans of Financement-Québec

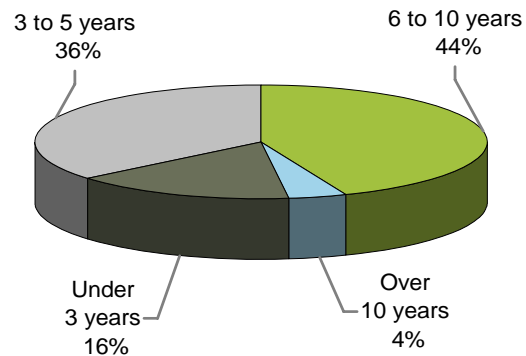
OUTSTANDING LONG-TERM LOANS AS AT MARCH 31, 2007

As at March 31, 2007, Financement-Québec's long-term loan portfolio totalled \$12 097.2 million. The following chart shows the breakdown of outstanding long-term loans as at March 31, 2007.



Financement-Québec long-term loan maturities**BREAKDOWN BY MATURITY OF OUTSTANDING LONG-TERM LOANS AS AT MARCH 31, 2007**

The average term to maturity of long-term loans is 5.2 years. The following chart shows the breakdown of outstanding loans by maturity as at March 31, 2007.

**Bond issues made on behalf of organizations**

Along with the loans made by Financement-Québec, the ministère des Finances issued bonds on the market for network organizations in their own name. These borrowings totalled \$112.6 million in 2006-2007.

SUMMARY OF LONG-TERM FINANCINGS
IN¹ 2006-2007
(Millions of dollars²)

	Amount	Average amount	Number of loans
A- Loans made by Financement-Québec			
• School boards	943.5	11.2	84
• CEGEPs	252.5	6.5	39
• Universities and others	479.3	39.9	12
• Health and social services	819.8	6.1	134
Subtotal (A)	2 495.1	9.3	269
B- Bond issues made by institutions in their own name			
• School boards	25.0	25.0	1
• CEGEPs	0.0	0.0	0
• Universities	75.0	15.0	5
• Health and social services	12.6	12.6	1
Subtotal (B)	112.6	16.1	7
Total financing (A+B)	2 607.7	9.4	276

1 The amounts shown in this table correspond to face values, contrary to those shown in the financial statements that are adjusted to reflect discounts and premiums.

2 Except for numbers.

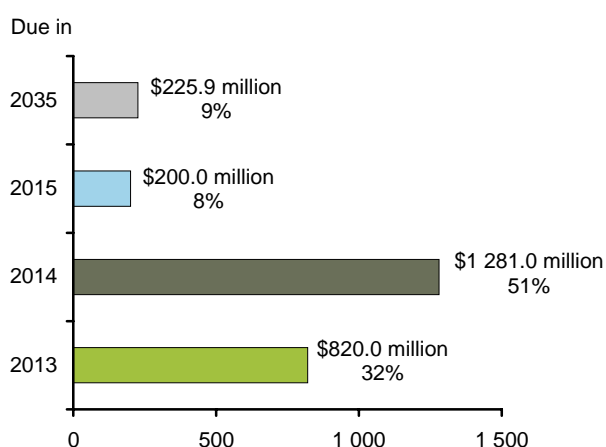
BORROWINGS ON MARKETS IN 2006-2007

Long-term borrowings made in 2006-2007 totalled \$2 526.9 million in face value, representing realization value of \$2 529.0 million.¹ Of these borrowings, \$2 326.9 million (92%) was completed on the Canadian market and \$200.0 million (8%) on the European market.

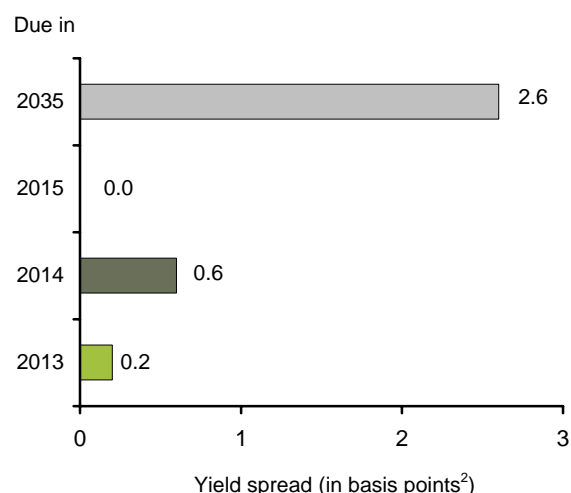
Of the borrowings issued in 2006-2007, 32% will mature in 2013, 51% in 2014, 8% in 2015 and 9% in 2035.

BREAKDOWN BY MATURITY OF LONG-TERM BORROWINGS MADE IN 2006-2007

Total: \$2 526.9 million



AVERAGE YIELD SPREADS AT ISSUE IN 2006-2007 BETWEEN FINANCEMENT-QUÉBEC AND QUÉBEC SECURITIES



Average yield spreads at issue between Financement-Québec securities issued in 2006-2007 and those of Québec were 0.2 basis points² in the case of securities maturing in 2013, 0.6 basis points in the case of those maturing in 2014, zero for those maturing in 2015 and 2.6 basis points for those maturing in 2035.

