A Financial Profile of Québec

January 2002

Québec

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Economy

Public finances

Financing and debt management

Credit ratings

Québec
Ministère des Finances

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- Québec ranks first in terms of area in Canada, and second in terms of population, with 7.4 million people.
- With a gross domestic product in excess of CAN$225 billion, Québec ranks among the top 20 industrialized countries in the OECD.
- Québec's economy is similar in size to those of Switzerland and Sweden.
- Québec's per capita GDP is comparable to those of Germany and Japan, and exceeds those of France and the United Kingdom.
- Québec's per capita GDP is almost 7% above the average for OECD.
- Under the North American Free Trade Agreement, Québec has preferred access to a market of more than 400 million consumers.
- Québec has direct access to 130 million consumers within a radius of 1 000 kilometres (600 miles).

A diversified economy

A diversified post-industrial economy

- ❖ The service sector plays a dominant role, accounting for 70% of GDP.
- ❖ Despite the primary sector's small share of the economy, Québec is a major world producer of natural resources.

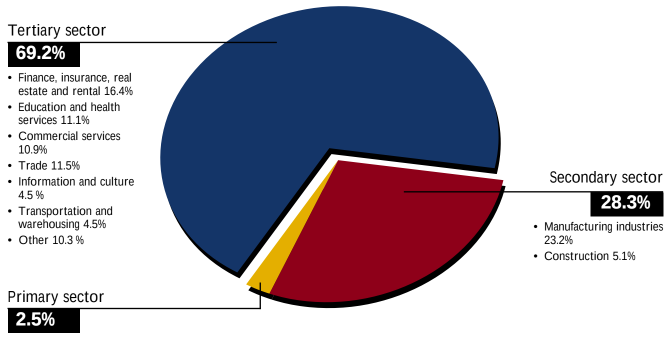
Abundant natural resources

- ❖ Mining:
  - Québec is one of the world's top ten mining producers.
- ❖ Aluminium:
  - Québec is the world's fourth-largest producer.
- ❖ Magnesium:
  - Québec's production is the second highest in the world.
- ❖ Newsprint:
  - 60% of the newsprint consumed in the northeast United States is produced in Québec.

Hydro-electricity and Hydro-Québec

- ❖ Fresh water covers 10% of Québec's territory of 1.7 million km^2, forming one of the world's largest reservoirs.
- ❖ The hydro-electric dams of Hydro-Québec, a corporation 100%-owned by the Québec government:
  - enable Québec to produce a clean and completely renewable form of electricity;
  - at a cost of production that is among the lowest in North America.
- ❖ With over 31 400 megawatts of power, Hydro-Québec serves 3.5 million customers in Québec, and sells electricity to the United States, Ontario and New Brunswick.
  - Hydro-Québec is the biggest exporter of electricity to the United States.
- ❖ Québec still has substantial undeveloped hydro-electric potential.

Breakdown of real GDP by major sector - 2000



Source: Institut de la statistique du Québec.

Daniel Johnson Dam - Hydro-Québec

An innovative economy

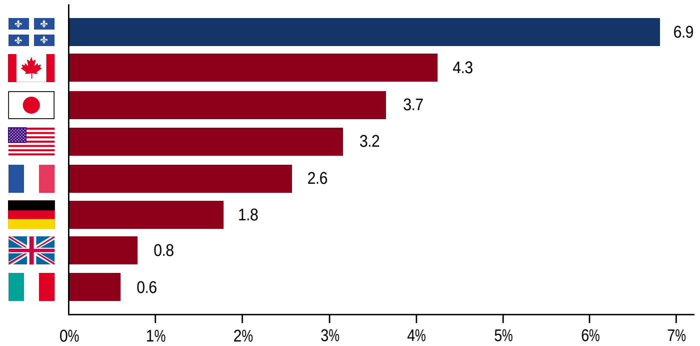
An advanced-knowledge economy

- ❖ Québec ranks ahead of every G7 country in terms of R&D spending growth by companies.
- ❖ Since 1990, the number of companies carrying out R&D has more than doubled.
- ❖ R&D spending now stands at 2.3% of GDP, compared with 1.8% in Canada.
- ❖ Advanced-knowledge industries have increased their share of GDP from 18% in 1983 to 24% in 2000.

Montréal: high-tech centre of the new economy

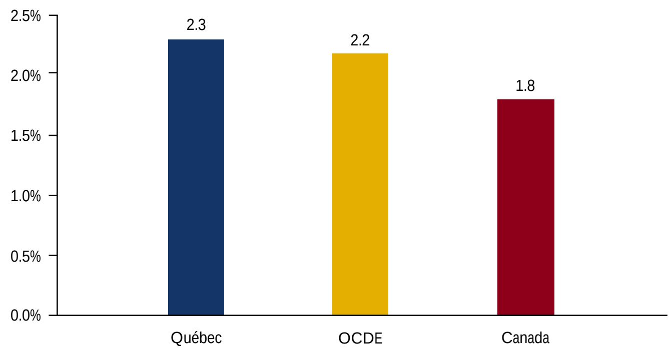
- ❖ Montréal is an acknowledged hub of new technologies and ranks among the leaders of technological development.
  - A study by PricewaterhouseCoopers (October 2000) puts Montréal in fourth place in North America in terms of the number of jobs per capita in high-technology sectors.
  - The US magazine Wired (July 2000) ranks Montréal fifth among the world's of new technology hubs, on an equal footing with New York and Seattle, and ahead of Los Angeles, Paris and Tokyo.
- ❖ Montréal offers:
  - a high concentration of researchers in biotechnology, pharmacology, information and multimedia technology;
  - a critical mass of companies in high-technology sectors;
  - top-notch scientific resources with four universities and over 300 research centres;
  - more accessible financing for companies in the new economy with the presence of Nasdaq Canada.

