Q. Provide the current bond rating reports for Hydro and the Province of Newfoundland and Labrador.

A. Please see attached.

Press Release: Newfoundland and Labrador, Province of

Wednesday, July 23, 2003

Date of Release: Nov 8, 2002

Confirms at BBB & R-2 (high)

Please click on the Issuer name below to see all Research for that Issuer.

Industry Icon Legend

Issuer	Debt Rated	Rating Action	Rating	Trend	Notes	Latest Event
Newfoundland and Labrador Hydro	Commercial Paper & T-Bills (bsd. on Prov. Nfld)	Confirmed	R-2 (high)	Stb	gov. conf. 11/08/02	Nov 8, 2002
Newfoundland and Labrador, Province of	Short-Term Debt	Confirmed	R-2 (high)	Stb		Nov 8, 2002
Newfoundland Municipal Financial Corp.	Short Term Liabilities (bsd. on Prov. Nfld)	Confirmed	R-2 (high)	Stb		Nov 8, 2002
Newfoundland and Labrador Hydro	Long Term Debt (bsd on Prov. Nfld)	Confirmed	BBB	Stb	gov. conf. 11/08/02	Nov 8, 2002
Newfoundland and Labrador, Province of	Long-Term Debt	Confirmed	BBB	Stb		Nov 8, 2002
Newfoundland Municipal Financial Corp.	Long Term Debt (bsd. on Prov. Nfld)	Confirmed	BBB	Stb		Nov 8, 2002

The full text of the press release:

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Note: Debt issued/guaranteed by Province, including Newfoundland and Labrador Hydro and Newfoundland Municipal Financing Corporation.

DBRS is confirming the Province of Newfoundland and Labrador's ("Newfoundland" or the "Province") ratings as indicated above. Those ratings remain supported by the Province's strong economic outlook and slowly improving debt and tax burdens. The Province continued to face challenging fiscal conditions in 2001-02, ending the year with a DBRS-adjusted shortfall estimated at $202 million on a modified cash basis. Although DBRS does not have sufficient information to convert the 2001-02 projected fiscal balance on a modified accrual basis, historical adjustments suggest that the accrual DBRS-adjusted shortfall probably exceeded $350 million. Fuelled by the fiscal imbalance and continued growth in pension liabilities, total DBRS-adjusted debt (tax-supported debt plus unfunded pension liabilities) grew by $443 million, bringing total debt to almost $10 billion or 71.6% of GDP.

Budget estimates for 2002-03 suggest that the Province's DBRS-adjusted shortfall could grow to an estimated $258 million (modified cash basis). Spending increases are expected to be modest, largely earmarked for salary increases and rising demand for health care services, but should be sufficient to widen the imbalance as revenues are projected to remain flat. Note, however, that projections are based on very conservative economic growth assumptions. As a result, the shortfall for the year will likely be lower than budgeted. Weak fiscal results and growing pension liabilities will remain the key drivers of debt, pushing the total to almost $10.4 billion by the end of 2002-03 (DBRS-adjusted). Faster economic growth should allow for a modest decline in the debt to GDP ratio, however.

Renewed economic growth will have a positive impact on revenues and should help maintain the downward trend of the debt to GDP ratio. However, opportunities for fiscal improvement are expected to remain limited over the years to come, as the Province continues to match a large part of revenue growth with new spending. Other challenges the Province faces include: (1) the highest debt to GDP ratio of all provinces; (2) below-average economic fundamentals; (3) a high dependence on federal funding; and (4) continued use of modified cash accounting for budgeting purposes.

Dominion Bond Rating Service Limited (DBRS) has published a full report that provides additional analytical detail. To see this report, please click on http://www.dbrs.com/web/sentry?COMP=2900&DocId=115880. If you do not have access to this document, please contact us at info@dbrs.com.

Issuers in This Press Release

Newfoundland and Labrador, Province of Newfoundland and Labrador Hydro Newfoundland Municipal Financial Corp.

DBRS is a Toronto-based, full-service credit rating agency established in 1976. Privately owned and operated without affiliation to any organization, DBRS is respected for its independent, third-party evaluations of corporate and government issues, spanning North America, Europe and Asia. DBRS's extensive coverage of securitizations and structured finance transactions solidifies our standing as a leading provider of comprehensive, in-depth credit analysis.

