
Comments on Selected Financial Information

4.3 Debt

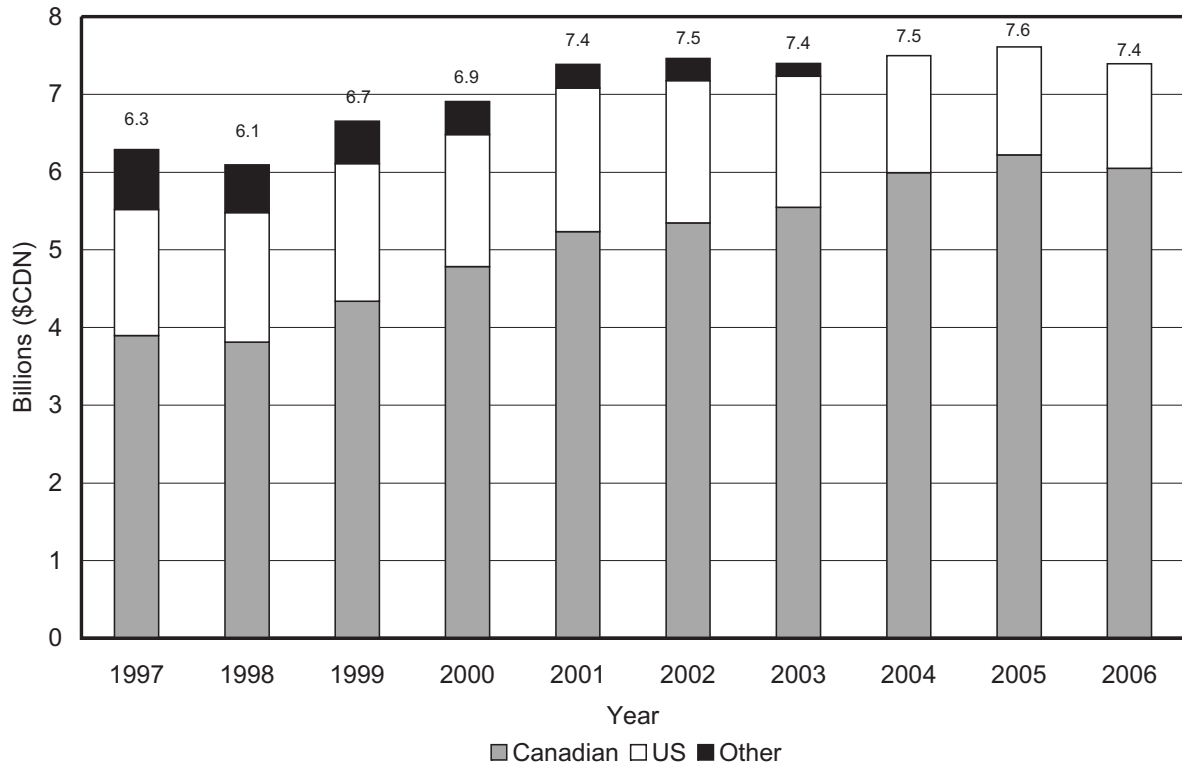
As at 31 March 2006, borrowings were reported in the Consolidated Statement of Financial Position at \$6.5 billion, which represents total borrowings of \$7.4 billion less sinking fund assets of \$864 million. Total borrowings consist of general debentures, amounts borrowed from the Government of Canada and its agencies, as well as other notes and loans payable by the Province. The total borrowings of the Province, net of sinking fund assets for various debentures, is comprised of \$5.837 billion in debt reflected in the Consolidated Revenue Fund, \$234 million in Newfoundland and Labrador Municipal Financing Corporation debt, \$206 million in Student Loan Corporation of Newfoundland and Labrador debt, \$190 million in health care organization debt, \$37 million in Newfoundland and Labrador Housing Corporation debt, and other miscellaneous debt of \$25 million.