Real R&D spending by firms
(average annual growth rate 1986-1999)



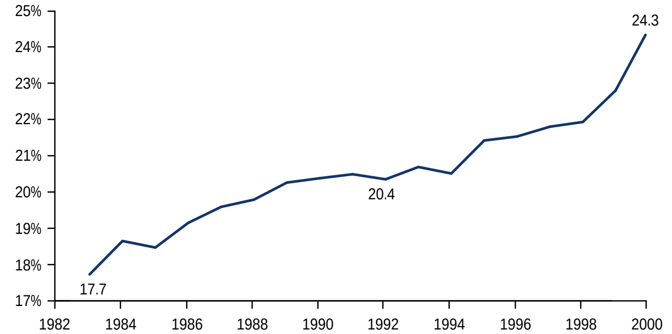
Sources: OECD and Statistics Canada for Québec and Canada.

R&D spending - 1999
(as a percentage of GDP)



Sources: OECD, Statistics Canada and Institut de la statistique du Québec.

Growing importance of advanced-knowledge industries
(as a percentage of private sector real GDP)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

ECONOMY

A focus on high technology

Companies at the forefront of the world economy

- Many world leaders in high-technology sectors have chosen Québec.

Aerospace

- Québec ranks sixth in the world, ahead of Italy and Spain:
  - Montréal is the world's second-largest aerospace centre, behind Seattle and before Toulouse.
- Over 260 companies; 40 000 jobs.
- Sales in excess of $9 billion in 2000:
  - in five years, sales have risen by more than 50% and employment by 21%.
- Over 80% of production is exported.
- R&D in excess of $600 million annually.

Biopharmaceutical industry

- 150 companies, including 5 company research centres.
- Nearly 15 000 private-sector jobs and 5 000 R&D jobs in public health research centres.
- R&D spending by pharmaceutical companies of $372 million in 2000.
- Over 45 % of all capital investment in the biopharmaceutical sector in Canada.

Information technologies

- 104 500 jobs in more than 4 000 companies.
- R&D investment of some $800 million.
- Remarkable breakthroughs by software designed in Québec, for example, special effects in the area of film production.
- Exports worth over $9 billion in 1999.

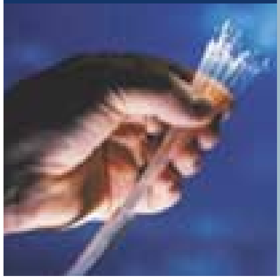
Aerospace

- Bombardier Aerospace
- Pratt & Whitney Canada
- CAE Electronics
- Air Canada
- Bell Helicopter Textron
- Rolls-Royce Canada
- EMS Technologies Canada
- BAE Systems Canada
- Honeywell Aerospace
- Lockheed Martin

Biopharmaceutical industry

- Shire BioChem
- Merck Frosst
- AstraZeneca
- Wyeth-Ayerst
- Aventis
- Bristol-Myers Squibb
- Pfizer
- Roche Diagnostics
- Abbott Laboratories
- Novartis Pharma

Information Technologies



- CGI
- IBM
- Bell Canada
- Ericsson
- Microcell
- SR Telecom
- DMR
- Cognicase
- Teleglobe Canada

High value-added exports

An open economy highly integrated into the North American market

❖ With the North American Free Trade Agreement (NAFTA), Québec has access to a huge market:

- in 1988, prior to NAFTA, exports accounted for close to 45% of Québec's GDP;
- today, they account for 61% of GDP.

❖ Since 1988, international merchandise exports have more than tripled:

- about 86% is destined for the United States.

❖ Québec is now:

- the seventh-largest exporter on the American market, ahead of Taiwan, South Korea and France;
- the fifth-largest export market for the United States, ahead of Germany, South Korea and Taiwan.

High value-added exports

❖ Québec's international exports reflect its diversified industrial structure in which high value-added products account for a growing proportion of output.

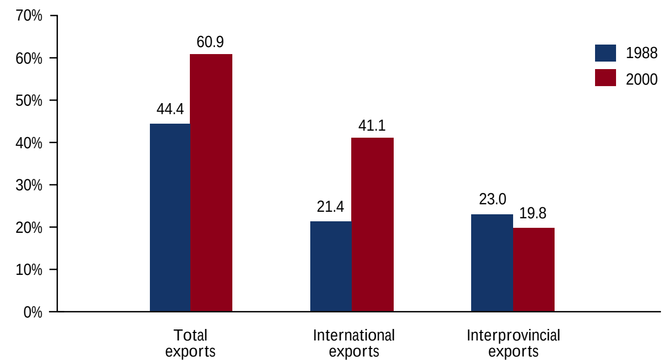
❖ More than one third of merchandise exports consist of investment goods:

- the share of investment goods has almost tripled, from 15% in 1978 to 42% in 2000.

❖ Investment goods account for most of the growth in international merchandise exports:

- telecommunications equipment: 892%;
- aircraft and parts: 478%;
- transportation equipment: 383%.