¹ Realization value corresponds to face value plus or minus the premium or discount at issue.

² One basis point corresponds to 0.01%.

Sources of long-term financing consist of long-term borrowings, temporary borrowings and internal sources. Internal sources of financing correspond to annual principal repayments on loans received by Financement-Québec and are generally used to make new loans.

Accordingly, sources of financing consisted of:

- \$2 529.0 million resulting from long-term borrowings made during 2006-2007;
- \$387.4 million relating to the decline in temporary borrowings; and
- \$353.5 million from internal sources.

Temporary financing is used in the absence of long-term financing to complete the loan program. In pre-financing situations, the amounts not used are applied to reduce temporary borrowings.

These sources of financing enabled loans amounting to \$2 495.1 million during fiscal year 2006-2007.

SOURCES AND UTILIZATION OF FUNDS

(Millions of dollars)

Sources of financing	
• Long-term borrowings	2 529.0
• Change in temporary borrowings	(387.4)
• Internal sources	353.5
TOTAL	2 495.1
Utilization of funds	
• Loans to organizations	2 495.1
TOTAL	2 495.1

LONG-TERM BORROWINGS MADE IN 2006-2007

Amount received in Canadian dollars	Face value in foreign currency	Interest rate ¹	Issue date	Maturity date	Price to the investor ²	Yield to the investor ³
(\$ million)	(Million)	(%)				(%)
486.8	–	4.25	April 7, 2006	March 1, 2014	97.370	4.651
600.0	–	Variable ⁴	June 9, 2006	April 25, 2012	100.000	Variable
47.5	–	5.25	July 26, 2006	June 1, 2034	102.091	5.108
195.1	–	5.25	September 29, 2006	June 1, 2034	108.738	4.683
498.7	–	4.25	November 3, 2006	March 1, 2014	99.733	4.292
219.9	–	Variable ⁴	January 26, 2007	April 25, 2012	99.976	Variable
200.0	–	Variable ⁴	February 9, 2007	June 9, 2014	100.000	Variable
281.0	–	Variable ⁴	February 16, 2007	September 16, 2013	100.000	Variable

2 529.0

- 1 Interest payable semi-annually unless indicated otherwise.
- 2 The price to the investor corresponds to a price in dollars for \$100 of face value.
- 3 The yield to the investor is shown on the basis of interest payable semi-annually.
- 4 Interest payable quarterly.

CODE OF ETHICS AND PROFESSIONAL CONDUCT

Financement-Québec has set itself high standards of honesty and conduct that must be adhered to by the members of its board of directors as well as members of its management and its personnel, to manage its assets transparently and efficiently. To that end, the board of directors of Financement-Québec adopted, on February 29, 2000, a Code of Ethics and Professional Conduct.

Since the Code was adopted, no violation of its principles and rules has been reported. Consequently, no decision has been taken in this regard and no sanction has been imposed by the competent authority. In accordance with *An Act respecting the Ministère du Conseil exécutif* (R.S.Q., c. M-30), the Code of Ethics and Professional Conduct is published in an appendix to this report.

REMUNERATION OF OFFICERS OF THE CORPORATION

In accordance with Conseil du trésor decision C.T. 196746 of June 26, 2001, Financement-Québec publishes the remuneration of its officers.

The chairman of the board and president and chief executive officer and the executive vice president and secretary are not remunerated for their duties. They are remunerated by the ministère des Finances for the positions they occupy.

MANAGEMENT'S REPORT

The financial statements of Financement-Québec have been drawn up by the management of the Corporation, which is responsible for their preparation and their presentation, including significant judgements and estimates. This responsibility includes choosing appropriate accounting practices that satisfy Canadian generally accepted accounting principles. The financial information contained in the rest of the operational report agrees with the information given in the financial statements.

To carry out its responsibilities, the management of the Corporation maintains a system of internal accounting controls designed to provide reasonable assurance that assets are protected and that operations are correctly accounted for in a timely fashion, are duly approved and are such as to produce reliable financial statements.

The management of the Corporation acknowledges that it is responsible for managing the affairs of the Corporation in accordance with the laws and regulations that govern it.

The Board of Directors must oversee how the Corporation's management carries out the responsibilities incumbent on it in terms of financial information and it has approved the financial statements.

The Auditor General of Québec has audited the Corporation's financial statements in accordance with Canadian generally accepted auditing standards and his report sets out the nature and extent of this audit and expresses his opinion.