The net borrowings of \$6.5 billion do not include the borrowings of Newfoundland and Labrador Hydro. This accounting policy is consistent with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants which requires that the net equity position of a government business enterprise such as Newfoundland and Labrador Hydro be recorded in the consolidated summary financial statements of the Province. In the audited financial statements of Newfoundland and Labrador Hydro for the year ended 31 December 2005, the Corporation reported debt of \$1.5 billion (\$1.6 billion - 31 December 2004).

Figure 8 shows the total borrowings as at 31 March for each year from 1997 to 2006 as disclosed in the Consolidated Statement of Financial Position. The Figure provides a breakdown of Canadian and foreign currency debt.

Figure 8

Consolidated Summary Financial Statements
Borrowings
As at 31 March
(\$ Billions)



As Figure 8 shows, there were only Canadian and U.S. denominated borrowings as at 31 March 2006. The Canadian denominated borrowings totalled \$6.0 billion and accounted for 82% of total borrowings.

Sinking Funds

Many of the debentures held by the Province have sinking fund requirements. Sinking funds are a pool of cash and investments accumulated during the life of the debentures to repay the debt at maturity.

Figure 9 is a summary of sinking funds as at 31 March 2006 along with the related debenture debt outstanding and the net amount left after reducing the debt by the amount of the sinking funds.

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Figure 9

**Consolidated Summary Financial Statements
Borrowings and Sinking Funds
As at 31 March 2006
(\$ Millions)**

	Debt Outstanding	Sinking Fund Balance	Balance net of Sinking Fund
Total Debt with Sinking Funds	4,288	864	3,424
Total Debt without Sinking Funds	3,105	-	3,105
Total	7,393	864	6,529

As Figure 9 shows, Government had approximately \$864 million in sinking funds at 31 March 2006.

Figure 10 shows borrowings net of sinking funds for each of the past ten years.

Figure 10

**Consolidated Summary Financial Statements
Borrowings and Sinking Funds
As at 31 March
(\$ Millions)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Borrowings	6,291	6,093	6,654	6,909	7,384	7,464	7,398	7,501	7,612	7,393
Sinking Funds	985	1,042	1,097	1,210	1,284	1,007	819	724	775	864
Net Borrowings	5,306	5,051	5,557	5,699	6,100	6,457	6,579	6,777	6,837	6,529

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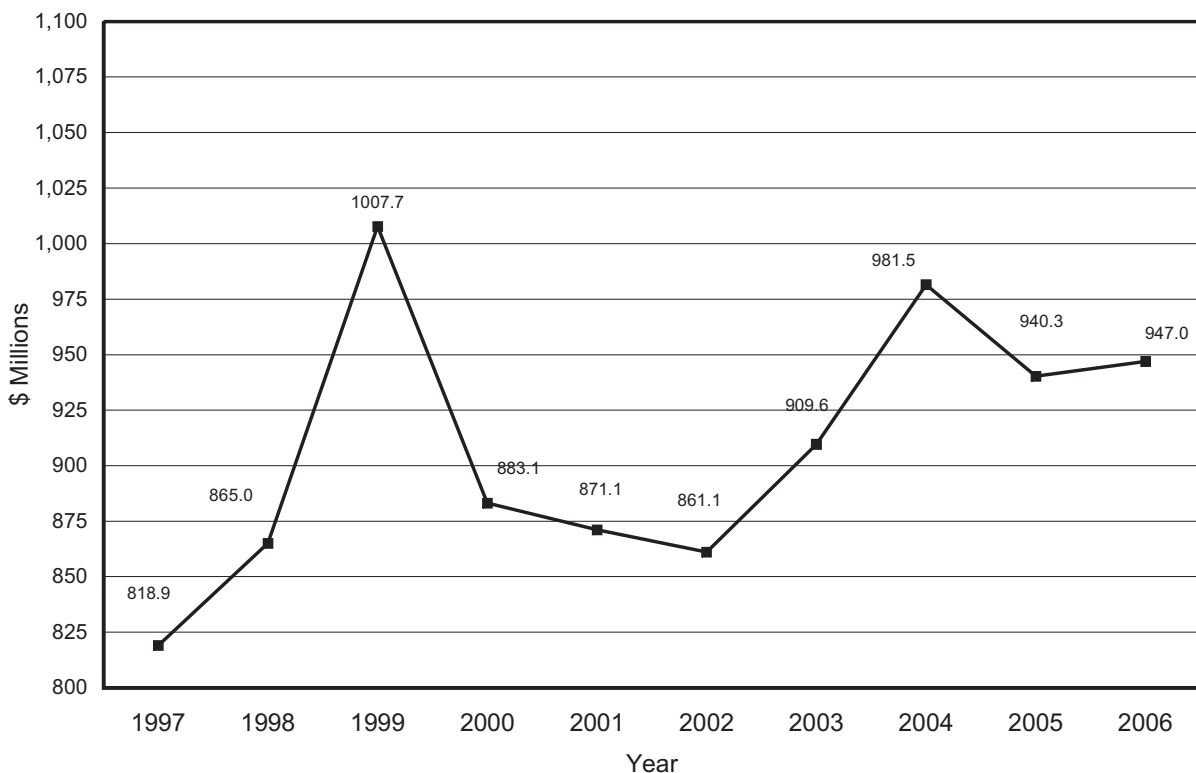
Debt Expenses