Québec's exports
(as a percentage of GDP)



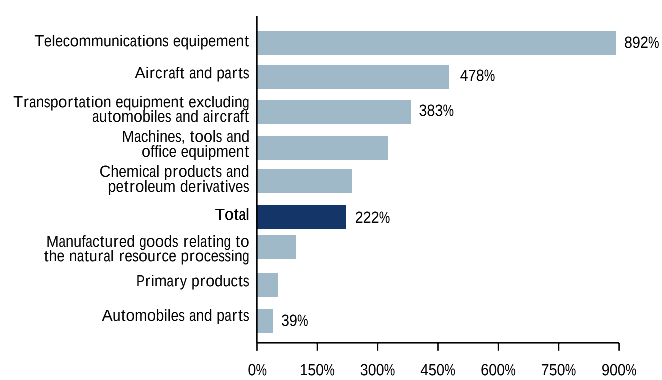
Sources: Statistics Canada and Institut de la statistique du Québec.

Ranking of the economic partners of the United States - 2000

	Exporters to the United States		Export markets of the United States
1	Canada	1	Canada
2	Japan	2	Mexico
3	Mexico	3	Japan
4	China	4	United Kingdom
5	Germany	5	Québec
6	United Kingdom	6	Germany
7	Québec	7	South Korea
8	Taiwan	8	Taiwan

Sources: US Census Bureau, Statistics Canada and Institut de la statistique du Québec.

Cumulative growth of merchandise exports - 1988-2000



Source: Institut de la statistique du Québec.

Business location and operating costs among the lowest in the world

❖ According to a study by KPMG (1999):

– Québec offers business location and operating costs that are among the lowest in the world.

– Compared with other large North American cities, these costs are lowest in Montréal.

Competitive, skilled manpower

❖ Unit labour costs in US dollars are 45% lower in Québec than in the United States.

❖ Highly skilled manpower:

– More than 80% of workers have a high school diploma and close to 20% are university graduates.

– On a per capita basis, more university degrees are granted in Québec than in the United States, France or Japan.

– Half of Montréal's labour force is bilingual.

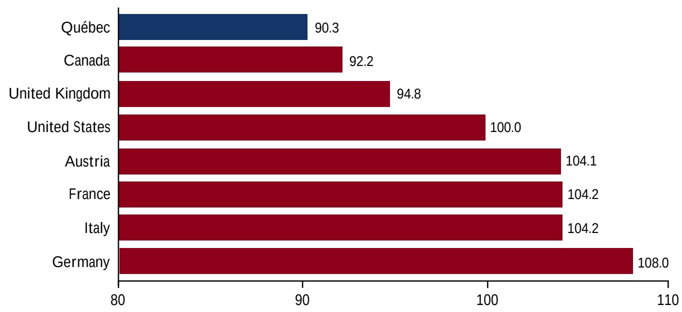
❖ An international survey by the OECD published in December 2001 ranked Quebecers second in the world in mathematics and fourth in science and reading.

Cost of living and quality of life

❖ According to a study by Mercer (June 2000) covering 146 business centres around the world, Montréal is among the cities with the lowest cost of living.

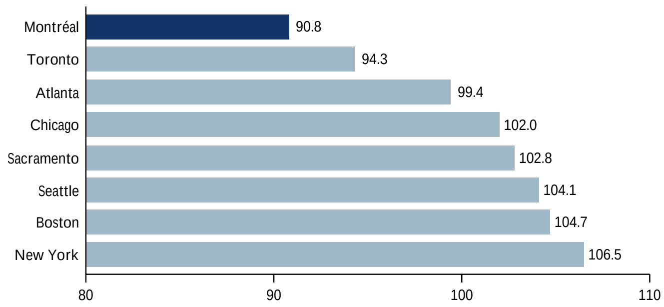
❖ Another study, which assessed the quality of life in 200 cities, ranked Montréal fourth among cities with the highest quality of life in the world. Montréal shares this rank with cities such as Brussels, Brisbane, Paris and Stockholm (Mercer, January 2000).

Index of business location and operating costs
(United States = 100)[1]



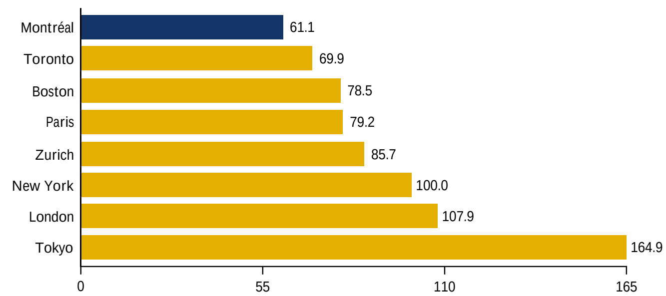
1 The lower a country's index, the lower its business location and operating costs.
Source: KPMG (1999).

Competitiveness index of large North American cities
(United States = 100)[1]



1 The lower a country's index, the lower its business location and operating costs.
Source: KPMG (1999).

Cost of living index of certain cities
(New York = 100)[1]



1 The higher the index, the higher the cost of living.
Source: Mercer (June 2000).

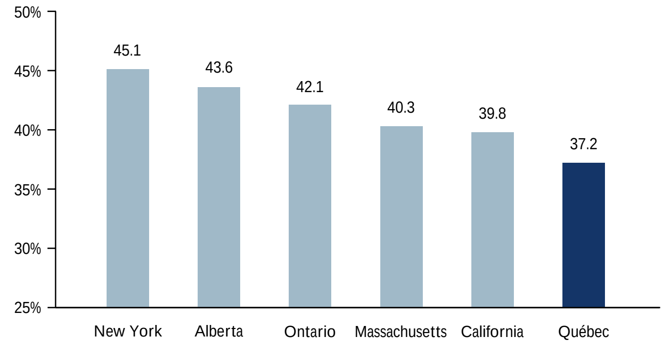
A tax system that favours economic growth

