

September 21, 2001

OEFC ANNUAL REPORT HIGHLIGHTS: APRIL 1, 2000 TO MARCH 31, 2001

Second Year of Operations

Highlights for the OEFC's second year of operations include:

- Completing the 2000-01 financing requirements, by raising \$2,924 million in long-term debt, while paying down short-term debt by \$876 million and pre-borrowing \$400 million for fiscal 2001-02. As of March 31, 2001, total debt outstanding was \$30.6 billion, a decrease of \$0.8 billion;
- Retention of an external manager to oversee the day-to-day administration and the sale of power acquired under the power purchase agreements (PPAs) with non-utility generators (NUGs);
- Finalizing an agreement on the division and transfer of the assets and liabilities of the OEFC Pension Plan to the pension plans of the four successor corporations to Ontario Hydro. The Superintendent of Financial Services for Ontario agreed to the transfer on June 6, 2001.

2000-01 Operating Results

- The excess of revenue over expense for 2000-01 was \$244 million.
- Revenue in 2000-01 totalled \$3,936 million, including \$1,070 million of interest payments from Hydro One Inc. (HOI), Ontario Power Generation (OPG), the Independent Electricity Market Operator (IMO) and the Province, and \$988 million from payments-in-lieu of taxes.
- Expenses in 2000-01 totalled \$3,692 million, including \$2,671 million in interest on debt and interest on the nuclear funding liability.

Management of Power Purchase Contracts

In 2000-01, the OEFC issued a Request for Proposals to retain a contract manager

to manage the long-term PPAs with the NUGs. Enron Canada Corporation was selected as the successful respondent.

The OEFC is currently in the process of negotiating revisions to the PPAs to facilitate the transition to an open market and to replace certain provisions in contracts that have become obsolete as a result of the restructuring of the electricity sector.

Debt Repayment Plan

Pursuant to the *Electricity Act, 1998* and consistent with the principles of electricity sector restructuring, the government has established a long-term plan to retire debt from within the electricity sector. The \$38.1 billion in obligations is being repaid from the following sources:

- *Notes receivable* from the Province, OPG, HOI and IMO;
- *Payments-in-lieu* (PILs) of corporate income, capital, and property taxes, made by OPG, HOI and municipal electric utilities (MEUs);
- A *Debt Retirement Charge* (DRC), to be paid by electricity consumers and to be charged when the market opens to competition (the government announced in April 2001 that it expects conditions necessary to open the market will be in place by May 2002); and
- *Electricity Sector Dedicated Income*. Consistent with the government's commitment to keep electricity income in the electricity sector, the combined net incomes of OPG and HOI in excess of the Province's cost of its investment in its electricity subsidiaries are dedicated to the retirement of OEFC's debt.

As of March 31, 2001, total debt outstanding was \$30.6 billion, a decrease of \$0.8 billion from the previous fiscal year. This decrease is primarily due to principal repayments of notes receivable by HOI and OPG totalling \$1,533 million.

2001-02 Financing Requirements

With maturing debt and planned redemptions of \$4.4 billion, along with a projected cash surplus of \$0.8 billion in 2001-02, total financing requirements as of March 31, 2001 are projected at \$3.6 billion.

Total debt outstanding is projected to decrease to \$29.4 billion at March 31, 2002.

Risk Management

The Ontario Financing Authority (OFA) manages the debt and derivatives portfolios on behalf of the OEFC.

Foreign Exchange Exposure:

The target for unhedged foreign currency exposure by the end of fiscal 2001-02 is five per cent of outstanding debt. When the OFA became responsible for the management of the OEFC's debt portfolio, total debt exposed to fluctuations in foreign currencies was 14.5 per cent. The OFA reduced the OEFC's exposure to 7.1 per cent as of March 31, 2001.

Floating Interest Rate Exposure:

The limit on the OEFC's floating interest rate exposure (net of liquid reserves) is 20 per cent of debt outstanding. Actual floating interest rate exposure was 5.7 per cent as of March 31, 2001.

Additional Information

A full set of 2000-01 OEFC financial statements can be found in the 2001 OEFC Annual Report at www.oefc.on.ca

Contact (416) 325-8000 or email investor@oefc.on.ca to request a hard copy of the report.