The Province's debt expenses for 2006 as recorded in the consolidated summary financial statements totalled \$947.0 million, which consists of \$335.4 million for the unfunded pension liability, \$73.0 million for the net liability for group health and life insurance retirement benefits, and \$538.6 million for the Province's borrowings. Total debt expenses for the Province each year from 1997 to 2006 is outlined in Figure 11.

Interest costs as a percentage of total revenue, sometimes called the "interest bite", is an important indicator of the state of a government's finances. The "interest bite" in 2006 was 17 cents per dollar of total revenue (2005 - 21 cents per dollar).

Figure 11

**Consolidated Summary Financial Statements
Debt Expenses
Years Ended 31 March
(\$ Millions)**



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Credit Rating

The Province's credit rating will affect the debt servicing costs over time because the interest that the Province will have to pay on its borrowing will decrease as the credit rating improves and conversely the interest costs will increase as the credit rating declines.

The Province's credit ratings as established by the three most recognizable rating agencies are outlined in figures 12, 13 and 14.

Figure 12

Province of Newfoundland and Labrador Credit Ratings Established by Dominion Bond Rating Service

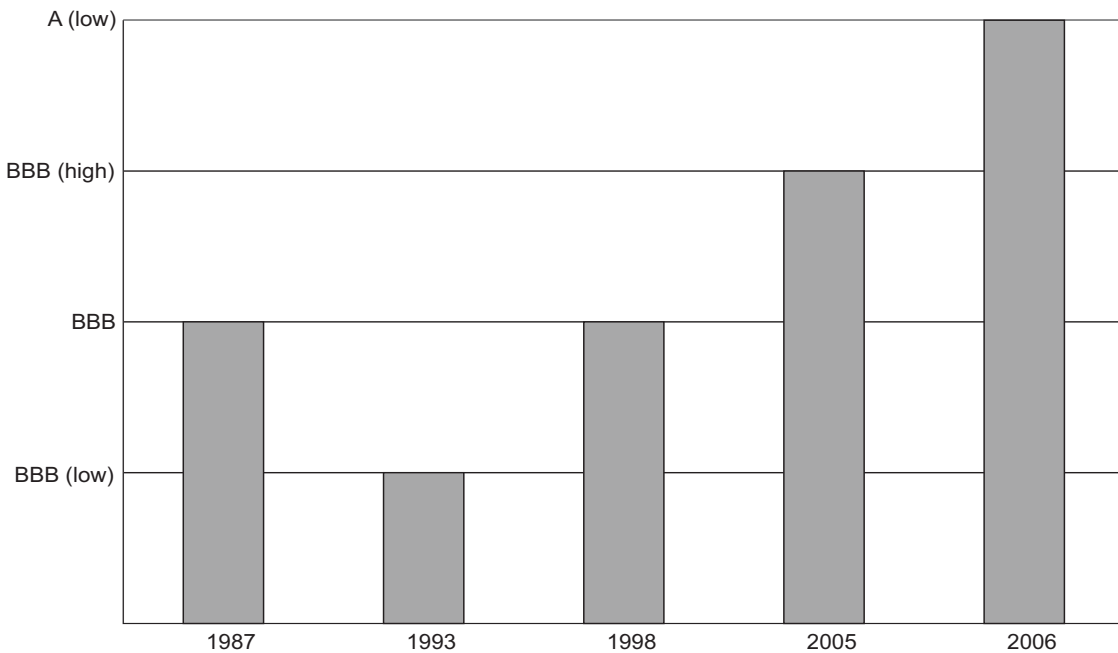
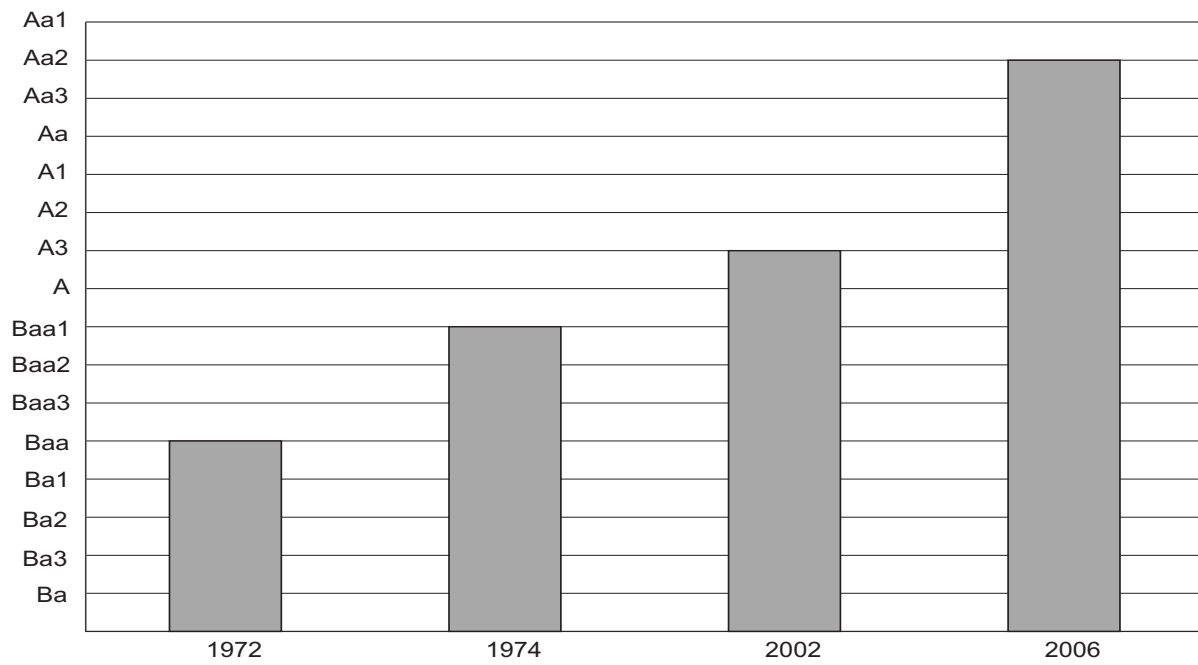