Publication date: 07-Jul-2003
Reprinted from RatingsDirect

Newfoundland and Labrador (Province of)

Credit Analysts: Mario Angastiniotis, Toronto (1) 416-507-2520; Valerie E Blair, Toronto (1) 416-507-2536

ISSUER CREDIT RATING
Newfoundland and Labrador (Province of)
Issuer Credit Rating
A-/Stable/A-1
Issuer credit rating history:
May 7, 2001
A-/A-1
Nov. 22, 1999
A-/A-2

Rationale

The ratings on the Province of Newfoundland and Labrador reflect:

- The solid economic performance in 2002 despite the economic slowdown in North America. Newfoundland and Labrador's economy grew by 13.4% in real terms in 2002, due to gains in offshore oil production and strong domestic demand. The 2002 performance marked the third time in five years that the province's growth led the country. The province's real GDP is forecasted to rise by a further 5.4% in 2003.
- A promising medium-term outlook for the province, primarily reflecting the strong prospects in the offshore oil sector, which has spurred a broadening of the province's economic structure. Offshore oil exploration and production is expected to continue to enhance the province's own-source revenues in the medium term, helping to decrease its reliance on federal equalization revenue and contributing to an increase in fiscal flexibility. The agreement between the province and Inco Ltd. to develop the Voisey's Bay mineral deposit in northern Labrador and to establish a processing facility at Argentia is another development that has long-term positive implications for Newfoundland and Labrador's economy.
- A continuing decline in net tax-supported debt (excluding self-supporting debt of Newfoundland and Labrador Hydro) as a share of GDP to 39.8% in fiscal 2003 from a peak of 46.8% in fiscal 1999. A modest decline is expected in fiscal 2004.

These positive factors are offset by:

- The expected deterioration in budgetary performance in the current fiscal year as a result of increased spending, which consequently will see the province's overall budgetary deficit widen to about 4.0% of revenues in Standard & Poor's Ratings Services adjusted terms in fiscal 2004 (year ending March 31, 2004). This deterioration represents a setback to the overall progress made during the current government's mandate, but is not surprising, as this is an election year. Nevertheless, Standard & Poor's remains confident that progress on eliminating the deficit will resume in the medium term.
- Spending pressures in the health care sector in particular, which are likely to constrain fiscal flexibility in the medium term.

Outlook

The stable outlook reflects Standard & Poor's expectation that despite the expected deterioration in its budgetary balance in fiscal 2004, the province will remain committed to returning to a balanced budgetary position in the medium term, thereby contributing to a gradually declining debt burden.

Comparative Analysis

The province of Newfoundland and Labrador, located on the Atlantic coast, is among Canada's smallest provinces (in terms of population). The province's economy is small and dynamic with an important and growing primary sector. Newfoundland and Labrador's economy has been diversifying since the imposition of the groundfish moratorium by the federal government in the early 1990s. Since then, offshore oil production and the mining sector have increasingly become more important for the province's future economic prospects and employment growth.

Newfoundland and Labrador's budgetary performance has deteriorated in the past year as a result of revenue and spending challenges; however, the province's performance still remains comparable with those of its international peers. In addition, the province's overall budgetary deficit at 4% of operating revenues is comparable with deficits posted by other domestic peers such as New Brunswick and Prince Edward Island. Still, the province's tax-supported debt as a share of operating revenues is high compared with both Canadian and international peers.

System Support and Predictability

Newfoundland and Labrador participates primarily in two federal-provincial transfer programs: the Equalization program and the Canada Health and Social Transfer program (CHST). Newfoundland and Labrador is one of eight provinces that currently receive federal transfer payments under the Equalization program--the only provinces that do not receive equalization payments are Alberta and Ontario. Newfoundland and Labrador also receives CHST payments, provided by the federal government to all provinces to support health care, post-secondary education, and other social programs. The CHST program funding continues to increase, and more recently, the federal government has been topping up the CHST fund with one-time supplements to alleviate pressures in maintaining existing levels of service. But, the province has not benefited from the latter. These transfers are typically funded on a per capita basis; Newfoundland and Labrador has not been able to maintain its share of these funding increases due to the ongoing decline in the province's population.

Both the equalization and CHST programs are considered a source of support for the rating on the province. Despite this support, however, the level of funding from the federal government has not kept pace with the growth in expenditure obligations to fund health care and other social programs. This has been a source of contention between the provinces and territories and the federal government, leading to ongoing discussions vis-a-vis the restructuring of various programs including the equalization and CHST programs.