- Québec businesses enjoy a tax system that is competitive compared with Ontario and neighbouring American states:
  - According to a study by KPMG (1999), Québec has a distinct advantage in this regard.
- Tax rates on business profits in Québec are among the lowest in North America.
- Almost all companies can claim a refund of Québec sales tax on all their purchases.
- Tax measures are in place to encourage the development of the new economy and investment, in particular a 10-year tax holiday for major investment projects.
- To keep Québec's tax system competitive, a plan to reduce the tax on capital was announced in the 2002-2003 Budget Speech.
  - In 2003, close to 60% of Québec companies will be exempt from this tax, rising to 75% in 2006.
  - For other companies, the rate will eventually be cut in half.

Tax treatment that favours innovation

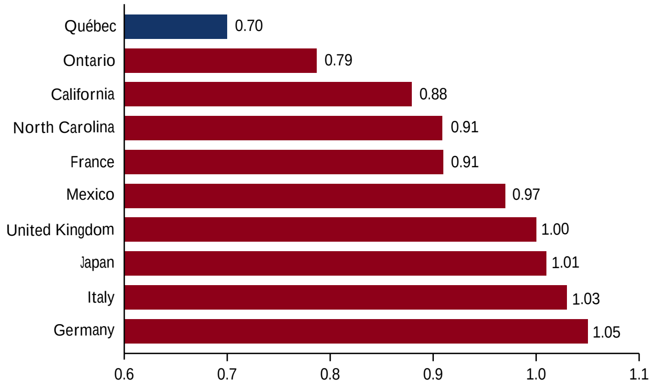
- Québec's tax system is clearly favourable for profitable companies that invest in boosting their productive capacity and improving their technology.
  - According to a study by the Conference Board of Canada (1999), Québec offers the most favourable tax treatment for R&D spending by a large company.

Combined[1] corporate income tax rates - as at January 1, 2001



1 Maximum tax rates applicable to the active income of corporations by all levels of government.
Source: KPMG (2001).

Competitiveness index of the tax treatment of an R&D expenditure - 1998[1]



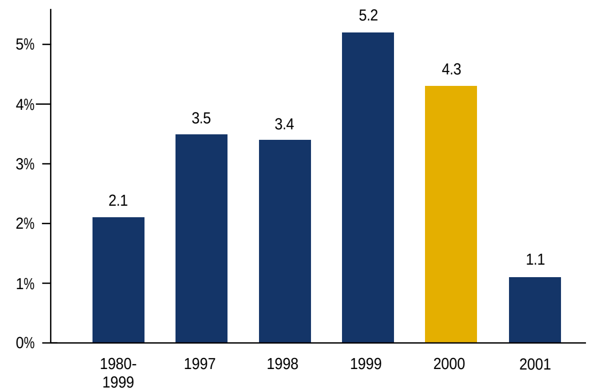
1 Revenue needed by a large company to cover an R&D expenditure of $1.
Source: Conference Board of Canada (1999).

A vigorous

Vigorous growth over the last 15 years

- From 1980 to 1999, Québec's average economic growth rate was 2.1%.
- Robust performance from 1997 to 2000:
  - average growth for this period was 4.1%.
- Forecast growth for 2001 is more modest, at 1.1%:
  - mainly because of the economic slowdown in the United States.

Real gross domestic product
(change in percentage, constant 1997 dollars)



Sources : Institut de la statistique du Québec and ministère des Finances du Québec.

Economic indicators
(as a percentage)

	1997	1998	1999	2000
Québec				
Real GDP growth	3.5	3.4	5.2	4.3
Domestic demand (1997$)	3.0	2.9	4.1	3.4
Consumption	5.9	4.2	4.7	4.8
Housing starts (units)	25 896	23 138	25 742	24 695
Non-residential business investment (1997$)	15.5	8.8	15.4	10.3
International merchandise exports (1997$)	9.5	9.7	10.2	12.8
Unemployment rate	11.4	10.3	9.3	8.4
Employment growth	1.6	2.7	2.3	2.4
Consumer price index (CPI)	1.5	1.4	1.5	2.4
- CPI (excluding food and energy)	1.3	1.7	1.2	1.2
Canada				
Interest rates				
- Government of Canada Treasury bills (3 months)	3.3	4.7	4.7	5.5
- Government of Canada bonds (10 years)	6.1	5.3	5.6	5.9
Exchange rate (US¢)	72.23	67.43	67.30	67.33

Sources : Bank of Canada, Institut de la statistique du Québec and ministère des Finances du Québec.

An environment that remains conducive to growth

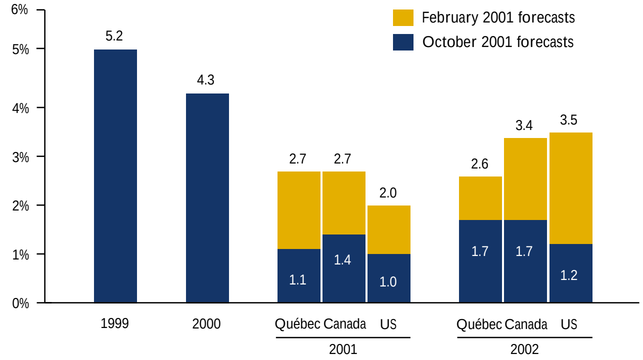
❖ More sustained economic growth is expected starting in 2002:

– strong domestic demand until very recently:
  - 4.3% increase in retail sales for the first 10 months of the year.
– sharp reduction of interest rates in Canada and the United States;
– measures announced by the U.S. governement to stimulate the economy;
– major tax cuts introduced in Québec over the past two years;
– measures announced in the November 1, 2001 Budget to sustain consumer confidence and investment.