Figure 13

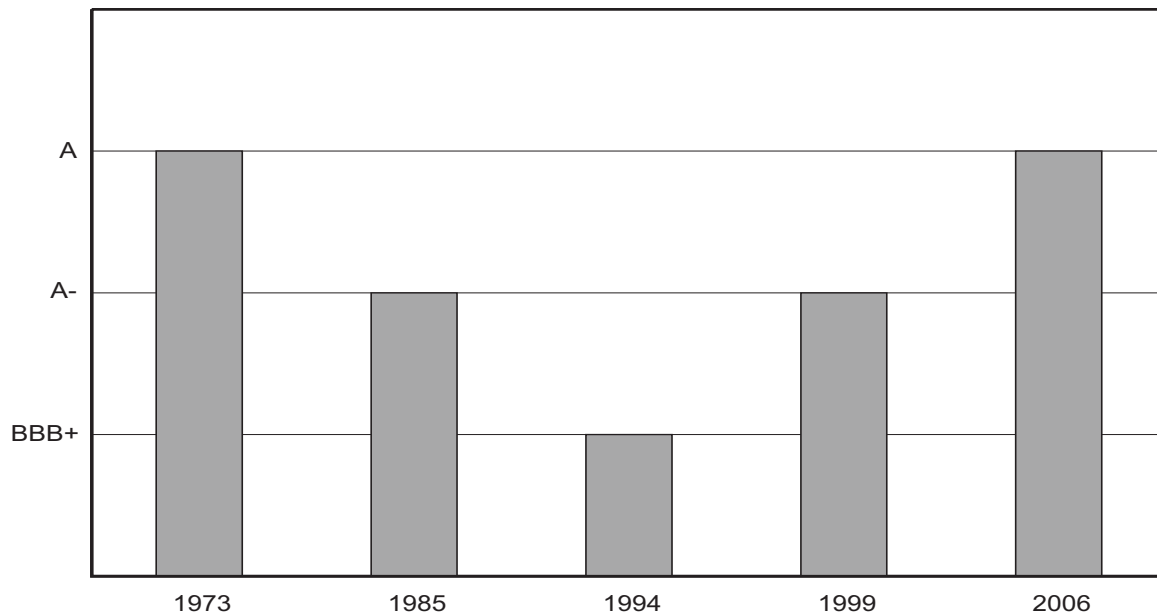
Province of Newfoundland and Labrador
Credit Ratings Established by
Moody's Investors Service



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Figure 14

Province of Newfoundland and Labrador Credit Ratings Established by Standard & Poor's