Original signed

Executive Vice President

Original signed

President and Chief Executive Officer

Québec City, June 8, 2007

AUDITOR'S REPORT

To the Minister of Finance,

I have audited the balance sheet of Financement-Québec as at March 31, 2007 and the statement of income and retained earnings as well as the statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Auditor General of Québec,

Original signed
Renaud Lachance, CA

Québec City, June 8, 2007

FINANCIAL STATEMENTS**Income and Retained Earnings
For the fiscal year ended March 31, 2007**

(Thousands of dollars)

	<u>2007</u>	<u>2006</u>
NET INTEREST INCOME		
Interest on loans	555 561	517 404
Amortization of discounts and premiums on loans	683	668
Interest on borrowings and advances	(581 985)	(524 203)
Amortization of discounts and premiums on borrowings and advances	4 822	8 233
Interest on current investments	22 484	4 183
	<u>1 565</u>	<u>6 285</u>
OTHER OPERATIONS		
Net issue expenses charged to borrowers	4 867	5 661
Administration expenses charged to borrowers	2 455	2 543
	<u>7 322</u>	<u>8 204</u>
	<u>8 887</u>	<u>14 489</u>
OPERATION AND ADMINISTRATION EXPENSES		
Wages, salaries and allowances	283	245
Professional, administrative and other services	177	89
Transportation and communications	3	—
Agreement with the Financing Fund	698	577
Depreciation of tangible fixed assets	—	1
Other	45	10
	<u>1 206</u>	<u>922</u>
NET EARNINGS	<u>7 681</u>	<u>13 567</u>
RETAINED EARNINGS AT THE BEGINNING	66 648	53 081
RETAINED EARNINGS AT THE END	<u>74 329</u>	<u>66 648</u>

Balance Sheet

(Thousands of dollars)

	March 31, 2007	March 31, 2006
ASSETS		
Loans (note 3)	12 096 002	11 014 245
Accrued interest on loans	190 410	171 082
	<u>12 286 412</u>	<u>11 185 327</u>
Cash position	35	100
Current investments (note 4)	47 925	—
Accounts receivable	897	302
	<u>12 335 269</u>	<u>11 185 729</u>
LIABILITIES		
Borrowings (note 5)	11 056 000	9 914 680
Advances from the Consolidated Revenue Fund (note 6)	1 003 839	1 011 154
Accrued interest on borrowings and advances	180 978	168 852
Deferred premiums and discounts on borrowings and advances	7 660	12 534
Accounts payable	633	56
Deferred income	1 830	1 805
	<u>12 250 940</u>	<u>11 109 081</u>
EQUITY		
Capital stock (note 8)	100	100
Contributed surplus	9 900	9 900
Retained earnings	74 329	66 648
	<u>12 335 269</u>	<u>11 185 729</u>

The notes are an integral part of the financial statements.

FOR THE BOARD OF DIRECTORS

Original signed

Executive Vice President

Original signed

President and Chief Executive Officer

Cash Flows
For the fiscal year ended March 31, 2007
(Thousands of dollars)

	2007	2006
OPERATING ACTIVITIES		
Net earnings	7 681	13 567
Adjustments for:		
Amortization of discounts and premiums on loans	(683)	(668)
Amortization of discounts and premiums on borrowings and advances	(4 822)	(8 233)
Depreciation of tangible fixed assets	—	1
	<u>2 176</u>	<u>4 667</u>
Changes in non-cash items related to operating activities		
Accrued interest on loans	(19 328)	(6 583)
Accounts receivable	(595)	(80)
Accrued interest on borrowings and advances	12 126	6 434
Accounts payable	577	(7 460)
Deferred income	25	(562)
	<u>(7 195)</u>	<u>(8 251)</u>
Cash flows from operating activities	<u>(5 019)</u>	<u>(3 584)</u>
INVESTING ACTIVITIES		
Loans	(2 495 063)	(2 548 898)
Loan repayments	1 413 989	1 074 292
Cash flows from investing activities	<u>(1 081 074)</u>	<u>(1 474 606)</u>
FINANCING ACTIVITIES		
Short-term borrowings	11 363 973	7 896 285
Long-term borrowings	2 526 848	2 000 000
Repayments of advances from the Consolidated Revenue Fund	(7 315)	(746 769)
Repayments of long-term borrowings	(998 180)	—
Repayments of short-term borrowings	(11 751 373)	(7 677 185)
Cash flows from financing activities	<u>1 133 953</u>	<u>1 472 331</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>47 860</u>	<u>(5 859)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING	100	5 959
CASH AND CASH EQUIVALENTS AT THE END (note 9)	<u>47 960</u>	<u>100</u>

The notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS**1. Constitution, Purpose and Financing**

Financement-Québec (the Corporation) was incorporated under *An Act respecting Financement-Québec* (R.S.Q., c. F-2.01) which entered into force on October 1, 1999. The Corporation is a legal person with share capital and is a mandatary of the State.

The Corporation's main purpose is to supply financial services to public organizations covered by its act of incorporation. It finances them directly by granting them loans or by issuing debt securities on their behalf. It advises them to facilitate their access to credit and to minimize their financing costs and, to that end, it develops financing programs. It may also manage the financial risks of these organizations, in particular cash flow risks and exchange risks. The Corporation may also provide public organizations with technical services regarding financial analysis and management.

The Corporation charges loan issuance expenses to borrowers to offset those incurred by the Corporation on borrowings made. The Corporation also charges administration expenses to borrowers. The level of expenses charged is subject to government approval.

Financement-Québec issues debt securities that are guaranteed by the Québec government.

Financement-Québec is subject neither to Québec nor to Canadian income tax.

