

ANNEX IV: BORROWING AND DEBT MANAGEMENT

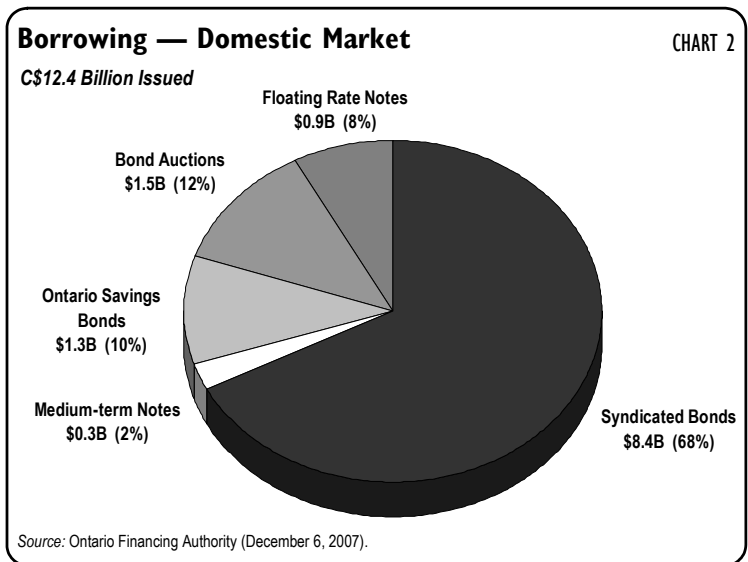
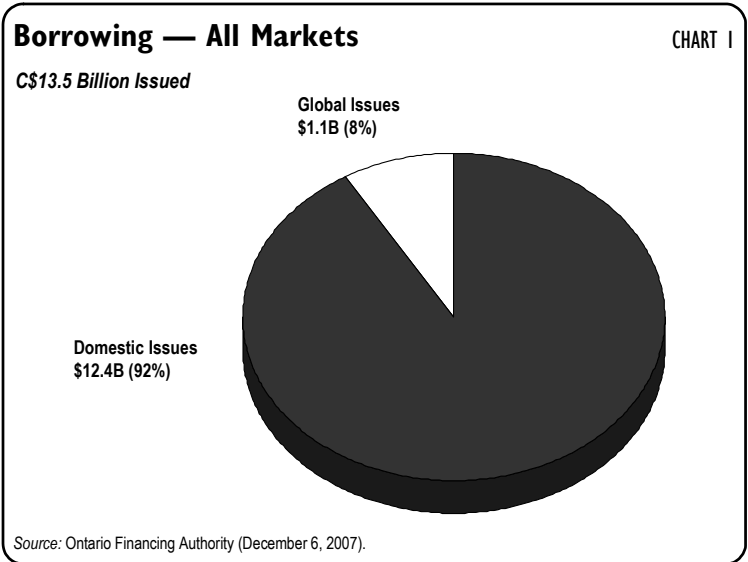


LONG-TERM PUBLIC BORROWING

The total long-term public borrowing requirement for the Province and the Ontario Electricity Financial Corporation (OEFC) in 2007–08 is projected at \$17.7 billion, down \$1.1 billion from the \$18.8 billion estimated in the 2007 Budget Plan.

As at September 30, 2007, the Province had raised approximately \$9.5 billion. As at December 6, 2007, the Province had raised an additional \$4.0 billion, for a total of \$13.5 billion, with \$4.2 billion remaining to be borrowed.

Bond markets have been very volatile in recent months, but the Province continues to have steady access to the domestic bond market due to both investor confidence in Ontario and the liquidity provided by its benchmark bond issues.



Approximately \$12.4 billion, or 92 per cent, of the borrowing requirement was raised in the domestic market, using the following instruments:

- syndicated bonds
- bond auctions
- Ontario Savings Bonds
- floating rate notes
- medium-term notes.