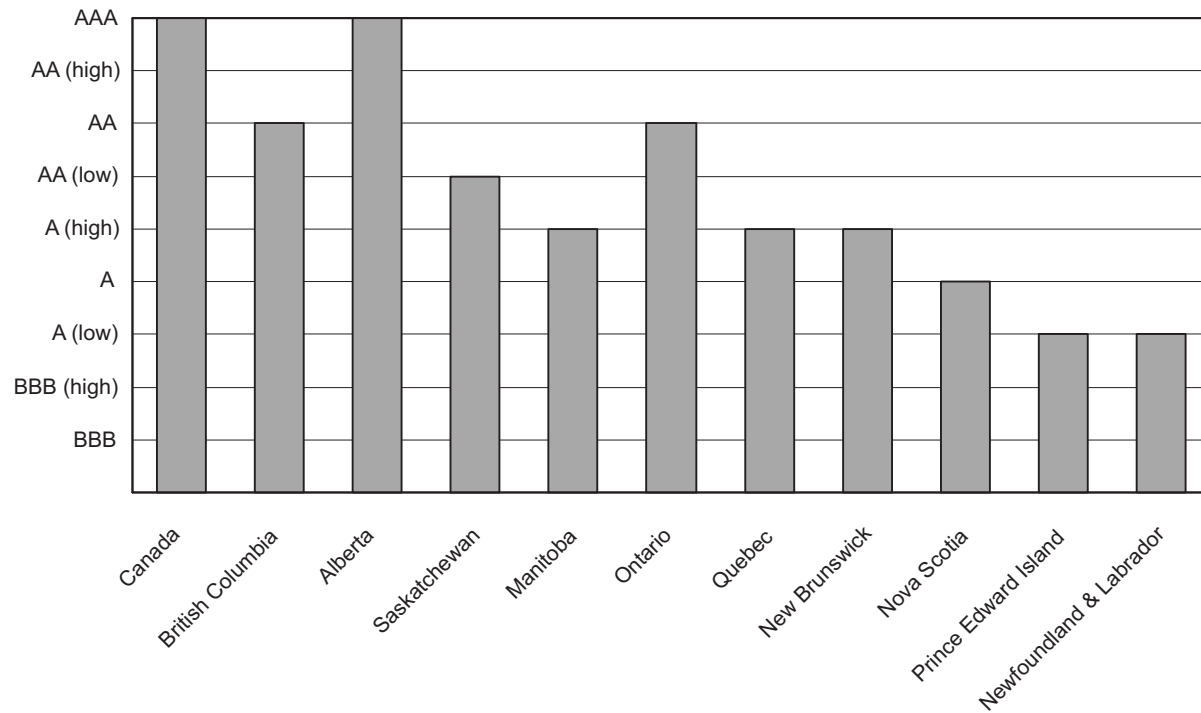


Although this information shows that the Province's credit rating set by each of the three rating agencies has improved, as figures 15, 16 and 17 show, this Province is still included in the lowest