2. Accounting Principles

In accordance with Canadian generally accepted accounting principles, the preparation of the Corporation's financial statements requires that management make use of accounting estimates and assumptions. These have an impact on the recognition of assets and liabilities, the presentation of assets and contingency liabilities on the date of the financial statements and the recognition of proceeds and expenses during the period covered by the financial statements. The actual results may differ from these estimates.

Current Investments

Current investments are recorded at the lesser of cost and market value.

Deferred Income and Expenses

Deferred income and expenses are amortized over the remaining term of each security using the straight-line method.

Currency Translation

Borrowings and advances from the Consolidated Revenue Fund denominated in foreign currencies and repayable in Canadian currency under currency swap contracts are determined at the exchange rate stipulated in such contracts.

Cash and Cash Equivalents

The Corporation presents, under cash and cash equivalents, bank balances and current investments that are easily convertible in the short term into a known amount of cash whose value is not likely to change significantly.

Financial Derivatives

Financement-Québec uses financial derivatives to manage interest rate and exchange risks. It is the policy of the Corporation not to use financial derivatives for trading or speculative purposes.

The Corporation documents in due form the relations between hedging instruments and hedged items by associating all the financial derivatives used in hedging operations with specific assets and liabilities shown on the balance sheet or to cash flows. The risk management strategy and objective on which the various hedging operations are based are also documented. It also methodically determines, both when implementing the hedge and subsequently, whether the derivatives used in hedging operations effectively offset the changes in fair values or cash flows of the hedged items.

Where the financial derivative is specified and proves effective in hedging both changes in fair values and changes in cash flows, the gains and losses are posted to the appropriate items in the income statement at the same time as those associated with the hedged assets or liabilities.

In the event that a derivative no longer satisfies the hedging conditions, the realized and unrealized gains and losses associated with the derivatives that have expired or have ceased to be effective prior to maturity are deferred on the balance sheet items and recognized in the results of the period during which the underlying hedging operation is recognized. If a specified hedged item is sold, cancelled or matures before the related derivative matures, any realized or unrealized gain or loss on such derivative is recognized in the income statement. In the event that the financial derivative becomes eligible once again for hedge accounting, any fair value previously recorded in the balance sheet is amortized in the income statement over the remaining life of the hedged item.

3. Loans

Borrowers

(Thousands of dollars)

	March 31, 2007	March 31, 2006
School boards	4 585 250	4 055 874
General and vocational colleges	1 485 858	1 397 474
Institutions and development agencies of the health and social services network	4 012 394	3 822 944
University institutions and others	2 012 500	1 737 953
	12 096 002	11 014 245

Repayable in Canadian currency

(Thousands of dollars)

Due in Fiscal year		
2007	—	807 972
2008	326 057	350 455
2009	1 564 302	1 689 158
2010	1 818 582	1 952 933
2011	424 766	453 848
2012 – 2033	7 962 295	5 759 879
	12 096 002	11 014 245

Maturities and interest rates on loans made by the Corporation are, with a few exceptions, identical to those of advances received from the Consolidated Revenue Fund and the borrowings contracted for this purpose taking into consideration currency and interest rate swap contracts. However, depending on the amounts available, the Corporation may make new loans from the repayments of matured loans. These new loans are made at interest rates and maturities that may differ from the conditions of the advance or borrowing initially received.

The balance of discounts and premiums on loans to be amortized over subsequent years was \$1 234 949 as at March 31, 2007.

4. Current Investments

Current investments, recorded at cost, consist of three discount notes at fixed interest rates of 4.1781%, 4.1970% and 4.2191% respectively. These investments will mature during the next fiscal year.

5. Borrowings

(Thousands of dollars)

Due in Fiscal year	March 31, 2007		March 31, 2006
	Amount	Rate (%)	Amount
Repayable in Canadian currency			
2007	—		1 385 580
2008	500 000	3.74 to 4.107; variable ¹	500 000
2009	1 105 500	4.7814 to 5.9515; variable ¹	1 105 500
2010	1 500 000	3.849 to 4.8683; variable ¹	1 500 000
2011	400 000	3.779 to 4.2075	400 000
2012	1 900 000	4.16 to 5.2764; variable ¹	1 900 000
2013	1 020 000	4.134 to 5.0625	200 000
2014	1 781 000	4.108 to 4.843; variable ¹	500 000
2015	400 000	4.3172 to 4.7203	200 000
2016	509 400	4.2978 to 6.393	509 400
2035	225 900	5.25; variable ¹	—
	9 341 800		8 200 480
Plus:			
Currency swap contracts in Canadian currency	1 714 200		1 714 200
Total in Canadian currency	11 056 000		9 914 680
Repayable in United States currency			
2013	782 000	5.391 to 5.82	782 000
Less:			
Currency swap contracts in Canadian currency	782 000		782 000
Total in United States currency	—		—
Amount carried forward	11 056 000		9 914 680

Due in Fiscal year	March 31, 2007		March 31, 2006
	Amount	Rate (%)	Amount
Balance forward	11 056 000		9 914 680
Repayable in euros			
2009	932 200	4.9005 to 5.861; variable ²	932 200
Less:			
Currency swap contracts in Canadian currency	932 200		932 200
Total in euros	—		—
Total borrowings	11 056 000		9 914 680

Note: All these borrowings are repayable solely at maturity. All borrowings are long-term borrowings and are guaranteed by Québec.