❖ Other factors favouring economic growth:

– diversified economic base;
– relatively low inflation;
– favourable exchange rate and improved competitiveness.

Real gross domestic product — Québec, Canada and the United States *(change in percentage)*



Source: Ministère des Finances du Québec.

Long-term interest rates — Canada
(as a percentage)

2002-2003 Budget Speech

- On November 1, 2001, the Québec government presented its 2002-2003 Budget, five months ahead of schedule:
  - to provide a clear vision of Québec's economy and public finances in the economic aftermath of the September 11 attacks in the United States;
  - to announce an action plan aimed at bolstering consumer confidence and investment.

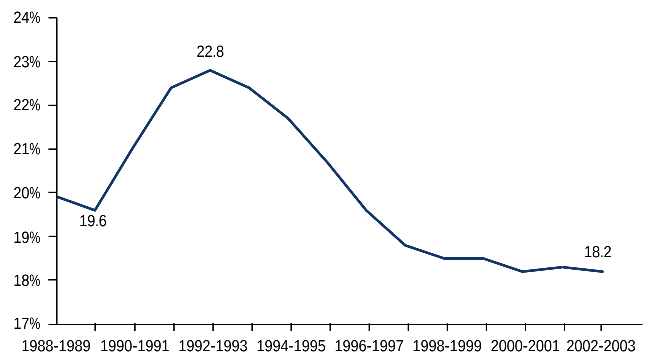
The zero-deficit objective is maintained

- As prescribed in the *Act respecting a balanced budget*, the objective of a zero deficit is maintained for 2001-2002, 2002-2003 and subsequent years.
- Revenue forecasts are lowered by $1.8 billion for 2001-2002 and 2002-2003, due to:
  - more moderate growth of the economy;
  - a decrease in the investment income of certain government corporations as a result of poor stock-market performance.
- However, reduced interest rates will lower debt service costs by $944 million for 2001-2002 and 2002-2003.
- A balanced budget will be maintained by:
  - use of the balance of the budgetary reserve ($670 million);
  - measures to curb tax evasion, and an increase in the tobacco tax;
  - rigorous spending management: the program spending targets set in the March 2001 Budget are maintained:
    - the program spending to GDP ratio should reach 18.2% in 2002-2003.

Summary of consolidated financial transactions
(in millions of dollars)

	2000-01	2001-02	2002-03
Budgetary revenue			
Own-source revenue	42 856	40 298	42 691
Federal transfers	8 161	9 660	9 247
	51 017	**49 958**	**51 938**
Budgetary expenditure			
Operating expenditure	-42 034	-43 506	-44 582
Debt service	-7 606	-7 402	-7 356
	-49 640	**-50 908**	**-51 938**
Budgetary reserve			
Funds allocated to reserve	-950	—	—
Use of funds allocated to reserve			
Financing new spending	—	280	—
Maintaining a balanced budget	—	670	—
Budgetary surplus after reserve	**427**	**0**	**0**
Non-budgetary requirements	-943	-707	-645
Net financial requirements	**-516**	**-707**	**-645**

Program spending[1]
(as a percentage of GDP)



1 Excluding extraordinary expenditures of $1 377 million in 1998-1999.

Action plan

- Support measures of $400 million for consumers, including:
  - an injection of $250 million, made in December, targeting 2.5 million low- and middle-income individuals.
- Acceleration of public-sector investments amounting to nearly $3 billion.
- Measures for businesses, including:
  - $525 million in additional liquidity for SMEs, through a six-month deferral of certain tax instalments for the fourth quarter of 2001;
  - 50% reduction in the tax on capital by 2007 (from 0.64% to 0.30%) and full exemption for 60% of businesses by January 2003;
  - enhancement of certain assistance programs for private investments.

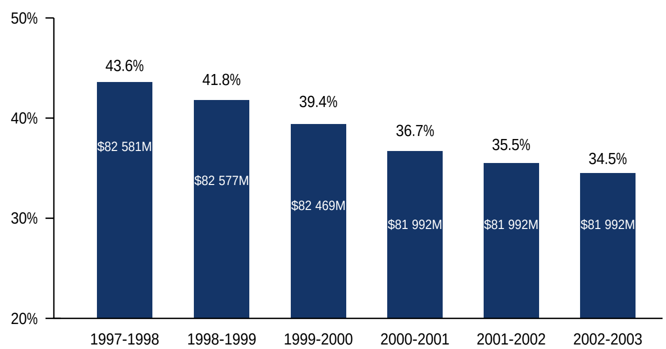
Public-sector investment acceleration plan
(in millions of dollars)

Public investments	
- Health and social services	500
- Housing	457
- Education	400
- Road network	400
- Municipal infrastructures	350
- Research, science and technology	100
- Other	250
Sub-total: public investments	**2 457**
Government corporations investments	**500**
Total	**2 957**

Declining debt ratios

- As a percentage of GDP, the debt representing accumulated deficits is still falling :
  - from 43.6% in 1997-1998, it should reach 34.5% in 2002-2003.