Internationally, the Province issued one five-year US\$1 billion global bond issue.

The Province will continue to maintain a flexible approach to borrowing, monitoring both domestic and international capital markets for opportunities to diversify its borrowing program. The Province typically targets 25 per cent of borrowing from international markets. So far this fiscal year, eight per cent has been raised internationally as borrowing costs have been much higher abroad.

2007–08 Borrowing Program (\$ Billions)	Table 1		
	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	0.4	0.0	(0.4)
Non-cash Adjustments	(0.5)	(0.9)	(0.5)
Investment in Capital Assets	3.3	3.4	0.1
Net Loans/Investments	1.2	2.7	1.5
Debt Maturities	14.4	14.2	(0.2)
Debt Redemptions	0.9	1.0	0.1
Total Funding Requirement	19.7	20.4	0.7
Canada Pension Plan Borrowing	(0.4)	(0.4)	0.1
Decrease/(Increase) in Short-Term Borrowing	(0.6)	(1.3)	(0.8)
Increase/(Decrease) in Cash and Cash Equivalents	0.0	(1.0)	(1.0)
Total Long-Term Public Borrowing Requirement	18.8	17.7	(1.1)

Note: Numbers may not add due to rounding.

The total long-term public borrowing requirement for 2007–08 remains at \$17.7 billion as in the First Quarter Ontario Finances, down \$1.1 billion from the 2007 Budget Plan.

A major in-year change from the Budget Plan is a \$1.5 billion increase in net loans/investments, of which \$0.9 billion represents loans to Ontario Power Generation Inc. (OPG) and \$0.7 billion for the transfer of third-party asset-backed commercial paper (ABCP) to a long-term investment portfolio, offset by a \$0.1 billion payment by the Ontario Power Authority (OPA) towards its line

of credit with the Province. Other in-year changes include a \$0.5 billion change in non-cash adjustments and a \$1.0 billion decrease in cash and cash equivalents, both attributable to a higher-than-forecast surplus in 2006–07, resulting in lower cash needs.

A notable financing activity in the second quarter was the transfer of \$0.7 billion in third-party ABCP to a long-term investment portfolio, offset by an increase in short-term borrowing. The ABCP transfer decision was made due to ongoing deliberations resulting from the Montreal Accord, which the Province and a majority of third-party ABCP investors joined in August 2007. The Accord is an agreement to determine a process for the orderly restructuring of the third-party ABCP market. The agreement, originally set to expire on October 15, 2007, was extended to December 14, 2007.

The Province does not want to pre-judge the outcome of the Montreal Accord or how markets will trade afterwards, but it is estimated that the potential provincial writedown will be less than \$100 million out of its \$720 million of ABCP holdings. This amount will be offset by in-year savings on the Province's other interest on debt costs. Ontario's potential ABCP writedown will not have any material impact on the fiscal plan.

Medium-Term Borrowing Outlook	Table 2		
(\$ Billions)			
	2007–08	2008–09	2009–10
Deficit/(Surplus)	0.0	0.0	0.0
Non-Cash Adjustments	(0.9)	(0.8)	(0.7)
Investment in Capital Assets	3.4	3.5	4.0
Net Loans/Investments	2.7	1.3	0.5
Debt Maturities:			
Currently Outstanding	14.2	19.9	14.6
Incremental Impact of Future Financing	0.0	0.0	0.5
Debt Redemptions	1.0	0.7	0.7
Total Funding Requirement	20.4	24.5	19.6
Canada Pension Plan Borrowing	(0.4)	(0.6)	(0.7)
Decrease/(Increase) in Short-Term Borrowing	(1.3)	(0.6)	0.8
Increase/(Decrease) in Cash and Cash Equivalents	(1.0)	(0.4)	(0.7)
Total Long-Term Public Borrowing Requirement	17.7	22.9	19.0

Note: Numbers may not add due to rounding.