Newfoundland and Labrador's Economy Continues to Outperform

Newfoundland and Labrador's economy led the country with real GDP growth of 13.4% in 2002, led by gains in offshore oil production. This was the third time in the past five years that Newfoundland and Labrador's economy outperformed all other provinces. Offshore oil production rose by 92.1% in 2002 to 104.3 million barrels. The lion's share of the increase was attributable to the start-up of Terra Nova, which began to produce oil in January 2002 and reached a total of 38.5 million barrels of oil production last year. Hibernia's production rose by 21.3% to 65.9 million barrels. Employment rose by a further 1.2% in 2002 to a new record of 214,000 person years. Improving prospects for job growth led to an increase in the labor participation rate, however, which contributed to a modest rise in the province's unemployment rate to 16.9%. Strength on the employment front contributed to a 2.3% real increase in disposable incomes, which together with low interest rates buoyed consumer confidence. The aforementioned translated into another strong performance in retail sales and housing construction.

Table 1 Economic statistics

		-- Year ended Dec. 31 --			
(% change)	**2003f**	**2002**	**2001**	**2000**	**1999**
Real GDP	5.4	13.4	1.3	5.9	5.8
Employment	1.8	1.2	3.3	0.1	5.5
Unemployment rate (%)	16.1	16.9	16.1	16.7	16.9
Retail sales	3.2	2.9	9.3	7.1	7.2
Capital formation*	8.3	(1.7)	(8.3)	(3.6)	30.2
Consumer prices	2.2	2.4	1.1	3.0	1.5

*Current dollars, Statistics Canada. F--forecast.

In the fiscal 2004 budget, the province forecasted real economic growth of 5.4% in 2003, led by a 31% increase in offshore oil production from the Hibernia and Terra Nova projects. Increased construction activity at the White Rose oil project and Voisey's Bay nickel mining project is also expected to contribute to overall economic and employment growth in 2003. In addition, offshore exploration activity is expected to increase in the Flemish Pass area and additional wells are expected to be drilled at both the White Rose and Terra Nova projects. Overall, employment is forecast to rise by a further 1.8% in 2003 to about 218,000, with construction at the White Rose oil project and Voisey's Bay mining project to contribute to the overall gain in employment.

Capital investment is expected to rebound by 8.3% in 2003 after declining marginally in 2002; the latter was due primarily to the winding-up of construction at Terra Nova. The increase in capital investment in 2003 will largely reflect heightened activity at White Rose and Voisey's Bay, as well as increased offshore oil exploration.

Overall, the province's economy continues to diversify. Developments in the mining and offshore oil sectors continue to offer the best prospects for economic and employment growth in the medium term. Production is expected to continue to ratchet up at both Hibernia and Terra Nova (as well as at White Rose beginning in 2006) in the near term. New offshore oil discoveries will be needed, however, to extend the province's resource potential in the long term. Offshore oil exploration is expected to continue in 2003, bringing the total spent on exploration to more than C$700.0 million. From 1997 to 2002, C$649.0 million was spent; combined with the two wells to be drilled in 2003, this should bring the total to more than C$700.0 million. New advances in seismic and drilling technology are allowing for exploration in deeper waters and areas that were previously inaccessible, such as the Flemish Pass. Seismic data also suggest that the deep water Laurentian sub-basin also has strong development potential. Resolution of the boundary dispute between the province and Nova Scotia in March 2002 has removed jurisdictional barriers to exploration in this area.

Elsewhere, the province's metal mining industry began to show signs of recovery in 2002, with the value of shipments rising 5%. Direct employment in the industry remained unchanged in 2002 from the previous year. The volume of shipments of iron ore, the province's most important mineral product, rose by 9.9% in 2002 from the previous year. Mineral exploration rose on a number of fronts in 2002, concentrated on gold and base metals as well as nickel at Voisey's Bay. The Voisey's Bay project was officially sanctioned in October 2002 with a C$280.0 million investment expected in 2003. First production from the Voisey's Bay project is expected in 2006.