- 1 Rate of 3-month bankers' acceptances plus a spread varying between minus 0.0175% and plus 0.268%.
- 2 Rate of 3-month bankers' acceptances plus 0.387706% and 0.319%.

6. Advances from the Consolidated Revenue Fund

(Thousands of dollars)

Due in Fiscal year	March 31, 2007		March 31, 2006
	Amount	Rate (%)	Amount
Repayable in Canadian currency			
2008	395 508	6.50	395 508
2009	5 000	6.98	5 000
2010	388 498	5.50 to 11.00	389 073
2012	64 428	9.5	65 962
2023	150 405	9.375	152 145
	1 003 839		1 007 688
Plus:			
Currency swap contracts in Canadian currency	—		3 466
Total in Canadian currency	1 003 839		1 011 154
Repayable in United States currency			
2007	—		3 466
Less:			
Currency swap contracts in Canadian currency	—		3 466
Total in United States currency	—		—
Total advances from the Consolidated Revenue Fund	1 003 839		1 011 154

The amounts of principal payments to be made on advances from the Consolidated Revenue Fund over the next five fiscal years are as follows:

(Thousands of dollars)

Fiscal year	Amount
2008	399 356
2009	8 848
2010	390 624
2011	3 274
2012	60 032

7. Financial Instruments

Financement-Québec uses interest rate swap contracts to manage interest rate risks on its financial intermediation activities. Interest rate swap contracts give rise to the periodic exchange of interest payments without an exchange of the reference face amount on which the payments are based and are recorded as an adjustment to the interest expense on the hedged borrowing instrument. The volume of interest rate swap contracts in Canadian currency as at March 31, 2007 is \$15 705 million (March 31, 2006: \$13 960 million).

Financement-Québec also uses currency swap contracts to manage its risk exposure under certain borrowing instruments denominated in foreign currencies. The Corporation shows currency swap contracts as hedging of its firm commitments to pay the principal and interest on the debt denominated in foreign currencies, failing which it would be exposed to a foreign exchange risk. Exchange gains and losses on the principal covered by swap contracts are offset by corresponding exchange losses and gains on the debt denominated in foreign currencies.

The fair value of Financement-Québec's assets and liabilities as at March 31, 2007 was valued by discounting cash flows at the market rate for similar fixed-rate securities. Interest rate and currency swap contracts are used solely for hedging purposes and are valued in the same way as assets and liabilities.

(Millions of dollars)

	March 31, 2007		March 31, 2006	
	Book value	Fair value	Book value	Fair value
Borrowings and Advances				
Borrowings	11 056	11 104	9 915	9 856
Advances from the Consolidated Revenue Fund	1 004	1 113	1 011	1 139
Currency swap contracts	—	154	—	249
Interest rate swap contracts	—	(20)	—	(20)
Total for borrowings and advances	12 060	12 351	10 926	11 224
Loans				
Total for loans	12 096	12 343	11 014	11 230

The value of other asset and liability financial instruments corresponds essentially to book value in view of their nature or the short-term maturity of these instruments.

8. Capital Stock

Description

Authorized:

1 000 000 shares with a face value of \$100 each.

Issued and paid for:

1 000 shares : \$100 000

The Corporation's shares are held by the Minister of Finance of Québec.

9. Cash Flows

(Thousands of dollars)

	2007	2006
Cash and cash equivalents		
Cash position	35	100
Current Investments	47 925	—
	47 960	100

Interest paid by the Corporation during the year amounted to \$570 458 232 (2006: \$518 362 498).

10. Related Party Transactions

In addition to the related party transactions already disclosed in the financial statements and recorded at exchange value, the Corporation is related to all the ministries and special funds as well as all the organizations and enterprises controlled directly or indirectly by the Québec government or subject either to joint control or to significant common influence by the Québec government. All the Corporation's business transactions with these related parties were carried out in the normal course of its activities and under usual business conditions. These transactions are not separately disclosed in the financial statements.

LIST OF MEMBERS OF THE BOARD OF DIRECTORS AND MEMBERS OF THE MANAGEMENT OF FINANCEMENT-QUÉBEC

Financement-Québec is administered by a nine-member board of directors appointed by the Minister of Finance. The Chairman of the Board and the President and Chief Executive Officer of Financement-Québec are appointed by the Minister of Finance. The members of the board of directors of Financement-Québec are:

Name	Position with Financement-Québec	Position outside Financement-Québec
1. Bernard Turgeon	Chairman of the Board, President and Chief Executive Officer	Associate Deputy Minister, Federal-Provincial Policy, Financing, Debt Management and Financial Operations, Ministère des Finances
2. Nathalie Parenteau	Vice Chairman of the Board, Executive Vice President and Secretary	Senior Director, Public Body Financing and Financial Documentation, Ministère des Finances
3. Michel Beaudet	Director	Director, Treasury Operations, Ministère des Finances
4. Alain Bélanger	Director	Director General, Financing and Debt Management, Ministère des Finances
5. Marie-Claude Champoux	Director	Assistant Deputy Minister, Information Communications and Administration, Ministère de l'Éducation, du Loisir et du Sport
6. Jean Monfet	Director	Director, Municipal Finances, Ministère des Affaires municipales et des Régions
7. Claude Ouellet	Director	Assistant Director General for the Budget, Ministère de la Santé et des Services sociaux
8. Jean Pronovost	Director	Chairman, Commission sur l'avenir de l'agriculture et de l'agroalimentaire québécois Associate Professor, École nationale d'administration publique
9. Vacant		

APPENDIX – CODE OF ETHICS AND PROFESSIONAL CONDUCT

Foreword

The mission of Financement-Québec (the "Corporation") is to supply financial services to public organizations. In particular, it can finance these public organizations directly by granting them loans or by issuing debt securities on their behalf. It advises them to facilitate their access to credit and to minimize their financing costs and, to that end, it can, among other things, develop and implement financing programs. The Corporation may also manage the financial risks of these organizations, in particular cash flow risks and currency risks. In addition, it may also provide them with technical services regarding financial analysis and management.

In view of the Corporation's role and mission, it seems legitimate, while complying with the standards of ethics and professional practice enacted by the *Regulation respecting the ethics and professional conduct of public office holders* adopted by the Québec government pursuant to order-in-council 824-98 of June 17, 1998 (the "Regulation"), that high standards of honesty and conduct be codified and adhered to by the members of its board of directors as well as the members of its management and its personnel to efficiently and transparently manage its assets. This Code of Ethics and Professional Conduct (the "Code") brings together within a single document the various applicable rules, so they can be known by the persons concerned and prompt greater awareness and consciousness regarding integrity and responsibility of conduct on the part of any person involved in the activities of the Corporation.

1 GENERAL PROVISIONS

1.1 Definitions:

- 1.1.1 “*ethics committee*” means the ethics committee stipulated in section 9 of this Code.
- 1.1.2 “*conflict of interest*” means any real, apparent, potential or eventual situation in which a director, officer or employee of the Corporation may be inclined to favour one person (including himself and persons to whom he is related) to the detriment of another, due to the fact that such director, officer or employee holds, directly or indirectly, an interest of any kind in any of these persons or in any of the persons with whom such person is directly or indirectly related. Any situation likely to affect the loyalty, integrity or judgement of a director, officer or employee of the Corporation is also subject to this definition.
- 1.1.3 “*officer*” means the chairman of the board, the president and chief executive officer, the vice chairman of the board, the executive vice president, the vice president for finance and the secretary of the Corporation as well as any person holding administrative office.
- 1.1.4 “*employee*” means any person who is a permanent or temporary member of the staff of the Corporation, whether on a full-time or a part-time basis.
- 1.1.5 “*subsidiary*” is a legal person of which the Corporation holds over 50% of the voting rights associated with all the issued and outstanding shares of such legal person or a corporation of which it holds over 50% of the shares. Any legal person or corporation of which the Corporation can elect the majority of directors is also a subsidiary of the Corporation.
- 1.1.6 “*confidential information*” means any strategic or management information relating to the Corporation, or any information that is not publicly known and that, were it known by a person who is not a director, officer or employee, could provide him with an advantage or compromise the achievement of an operation in which the Corporation is involved.

1.2 Field of Application

- 1.2.1 The provisions of this Code apply to the members of the board of directors of the Corporation, to its officers and to its employees.

1.3 Directives

- 1.3.1 The provisions of this Code do not in any way exclude the duly authorized formulation of additional directives or rules or ones that are more specific to certain situations.

2 BASIC PRINCIPLES

2.1 Confidential Information

2.1.1 A director, officer or employee of the Corporation must keep the information to which he may have access confidential and communicate it only to those persons authorized to know it. In addition, such information must not be used by a director, officer or employee of the Corporation for his personal advantage or that of other persons.

2.2 Conflict of Interest

2.2.1 To ensure that his honesty and impartiality are above suspicion, a director, officer or employee of the Corporation must avoid placing himself in a situation of conflict between his personal interest and the obligations of his duties.

2.3 Loyalty, Honesty and Integrity

2.3.1 A director, officer or employee of the Corporation must act with loyalty, honesty and integrity.

2.4 Utilisation of Resources

2.4.1 A director, officer or employee of the Corporation must use the resources available to him in accordance with the purposes for which they are intended and in compliance with the policies and directives issued regarding their utilisation.

2.5 Illegality

2.5.1 A director, officer or employee of the Corporation must not participate in any way whatsoever in illicit operations or operations likely to be perceived as such.