Refinancing maturing debt remains the primary component of the medium-term borrowing outlook. Debt maturities for the Province and the OEFC are projected at \$14.2 billion in 2007–08, \$19.9 billion in 2008–09 and \$15.1 billion in 2009–10.

The Province closely monitors the level of annual maturities on a yearly basis. The year-to-year variation in debt maturities largely reflects past borrowing activities.

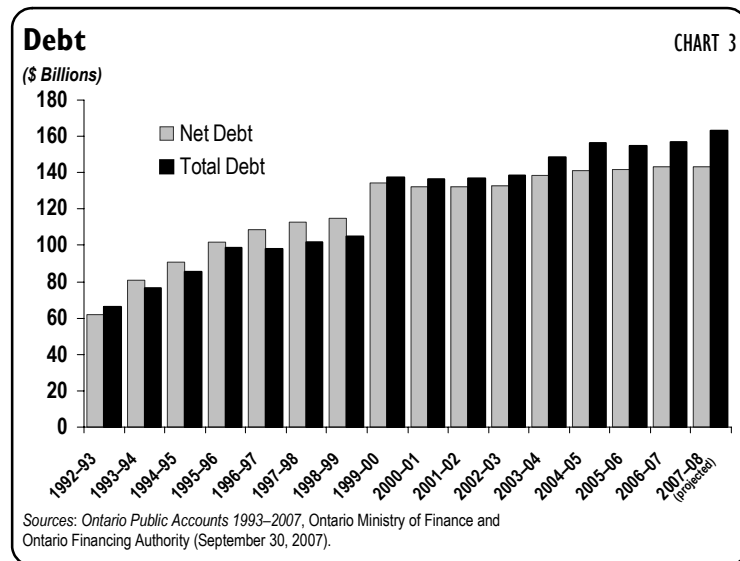
DEBT

The Province's total debt as at September 30, 2007 was \$160.8 billion. Total debt, which represents all borrowing without offsetting financial assets, is projected to be \$162.9 billion as at March 31, 2008, compared to \$157.3 billion as at March 31, 2007.

The projected increase in total debt is mainly due to the government's capital investments in key priority areas and loans to school boards for capital projects. Total debt, but not net debt, is also expected to

increase due in part to short-term borrowing being used to maintain cash levels and fund the transfer of the Province's ABCP holdings to a long-term investment portfolio. The Province could have opted to reduce cash levels instead of increasing short-term borrowing but decided in the current credit environment it is more prudent to keep cash and liquidity levels high.

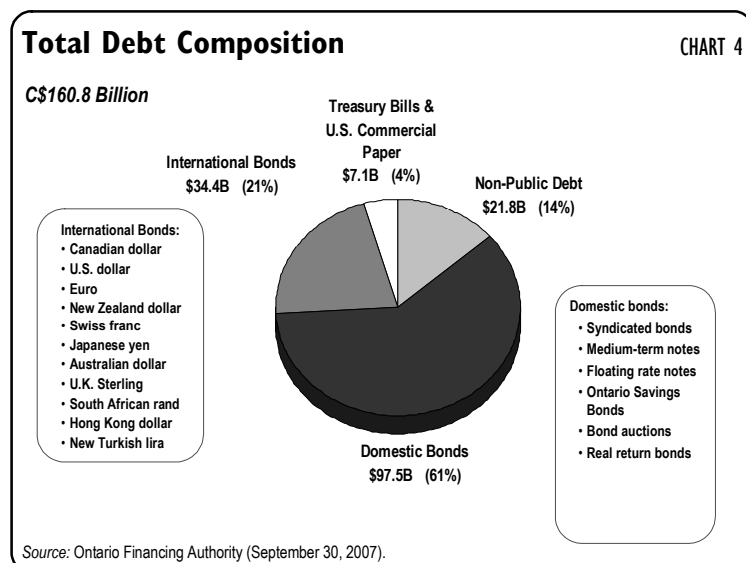
Ontario's net debt — the difference between the Province's total liabilities and total financial assets — is projected to be \$143.1 billion as at March 31, 2008, compared to \$141.1 billion as at March 31, 2007. The increase in net debt is primarily a result of the government's capital investments.