With about 75% of the GDP gains being driven by offshore oil production, the risks to Newfoundland and Labrador's economy would appear limited in 2003. The continuing weakness in the U.S. economy is of some concern to industries such as forestry and newsprint. Mining production could also suffer if demand for iron ore wanes. In the longer term, a declining population is a risk to the province's potential growth rate and equalization entitlements. On a positive note, however, more recently the rate of population decline has slowed and is expected to be a mere 0.3% expected for 2003. This represents the smallest contraction since the population began to decline in 1994.

Newfoundland and Labrador's Budgetary Performance Deteriorates

The province's budgetary performance came in with a narrower-than-expected overall deficit of 1.0% of revenues (Standard & Poor's adjusted) in fiscal 2003 (year ended March 31, 2003), following a deficit of 1.5% of revenues in fiscal 2002. The most recent budget revealed, however, that the province's fiscal deficit is expected to deteriorate significantly in fiscal 2004 to about 4% of overall revenues, due to slower growth in operating revenues and slightly faster operating expenditure growth.

Operating revenues are forecasted to rise by about 1.1% in fiscal 2004 (Standard & Poor's adjusted) following a 3.6% increase in fiscal 2003. Most of the weakness in overall revenues is due to an expected decline in equalization transfers to the province. Own-source revenues are forecasted to grow by 3.6% in fiscal 2004, following a larger 6.9% increase in fiscal 2003. Most of the rise in fiscal 2004 own-source revenues will be due to increases in personal and corporate income tax revenues as well as sales and resource revenues. Personal income tax revenues (the province's most important provincial source revenue) are forecasted to rise by 4.7% in fiscal 2004, following a 9.7% increase in fiscal 2003, while corporate income tax revenues are expected to rise by about 13% in fiscal 2004. Retail sales tax revenues are seen remaining essentially flat in fiscal 2004 alongside a more tempered consumer spending outlook, following a sharp increase of 11% in fiscal 2003.

Table 2 Financial Statistics

		-- Year ended March 31 --			
(%)	**2004b**	**2003f**	**2002**	**2001**	**2000**
Operating balance/operating revenue	(1.3)	2.4	2.7	5.3	6.2
Surplus (deficit)/revenue	(4.0)	(0.9)	(1.5)	1.3	1.4
Operating revenue growth (% change)	1.1	3.6	3.1	4.7	(0.1)
Operating expenditure growth (% change)	4.9	4.0	6.0	5.7	0.9
Total expenditures/GDP	24.7	25.3	28.8	27.3	29.4
Interest/revenue	13.6	14.0	13.8	15.7	15.0
Net tax-supported debt/GDP	38.2	39.8	44.7	42.4	45.0

B--fiscal 2004 budget estimates. F--forecast.

Although the province expects to see its own-source revenues rise as a percent of operating revenues in fiscal 2004, it expects to receive less from federal transfers. Because the latter are per capita based, the province's declining population continues to entitle the province to fewer federal transfers than would have been the case if its population remained stable. Moreover, the revisions in the 2001 census estimate for the province expected later in 2003 will probably mean a downward revision in the province's transfer entitlement for fiscals 2000 to 2004. The consequent downward revisions in equalization entitlements would further reduce the province's near-term fiscal flexibility.

On the expenditure front, operating expenditures are seen rising by 4.9% in fiscal 2004 (Standard & Poor's adjusted), following a 4% increase in fiscal 2003, led by higher spending on health care and education. Health care spending, which is the province's single-largest expenditure item accounting for about 32% of total spending, is expected to rise by 3% in fiscal 2004 while education spending, which accounts for about 21% of total spending, is seen rising by a larger 8.4%. In health care, spending pressures in the past three fiscals have stemmed from sharp increases in wage settlements primarily for doctors and nurses. It is noteworthy that barring any unexpected in-year pressures, the increase for health expenditures expected for fiscal 2004 is significantly smaller than those typically seen in the past three years. Furthermore, the government has taken steps in the past couple of years to increase the supply of health care professionals such as nurses, which should help alleviate pressure on salary costs in the medium term.

In education, the government continued to demonstrate its commitment to improving the level and quality of education of its students through the improvement and building of new schools. In addition, the government continued to allow school districts to retain any cost savings that resulted from school consolidations in the past three years, enabling them to reinvest the savings to improve the remaining schools in their district. The government also extended its commitment to maintain, rather than reduce, the number of teaching positions in the school system. Declining enrollment levels would have implied the latter. As a result the province's pupil-teacher ratio of 13.5 is well below the national average of 16.