Debt representing accumulated deficits[1]
(as a percentage of GDP)



1 As presented in the Budget Plan of the 2002-2003 Budget.

A competitive system

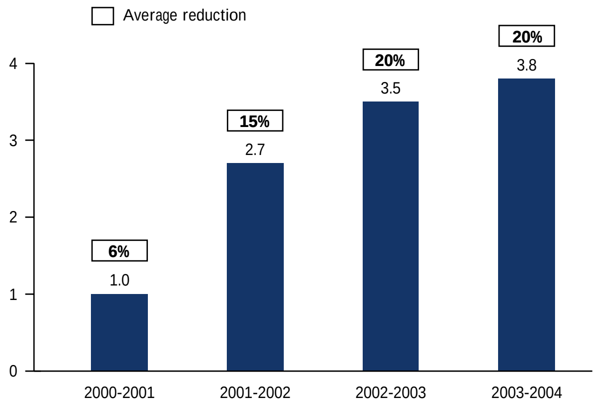
Significant drop in the personal tax burden

- Lowering personal income tax remains a priority:
  - the tax reductions announced in the last two years total $11 billion over four years;
  - despite the more difficult economic situation, the tax reductions are maintained.
- In 2002, the personal tax burden will have fallen by an average of 20%.
- To protect taxpayers' purchasing power, tax tables have been fully indexed since January 1, 2002.
- The personal tax system is thus streamlined, more competitive and more conducive to employment.

Four hundred million dollars for consumers

- In the November 1 Budget Speech, the government has provided $400 million for consumers.
- Overall, the disposable income of households will rise by $1.6 billion in 2002 because of personal income tax reductions and specific support measures for low- and middle-income individuals introduced in the 2001-2002 and 2002-2003 Budget Speeches.

Personal income tax reduction
(in billions of dollars)



Impact of support measures for households - 2001-2002 and 2002-2003 Budget Speeches
(in millions of dollars)

2002-2003 Budget	
Increase in QST tax credit	250
Rate of indexation raised from 1.8% to 2.7%	77
Social assistance benefits indexed	75
Sub-total : 2002-2003 Budget	***402***
2001-2002 Budget	
Personal income tax reduction	1 040
Indexation of the personal income tax system in 2002	155
Indexation of social assistance benefits	36
Sub-total : 2001-2002 Budget	***1 231***
Total	**1 633**

very favourable for investment

Agencies that foster economic development

- Many organizations associated with the government are highly effective in promoting job creation and attracting investment.

Investissement Québec

www.invest-quebec.com

- Organization focused chiefly on increasing investment and job creation in Québec.
- One-stop centre for Québec and foreign companies:
  - offers effective financial and tax incentives to sustain private investment.
- Refundable tax credits equal to 40% of wages paid to eligible employees of, for instance:
  - the Cité du multimédia (Multimedia City);
  - Centres de développement des technologies de l'information (Information technologies development centres); and
  - Carrefours de la nouvelle économie (New economy centres).
- Financial assistance for projects driven by innovation and exports. In 2000-2001, 929 projects were supported and will lead to $5.4 billion of investment and the creation of 24 000 jobs.

MONTRÉAL FOREIGN TRADE ZONE
MIRABEL

www.zonemirabel.com

- Technical and financial assistance for the implementation of projects in the aerospace industry and the international logistics and light manufacturing sectors.
- Land adjacent to Mirabel Airport available at very competitive prices.
- Tax assistance for the construction of buildings and lease or purchase of equipment.
- Refundable tax credits equal to 40% of wages of eligible employees, ten-year holiday from income tax, tax on capital and payroll tax.

SGF

www.sgfqc.com

- The Société générale de financement du Québec (SGF) is dedicated to carrying out economic development projects with partners and under normal profitability conditions.
- SGF's objective: generate $10 billion of investment in five years.
- In 2000, participation in 49 projects:
  - total investment of $2.5 billion;
  - creation of 10 200 jobs.
- Annual return of 7% over five years.
- Some fifty foreign partners.

International Financial Centre
Montréal

www.cfimontreal.com

- The International Financial Centre (IFC) seeks to facilitate the location, development and retention, in Montréal, of companies specializing in international financial transactions.
- The IFC program offers tax benefits:
  - to corporations:
    - exemption from Québec's tax on profits stemming from eligible international transactions;
    - exemption from Québec's tax on capital;
    - exemption from the payroll tax.
  - to employees:
    - Canadian residents: exemption of one half of Québec's personal income tax;
    - non-residents: total exemption from Québec's personal income tax for five years.
- 97 institutions have IFC status in Montréal.

Financing programs

Government and Financing Fund

❖ The financing program for 2001-2002 is estimated at close to $8.5 billion:

– $7.1 billion for the Consolidated Revenue Fund:
  - basic program of $3.1 billion;
  - optional program of $4.0 billion.

– the needs of the Financing Fund amount to $1.4 billion.

❖ In 2002-2003, the financing program should reach $5.8 billion:

– $3.8 billion for the Consolidated Revenue Fund;

– $2.0 billion for the Financing Fund.

❖ The basic program of the Consolidated Revenue Fund is designed to:

– repay maturing debt;

– maintain the cash position at the desired level.

❖ Depending on opportunities on financial markets, the optional program helps to reduce the cost of servicing the debt by:

– contributing to a sinking fund that can eventually be used to pay retirement benefits of public-sector employees;

– carrying out advantageous pre-financing.

❖ The Financing Fund generates savings by grouping the borrowings to be taken out for certain consolidated organizations and government corporations.