3 TREATMENT OF CONFIDENTIAL INFORMATION

3.1 Field of Application

3.1.1 The provisions of this section 3 apply to a director, officer or employee of the Corporation in the execution of his duties as well as when he is called upon to represent the Corporation or one of its subsidiaries or to act on its behalf with a legal person or corporation in which the Corporation holds an interest and who is likely because of that fact to have access to confidential information. The obligations of this section 3 regarding the protection of confidential information and the restrictions as to its use continue to hold after the mandate of a director or officer of the Corporation has expired, as well as after the termination of employment of an employee of the Corporation.

3.2 Protection of Confidential Information

3.2.1 A director, officer or employee of the Corporation has a duty of discretion concerning matters of which he has knowledge in the exercise or on the occasion of the exercise of his duties and must, at all times, uphold the confidential nature of the information thus received.

3.3 Utilisation of Confidential Information

3.3.1 A director, officer or employee of the Corporation who possesses confidential information must refrain from communicating or using such information for purposes other than those for which it was supplied to him. The effect of this obligation is not to prevent a director, officer or employee representing or related to a specific interest group from consulting with it or reporting to it, unless the information is confidential pursuant to the law or if the board of directors of the Corporation requires that it be kept confidential.

3.3.2 In case of doubt over the disclosure of confidential information, it is incumbent on the director, officer or employee of the Corporation to obtain the necessary legal opinions.

3.4 Measures to Protect Confidential Information

- 3.4.1 A director, officer or employee of the Corporation must take the necessary measures to keep information confidential, in particular:
- 3.4.1.1 by not leaving documents containing such information open to the view of persons not concerned;
 - 3.4.1.2 by taking appropriate measures to physically protect documents containing such information;
 - 3.4.1.3 by using the apparatus set aside for such purpose to reproduce or transmit such information;
 - 3.4.1.4 by taking appropriate measures to dispose of documents containing such information, such as shredding and archiving;
 - 3.4.1.5 by not giving an interview that directly or indirectly concerns the affairs of the Corporation without having been previously authorized to do so by a member of the ethics committee;
 - 3.4.1.6 by identifying on documents intended for circulation that they contain confidential information and must be treated accordingly;
 - 3.4.1.7 by returning documents containing confidential information to the Corporation when his duties cease.
- 3.4.2 In the event of inadvertent disclosure of confidential information, the director, officer or employee concerned must report the occurrence to the chairman of the board of directors who shall recommend the measures considered necessary.

3.5 Disclosure of Confidential Information After Expiry of Mandate

- 3.5.1 A director, officer or employee of the Corporation who has ceased to carry out his duties must not disclose confidential information he obtained nor give anyone advice based on information not available to the public concerning the Corporation or any other organization or enterprise with which he had significant direct relations during the year preceding the end of his mandate.
- 3.5.2 A director, officer or employee of the Corporation is forbidden, during the year following the end of his duties, to act in the name or on behalf of others in relation to a proceeding, a negotiation or any other operation in which the Corporation is a party and on which he holds information not publicly available.

4 PRIORITY OF DUTIES

4.1 Neutrality and Reserve

4.1.1 A director, officer or employee of the Corporation must take the required measures to remain constantly impartial in the execution of his tasks and responsibilities. In this regard, the director, officer or employee must make his decisions independently of any partisan political considerations and must be reserved in the public display of his political opinions.

4.1.2 In addition, a director or officer of the Corporation who intends to submit his candidacy for elected public office must submit to the rules enacted in Chapter III of the Regulation.

4.2 Exclusivity

4.2.1 An employee of the Corporation must carry out his duties exclusively unless the authority who appointed or designated him also appoints or designates him to other duties. In such case, the employee concerned must declare, in writing, such activities to the board of directors of the Corporation.

4.3 Compliance with this Code

4.3.1 The exercise of external activities by a director, officer or employee of the Corporation must not be likely to contravene the rules enacted by this Code; in case of doubt, the director, officer or employee concerned must consult the ethics committee, which may make recommendations in this regard.

5 CONFLICTS OF INTEREST

5.1 Conflicts of Interest

5.1.1 A director, officer or employee of the Corporation must avoid placing himself in a situation of conflict between his personal interest and the obligations arising from his duties. In particular, he must declare, in writing, to the ethics committee, any situation where it is reasonable to believe that such a situation exists as well as any direct or indirect interest he has in an organization, enterprise or association likely to place him in a situation of conflict of interest, as well as the rights he may assert against the Corporation, by indicating, as the case may be, their nature and value. In addition, he must comply, if necessary, with any directive set pursuant to this Code.

5.2 Personal Affairs

5.2.1 A director, officer or employee of the Corporation must, upon taking up his duties, arrange his personal affairs so as to avoid any situation likely to place him in a conflict of interest.

5.3 Prohibited Situations

5.3.1 A director, officer or employee of the Corporation may not, upon pain of dismissal, have a direct or indirect interest in an organization, enterprise or association placing his personal interest and that of the Corporation in conflict. However, such dismissal will not occur if he receives such interest through gift or inheritance, provided he waives it or disposes of it with diligence.

5.3.2 A director, officer or employee of the Corporation who has a direct or indirect interest in an organization, enterprise or association that places his personal interest and that of the Corporation in conflict must, under pain of dismissal, waive such interest in writing to the ethics committee and, if necessary, abstain from participating in any deliberation of the board of directors of the Corporation and in any decision bearing on the organization, enterprise or association in which he has such interest. However, the director or officer of the Corporation is allowed to express himself on general application measures relating to working conditions within the organization or enterprise that may also affect him.