Management and Institutional Legitimacy

The current government's mandate is nearing its end, with an election expected within the next few months. During its tenure, the Liberal government has consistently exercised prudent expenditure management control, helping to significantly reduce Newfoundland and Labrador's large budgetary deficits of the early and mid-1990s. Although the government did not explicitly adopt balanced budget legislation, it has implemented conservative revenue and expenditure forecasting policies and has established a track record of adhering to these targets (despite the modest deterioration in the province's budgetary balance in the current fiscal year). Moreover, the province is among the first to adopt budgetary reporting on a fully consolidated basis, a move that in Standard & Poor's view raises the level of transparency of the province's overall budgetary and reporting practices.

Budgetary Pressures Reducing Financial Flexibility

Newfoundland and Labrador derived about 63% of its revenues from activities over which it has direct control and as such, was dependent on federal transfers for about 37% of its total revenue. This reliance on federal transfers has lessened somewhat since the mid-1990s, partly as a result of the declining share of equalization payments (due to the province's declining population) and also due to the solid performance of the provincial economy, which has resulted in increases in the province's own-source revenues in this period. This has meant some increase in the province's ability to affect its own tax rates and revenues; however, as a result of its reliance on equalization payments and clawback of resource revenues, the province continues to have limited flexibility to deal with unexpected shortfalls in revenue.

On the expenditure side, the government continues to face increasing pressures from health care and education. The government also has limited flexibility in reducing expenditures to deal with these demands, given rising costs in health care and education. The increased funding announced by the federal government in the most recent federal budget did not offer much relief for the province and is unlikely to do so in the near term. Longer term, increasing demand for health care services implied by the aging of the province's population would necessitate additional funding from the federal government.

Liquidity and Debt Management

The province continues its tradition of conservative debt management practices. Newfoundland and Labrador manages its interest and foreign exchange exposure to minimize volatility in its cash flow. The province also sets aside sinking funds to allow for a smoother maturity profile of its debt obligations. Also as part of its conservative debt management, the province continued its practice of borrowing for the purpose of making special nonbudgetary contributions to provincial pension funds. The province provided for nonbudgetary borrowing of C$164.0 million (about 4% of revenues) for this purpose in fiscal 2004.

Newfoundland and Labrador's total budgetary and nonbudgetary borrowing requirement is expected to rise by C$85.0 million to C$578.3 million in fiscal 2004. In addition to the financing of the deficit and the special pension contribution, the province is planning debt retirement of about C$128.0 million.

Debt Burden Continues to Edge Lower

Strong GDP growth has contributed to a sharp decline in the province's debt burden in the past three fiscals. The province's net tax-supported debt as a share of GDP (excluding the self-supporting debt for Newfoundland & Labrador Hydro, sinking funds, and cash) has declined from about 47% in fiscal 1999 to about 38% expected for fiscal 2004. Inclusion of the borrowings for special pension contributions adds about a percentage point to the net tax-supported debt ratio. Because of the additional borrowing to fund the special pension contributions and the expected fiscal 2004 deficit, net tax-supported debt is expected to continue to edge higher. Nevertheless, Standard & Poor's remains confident that the government remains committed to reversing the deterioration in the province's budgetary deficit in the medium term, which should see its net tax-supported debt begin to stabilize in the medium term.

Contingent Liabilities

The aggregate unfunded liability of Newfoundland and Labrador's public sector pension plans was 25% of GDP in 2002, or 85% of total revenues. This is the highest public sector pensions burden of all Canadian provinces. But, as indicated above, the province continued to make special contributions with the aim of reducing the unfunded pension liabilities in the medium term. **Add to My Research**Click the Add button below to save this article in your My Research folder.

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STANDARD &POOR'S CANADIAN RATINGS

Publication date: 04-Jul-2003
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Newfoundland and Labrador Hydro

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ISSUER CREDIT RATINGS

Newfoundland and Labrador (Province of)