Government and Financing Fund
Financing program
(in millions of dollars)

	2001-2002	2002-2003
Consolidated Revenue Fund		
Basic program		
– Net financial requirements[1]	—	-500
– Maturing debt	4 602	2 934
– Change in cash position	-1 477	-855
	3 125	1 579
Optional program		
– Retirement Plans Sinking Fund	3 118	2 236
– Pre-financing	855	—
	3 973	2 236
	7 098	**3 815**
Financing Fund[2]	**1 400**	**2 000**
Total	**8 498**	**5 815**

1 Excluding net financial requirements for consolidated organizations.
2 Borrowings are made out of the Financing Fund to certain consolidated organizations and government corporations.

Financement-Québec

❖ This government corporation was created in 1999. It borrows on public and private markets:

– in its own name;

– with the government's guarantee;

– and then lends to institutions of the health and education networks (previously served by the Financing Fund).

❖ Financement-Québec's borrowing requirements are estimated at $1.4 billion in 2001-2002 and at $2.2 billion in 2002-2003.

Financement-Québec
(in millions of dollars)

	2001-2002	2002-2003
Financing program	1 400	2 200

Diversification

Financing focusing on diversification

Markets

- The debt is financed on various markets:
  - Canada;
  - United States;
  - Europe;
  - Asia;
  - Australia.

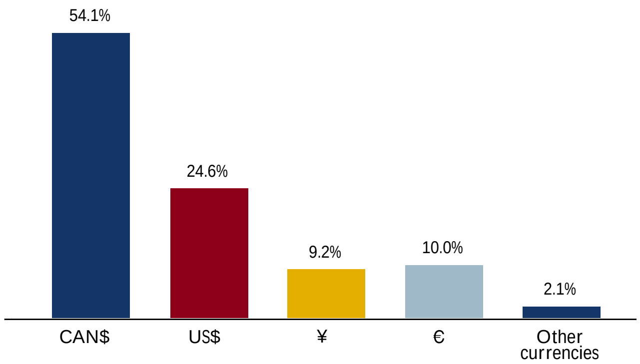
Instruments

- Long-term instruments:
  - negotiable bonds;
  - medium-term notes;
  - private issues;
  - retail savings products.
- Short-term instruments:
  - Treasury bills;
  - Treasury notes.
- Lines of credit:
  - syndicated (US$3 500 million available);
  - bank ($1 165 million available).

Maturities

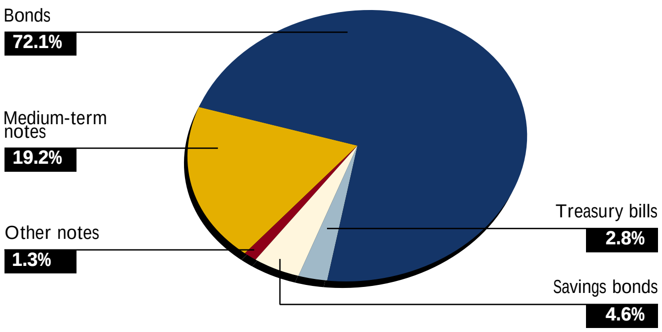
- Maturities spread over time:
  - to avoid massive refinancings.

Structure of the debt managed by the government[1] by currency as at March 31, 2002[2]
(excluding currency swap and Fx-forward contracts)



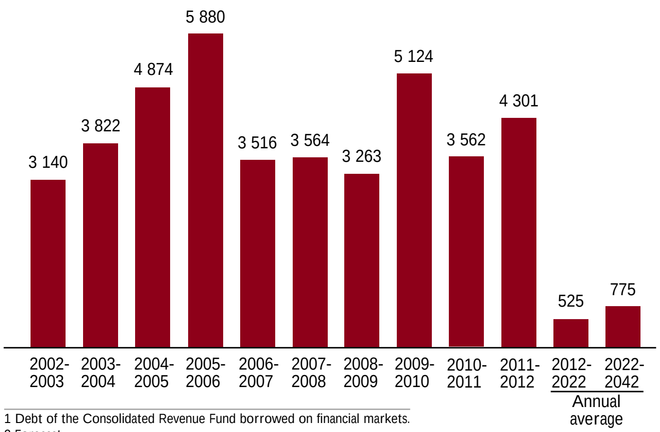
1 Debt of the Consolidated Revenue Fund and debt incurred to make advances to the Financing Fund.
2 Forecast.

Direct debt[1] by instrument as at March 31, 2002[2]
(as a percentage)



1 Debt of the Consolidated Revenue Fund borrowed on financial markets.
2 Forecast.

Long-term direct[1] debt maturities as at March 31, 2002[2]
(in millions of dollars)



1 Debt of the Consolidated Revenue Fund borrowed on financial markets.
2 Forecast.

Liquidity

Strategy: liquidity

- The liquidity of Québec securities is a top priority.
- The following strategy has been developed to ensure good liquidity:
  - long-term relations with Québec's financial partners;
  - satisfaction of investors' needs;
  - regular presence on all major markets:
    - with benchmark issues; and
    - by reopening issues.
  - promotion of Québec securities:
    - promotional documents;
    - meetings with investors;
    - involvement of banks and brokerage firms.
- On the domestic market, the size of Québec securities fosters liquidity:
  - Québec is the third-largest issuer in Canada.