TOTAL DEBT COMPOSITION

Total debt is composed of bonds issued in both the short- and long-term public capital markets and non-public debt.

Public debt totals \$139.0 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies. Ontario also has \$21.8 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt

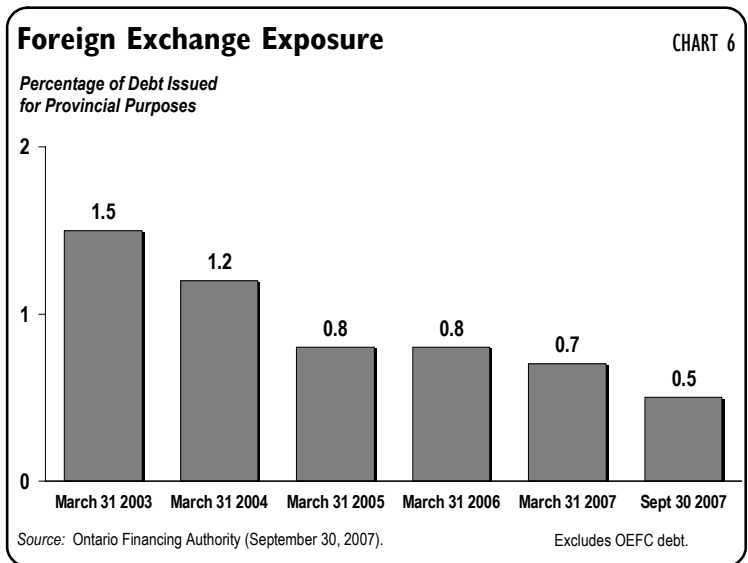
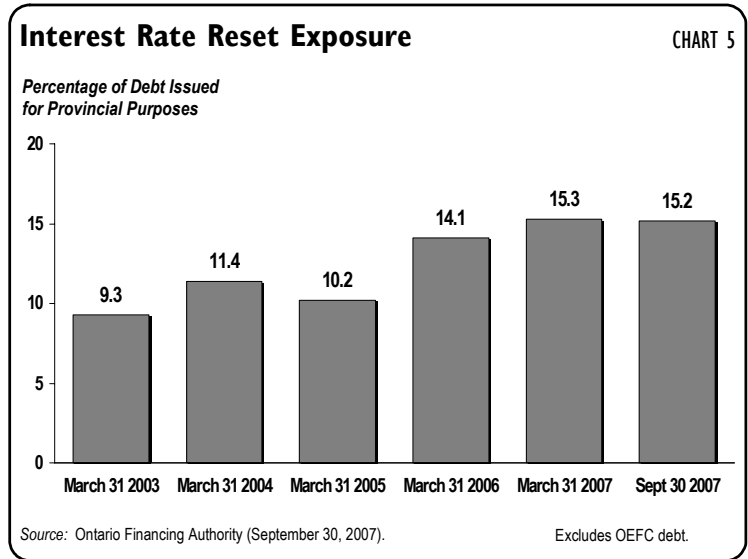


consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board (CPPIB). This debt is not marketable and cannot be traded.

DEBT MANAGEMENT

The Province limits itself to a maximum interest rate reset exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes.