credit rating category of any province in Canada.

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Figure 15

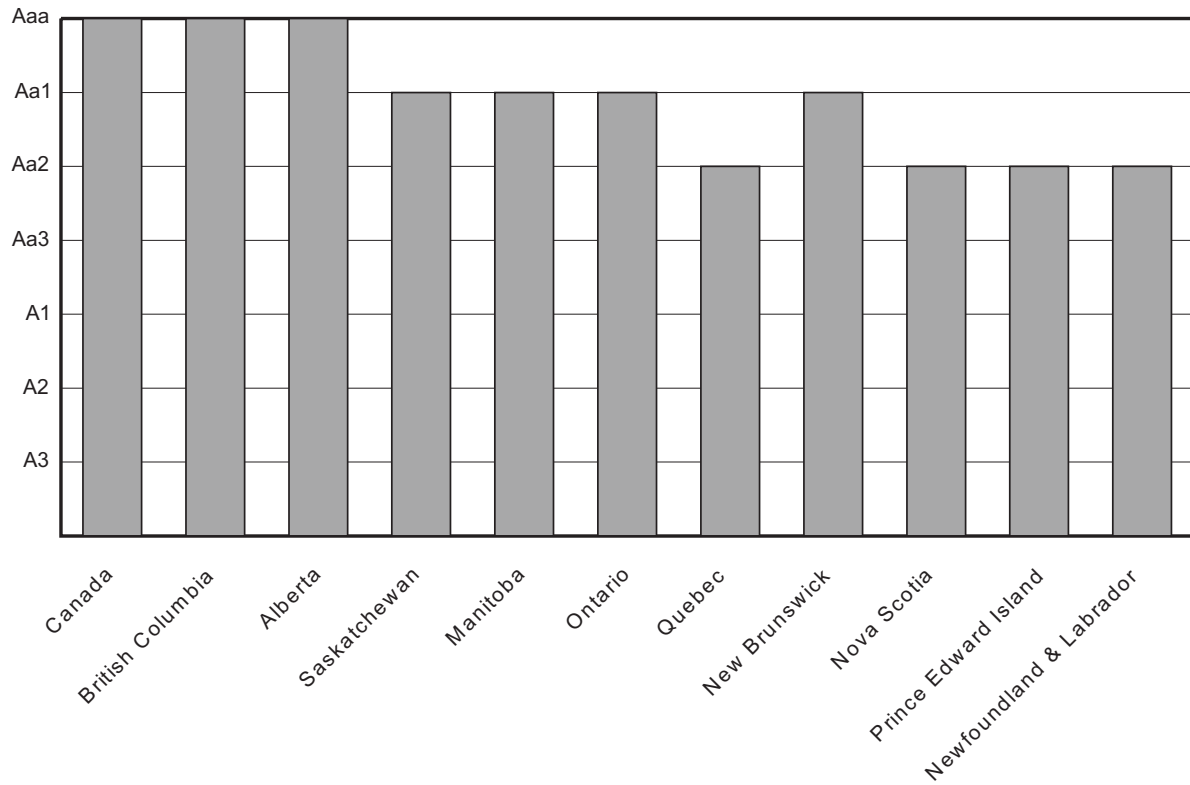
Credit Ratings Established for Canadian Provinces by Dominion Bond Rating Service