Long-term relations with foreign markets

- Tapping foreign markets is necessary to satisfy the government's borrowing requirements.
- Québec has been present on major markets for a long time:
  - first foreign issue: London, 1874;
  - first issue in the United States: 1879;
  - second foreign government after Australia to borrow on the Japanese market in 1972;
  - first borrowing in Euro immediately in 1999;
  - in 2001, first Canadian government to borrow on the Australian market.

Some issues on foreign markets

Market	Coupon %	Maturity	Amount issued (in millions of units of the local currency)
US$ Global	5.75	2009	1 000
	6.125	2011	1 000
	7.5	2029	1 500
	5.50	2006	1 000
Euro	5.125	2007	150[1]
	5.125	2009	639
	5.625	2011	1 500
Swiss Franc	3.5	2008	500
Yen	3.0	2009	100 000
	1.60	2013	50 000
Australian$	5.75	2006	280
	Variable	2006	120

1 For the retail markets.

Reopening issues in Canada

Coupon %	Maturity	Initial issue date	Number of reopenings since initial issue	Amount oustanding as at Jan. 15, 2002 (in millions of dollars)
7.5	2003	1993/09	11	2 345
6.5	2005	2000/02	7	2 061
7.75	2006	1996/02	13	2 024
6.5	2007	1997/02	18	2 942
5.5	2009	1999/01	18	2 498
6.25	2010	2000/08	14	2 451
9.375	2023	1993/03	9	2 202
8.5	2026	1996/07	11	2 176
6.0	2029	1998/05	14	2 617
6.25	2032	2000/06	8	2 938

Québec's first issues on foreign markets

Pound sterling	1874
US dollar (Yankee)	1879
Deutsche mark	1968
French franc	1972
Yen (Samurai)	1972
Swiss franc	1972
Spanish peseta (Matador)	1997
Swedish crown	1998
Euro	1999
Australian dollar (Kangaroo)	2001

Debt management

Minimization of costs

- ❖ Financing decisions are taken independantly from debt management decisions:
  - Borrowings are made where funds are available, at the lowest possible cost.
  - Futures and swap contracts are used to target optimal debt structure:
    - by currency;
    - at fixed rates and at variable rates.

Rigorous management of debt service

- ❖ Close monitoring of debt service expenses.
- ❖ Use of financial instruments to minimize debt service fluctuation:
  - currency trading and variable rate debt transactions.

Counterparty credit policy

- ❖ The Québec government has adopted a counterparty credit policy that includes:
  - setting explicit credit limits for each dealer;
  - continuous assessment of the market value of transactions;
  - if the credit threshold is reached, an adjustment mechanism is triggered to return within the established limits.

Financial instruments used for debt and debt service management

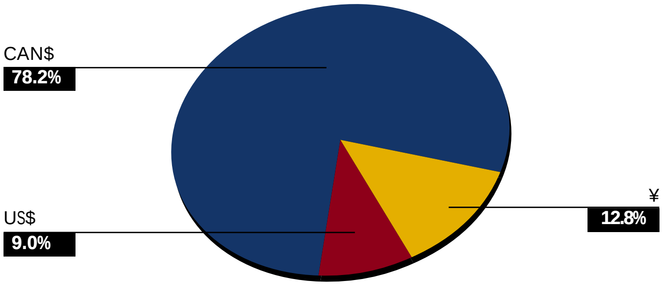
Interest rate futures contracts

Canada	United States
- 3 months (BAX)	- 3-month LIBOR
- 10 years (CGB)	- Options on 3-month LIBOR
	- 2, 5, 10 and 30 years (T-Bonds, T-Notes)

Over-the-counter products

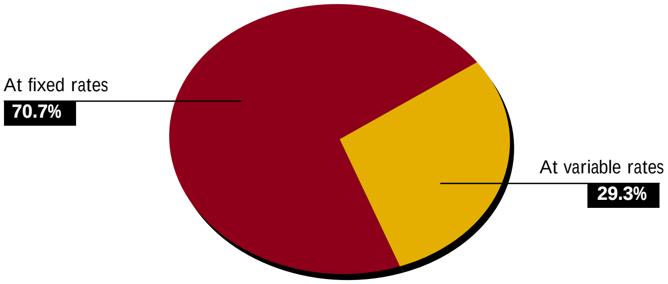
Swaps	Options
- Interest rates	- Bankers' acceptances in Canada (Caps-Floors)
- Cross currencies	- Swaptions
Forwards	- Fx-options
- Bankers' acceptances in Canada (FRA)	
- Fx-forwards	

Structure of the debt managed by the government[1] by currency as at March 31, 2002[2] (including currency swap and Fx-forward contracts)



1 Debt of the Consolidated Revenue Fund and debt incurred to make advances to the Financing Fund.
2 Forecast.

Structure of the debt managed by the government[1] as at March 31, 2002 at fixed rates and at variable rates[2]



1 Debt of the Consolidated Revenue Fund and debt incurred to make advances to the Financing Fund.
2 Forecast.

High-quality credit

❖ Moody's upgraded Quebec's credit rating in August 2001:

– "The revision reflects a significant improvement in Quebec's financial performance and a downward trend in the debt burden."

Moody's report, August 2001

❖ Standard and Poor's recognizes the Québec government's rigorous management of public finances:

– "The ratings reflect [...] the government's determination to achieve balanced budgets through the medium term, in keeping its balanced budget legislation."

Standard & Poor's report, March 2000

Credit ratings

Agency	Rating	Outlook
Standard & Poor's	A+	stable
Moody's	A1	stable
Dominion Bond Rating Service	A	stable
Japan Credit Rating Agency	AA	—

Québec
Ministère des Finances

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