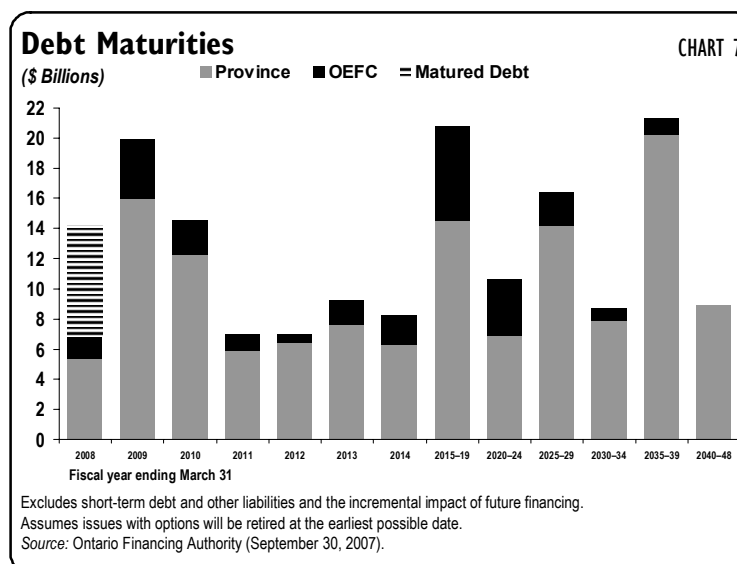
As at September 30, 2007, interest rate reset exposure was 15.2 per cent and foreign exchange exposure was 0.5 per cent.



DEBT MATURITIES

The most significant component of the borrowing program is the refinancing of maturing debt.

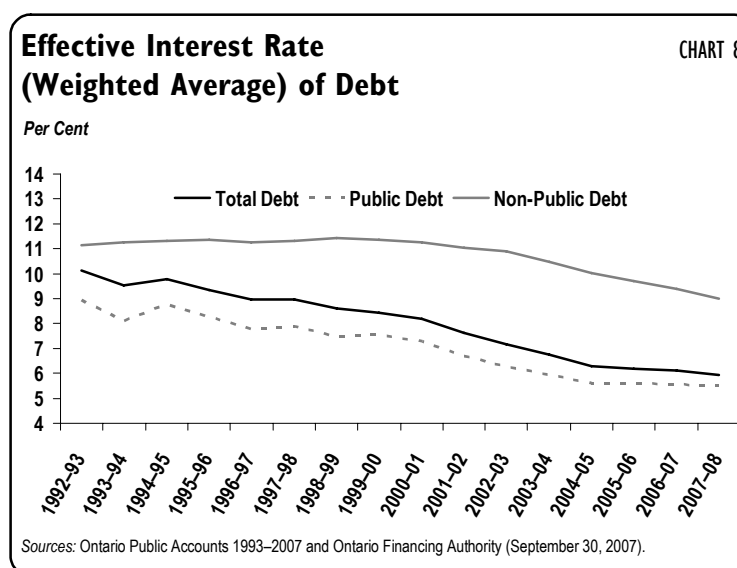
The Province will continue to aim for a balanced maturity profile and take advantage of opportunities to schedule maturities into years that currently have lower levels of maturing debt.



COST OF DEBT

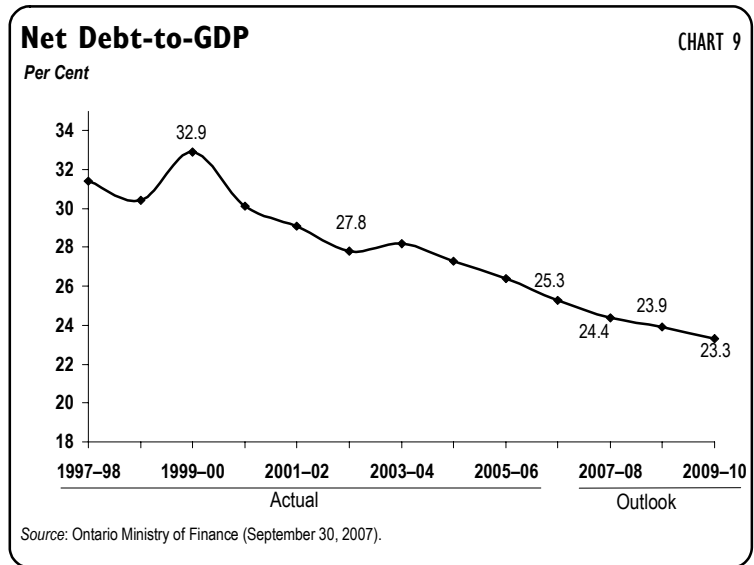
The effective interest rate (on a weighted-average basis) on total debt as at September 30, 2007 was 5.95 per cent, compared to 6.02 per cent as at March 31, 2007. For comparison, as at March 31, 1993, the effective interest rate on total debt was 10.14 per cent.