6 GIFTS, TOKENS OF HOSPITALITY AND OTHER BENEFITS

- 6.1 A director, officer or employee of the Corporation may not accept any gift, token of hospitality or other benefit that could have an effect on the execution of his responsibilities or that would be likely to prejudice the credibility of the Corporation.
- 6.2 However, a gift, token of hospitality or benefit of a symbolic nature and of modest value may be accepted by the director, officer or employee of the Corporation. Any other gift, token of hospitality or benefit received must be returned to the giver or to the Corporation.

7 LOYALTY, HONESTY AND INTEGRITY

- 7.1 A director, officer or employee of the Corporation must not mix the assets of the Corporation with his and may not use them for his benefit or that of third parties.
- 7.2 A director, officer or employee of the Corporation must not, directly or indirectly, grant, solicit or accept an undue benefit or favour for himself or a third party.
- 7.3 A director, officer or employee of the Corporation, in reaching his decisions, must not allow himself to be influenced by offers of employment.
- 7.4 A director, officer or employee of the Corporation who has ceased to exercise his duties must conduct himself in such a way as not to derive undue advantage from his former duties in the service of the Corporation.

8 DISCIPLINARY PROCESS

8.1 Basic Principles

- 8.1.1 Each director, each officer and each employee of the Corporation undertakes to read and comply with this Code as well as any special instruction or directive he may receive regarding its application. A copy of the Code and the Regulation is given to each person covered by this Code when he takes up his duties.
- 8.1.2 In cases of ambiguity as to the scope or application of any provision of this Code and Regulation, it is incumbent on the director, officer or employee of the Corporation to consult the members of the ethics committee.
- 8.1.3 This Code and Regulation apply to all directors, to all officers and to all employees of the Corporation throughout the period of exercise of their duties and, in certain circumstances, after their duties cease.

8.2 Authority

- 8.2.1 The ethics committee must see that directors, officers and employees of the Corporation adhere to the principles of ethics and the rules of professional conduct. It is the competent authority to act regarding a director, officer or employee of the Corporation who violates the said principles and rules.

8.3 Sanctions

- 8.3.1 A director, officer or employee of the Corporation who is alleged to have committed a breach of ethics or of professional conduct may be provisionally relieved of his duties, with pay, so that an appropriate decision may be reached in the case of an urgent situation requiring prompt intervention or in a presumed case of serious breach.
- 8.3.2 The ethics committee shall inform the director, officer or employee concerned of the alleged breaches as well as of the sanction that may be imposed. The director, officer or employee concerned may, within seven days, submit his observations to the ethics committee or, if he so requests, be heard on this matter.
- 8.3.3 If it is concluded that the director, officer or employee of the Corporation has violated the law, the Regulation or this Code, the ethics committee shall impose a sanction on him that may consist of a reprimand, suspension without pay for a maximum of three months, or dismissal. Any sanction imposed on a director, officer or employee of the Corporation as well as the decision to relieve him provisionally of his duties must be written and give reasons.

9 ETHICS COMMITTEE

9.1 Formation and Membership

9.1.1 The ethics committee is formed by the board of directors of the Corporation which appoints its members upon recommendation of the chairman of the board.

9.2 Mandate

9.2.1 The ethics committee is authorized to make any recommendation regarding any subject included in this Code or which results from its application.

9.3 Rules of Operation

9.3.1 The ethics committee consists of three (3) members appointed by the board of directors of the Corporation.

9.3.2 The chairman and the secretary of the ethics committee are appointed by the board of directors of the Corporation.

9.3.3 The meetings of the ethics committee are convened by the secretary at the request of the chairman of the ethics committee or of the chairman of the board of directors of the Corporation.

9.3.4 The ethics committee meets periodically as needed.

9.3.5 The agenda of the meetings of the ethics committee is set by its chairman on the basis of proposals sent to him by any member of the ethics committee. The agenda is submitted to the members of the ethics committee at the beginning of each meeting and each member may propose changes to it before it is adopted.

9.3.6 Quorum at the meetings of the ethics committee is two (2) members.

9.3.7 The ethics committee may hold a meeting by conference call or provide opinions following a verbal or written consultation of each of its members. In the case of a verbal consultation, the secretary must record the content in writing.

9.3.8 The secretary of the ethics committee is charged with drawing up the minutes of the meetings of the ethics committee.

9.4 Role of the Board of Directors

- 9.4.1 The board of directors of the Corporation periodically receives a report on the activities of the ethics committee.
- 9.4.2 At any time, the board of directors of the Corporation may examine any situation covered by this Code and recommend to the ethics committee any measure to apply regarding such situation.
- 9.4.3 At any time, the board of directors of the Corporation may revise or give its views regarding any sanction imposed by the ethics committee further to a violation of this Code.
- 9.4.4 Any situation that involves a member of the ethics committee is submitted to the board of directors of the Corporation.