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Figure 16

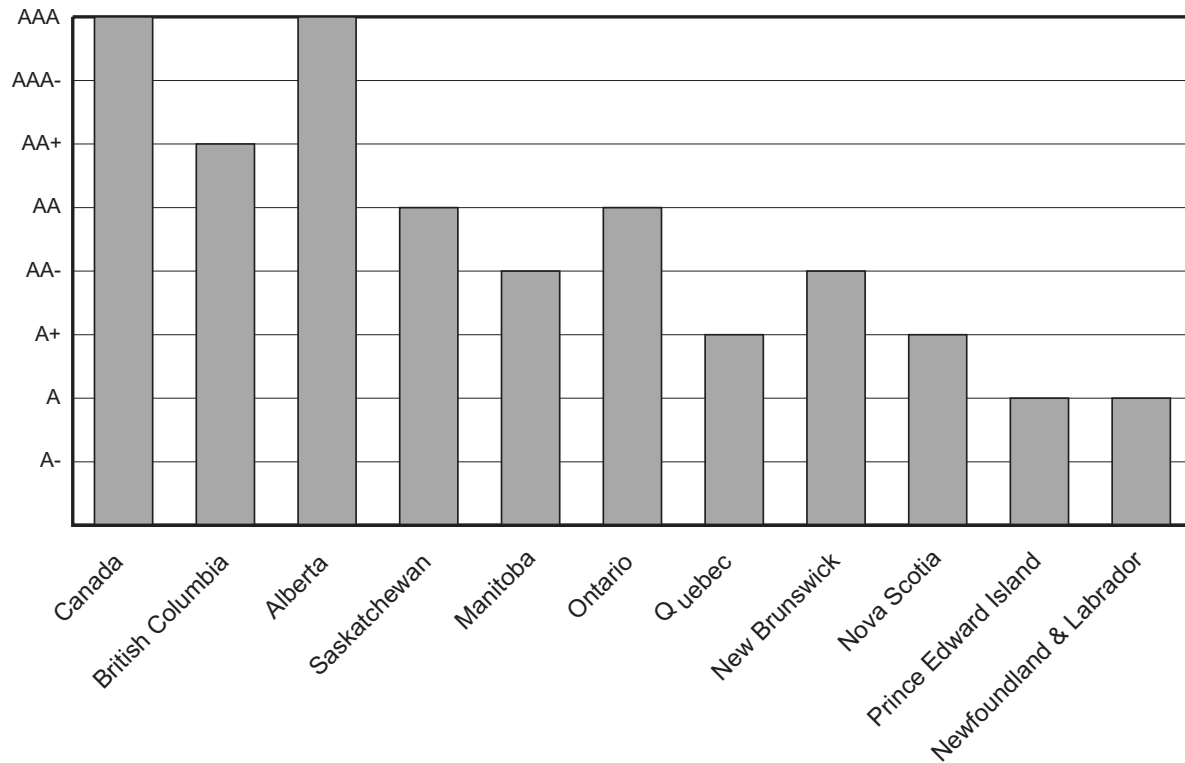
Credit Ratings Established for Canadian Provinces by Moody's Investors Service



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Figure 17

Credit Ratings Established for Canadian Provinces by Standard & Poor's



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