The effective interest rate on public debt was 5.47 per cent as at September 30, 2007, compared to 5.48 per cent as at March 31, 2007. The effective interest rate on non-public debt was 9.00 per cent as at September 30, 2007, compared to 9.23 per cent as at March 31, 2007.



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 the OEFC. Since then, Ontario’s net debt-to-GDP ratio has trended downward, declining to 25.3 per cent in 2006–07. The current outlook projects a ratio of 24.4 per cent in 2007–08, 23.9 per cent in 2008–09 and 23.3 per cent in 2009–10.



GLOSSARY OF FINANCIAL TERMS USED IN ANNEX IV

Note: The descriptions of the terms in the glossary are solely intended for the assistance of readers of the 2007 Economic Outlook and Fiscal Review. The glossary and the descriptions of the terms in the glossary are not intended to affect or alter the meaning of any terms under law.

Amortization: the portion of an asset's cost allocated to an accounting period as a result of writeoff over its estimated useful life.

Asset-Backed Commercial Paper (ABCP): consists of short-term investments secured by a pool of assets such as accounts receivable, auto loans and credit-card receivables that are structured into a trust. The administrator of the trust provides credit enhancement through a combination of cash, deferred payment arrangements, letters of credit and credit derivatives.

Canada Pension Plan (CPP) Borrowing: the Province has the option of borrowing from the Canada Pension Plan Investment Board (CPPIB) as a source of long-term borrowing.

Debt: an obligation resulting from the borrowing of money.

Debt Maturities: total forecast amount of debt due for repayment on specific dates.

Debt Redemptions: total forecast amount of bond issues expected to be redeemed prior to maturity. Debt redemptions primarily relate to Ontario Savings Bonds.

Debt Term: remaining term to maturity of long-term debt.

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.

Financial Assets: assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets include cash, an asset that is convertible to cash, a contractual right to receive cash or another financial asset from another party, a temporary or portfolio investment, and a financial claim on an outside organization or individual and inventory.

Floating Rate Notes (FRNs): debt instruments that bear a variable rate of interest. Coupons are linked to a floating interest rate index.

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 or other short-term liquid low-risk instruments that are readily convertible to cash typically within three months or less.

Interest on Debt Expense: the amount reported as an expense for borrowed money. Interest is calculated as a percentage of the amount of debt for each period of time.

Investment in Capital Assets: the cost of acquiring or upgrading major tangible capital assets owned by the Province and its consolidated organizations during the year, including land, buildings, highways and bridges.

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 financial assets.

Net Debt-to-GDP Ratio: a measurement of the government's debt as a percentage of gross domestic product (GDP). It is a measure of the net debt in relation to the economy and capacity to carry and repay debt.

Net Loans/Investments: the total funds paid by the Province towards loans/investments netted against loan repayments.

Non-Cash Adjustments: adjustments required to determine the cash flows resulting from operating activities. Non-cash adjustments include changes in balance-sheet accounts such as accounts receivable and payable, prepaid expenses and deferred revenue. Amortization of capital assets is also a non-cash adjustment.

Non-Public Debt: consists of debt instruments issued to public-sector pension funds in Ontario and the CPPIB. This debt is not marketable and cannot be traded.

Syndicated Bond 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.

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