Corporate Credit Rating	A-/Stable/A-1

AFFIRMED RATINGS

Newfoundland and Labrador Hydro

CANADIAN CP prog	
Gtd.: Newfoundland and Labrador (Province of)	A-1
$15 million 9% debentures due 1994	
Gtd.: Newfoundland and Labrador (Province of)	BBB+
CAD125 million 10.5% sr unsecd bonds ser V due 06/15/2014	
Gtd.: Newfoundland and Labrador (Province of)	A-
CAD150 million 10.25% sr unsecd bonds ser X due 07/14/2017	
Gtd.: Newfoundland and Labrador (Province of)	A-
CAD300 million 8.4% sr unsecd bonds ser Y due 02/27/2026	
Gtd.: Newfoundland and Labrador (Province of)	A-
CAD200 million 5.5% sr unsecd bonds ser AA due 04/30/2008	
Gtd.: Newfoundland and Labrador (Province of)	A-

Rationale

Newfoundland and Labrador Hydro (NLH) is a crown corporation, owned by the Province of Newfoundland and Labrador. The ratings on NLH reflect the guarantee provided by the province. This analysis provides a brief overview of NLH and recent developments in Newfoundland and Labrador's electricity sector.

Business Description

NLH is the parent company of the Hydro Group of Companies, which consists of NLH, Churchill Falls (Labrador) Corp. Ltd. (CF(L)Co.), Lower Churchill Development Corp. Ltd., Gull Island Power Co. Ltd., and Twin Falls Power Corp. Ltd.

NLH owns 65.8% of CF(L)Co., which owns and operates the 5428 MW Churchill Falls plant. Almost all power from this facility is sold to Hydro-Quebec under a long-term fixed-price contract that expires in 2041. The remainder is used to supply power to a number of interconnected communities and iron ore mines in Labrador.

With 4690 kilometers of line, NLH transmits and distributes electricity to its own residential and industrial customers in areas of Newfoundland and Labrador not served by Newfoundland Power Inc. NLH also owns and operates generating assets totaling 7254 MW of which 90% are hydroelectric and 10 % thermal. It sells energy to its own transmission and distribution customers, Newfoundland Power and Hydro-Quebec. Last year's peak system requirement was 6990 MW during the winter. Energy sales last year totaled 39,421 GWh, most of which (82%) was sold by CF(L)Co. directly to Hydro-Quebec. Thermal generation uses Bunker C oil at the intermediate 645 MW Holyrood facility and diesels in remote communities; there is no natural gas available on the island.

Regulatory Issues

The provincial government is conducting an Electricity Policy Review. A report was released in April, summarizing public consultations held in 2002. The government initiated the review to examine the structure of the electricity industry, its regulation, the pricing of electricity, how electricity could contribute to the province's economic development, and future sources of electricity generation that might be available. The privatization of NLH was not an option and was not considered by the government.

The Department of Mines and Energy will take these submissions into account as it formulates recommendations for the government's consideration.

The provincial Public Utilities Board has complete regulatory authority over NLH's capital budget, power project selection, and rate setting. In May 2003, NLH filed a general rate application to recover the cost of new sources of generation coming on-stream in 2003, to rationalize its rate structure and to bring rates more in line with costs. NLH has not had a rate hearing for two years. The rate increases proposed are based on a 10.75% return on equity, a significant increase from the current 3% approved in 2002.

The proposed base-rate increases are 7.6% for residential and 14% for industrial customers effective Jan. 1, 2004. Additional rate adjustments will occur because of a recovery of existing balances due the corporation under the Rate Stabilization Plan. These additional increases will be about 15% to industrial customers effective Jan. 1, 2004 and 5.8% to residential customers effective July 1, 2004. (see "Fuel" section). These increases will put both the residential and industrial cost of electricity at levels comparable with the rest of the Maritime provinces.

Fuel

Although fuel costs are flowed through to the customer, there used to be a delay of three years, which has now been reduced to two years. Last September, Bunker C fuel prices included in rates were raised to C$25.91 a barrel from C$12.50 a barrel set in 1992, to more closely reflect current prices. A total of C$106 million had accumulated in the fuel-cost-related rate stabilization plan as a result of this long-term discrepancy. This amount will be collected in rates in the next five years, beginning in 2003. The average price paid for Bunker C between September and December 2002 was C$36 a barrel and, as a result, an additional C$20 million accumulated in the Rate Stabilization Plan for the balance of 2002. This amount and further cost accumulation, anticipated to be an additional C$47 million through 2003 (based on an average cost of C$35/barrel), will be collectible over a two-year period beginning in 2004.

Generation

Granite Canal, a new 40 MW hydroelectric project, should come in-service this year at a cost of C$135 million or C$3.4 million/MW. In terms of remaining hydroelectric potential, there are no environmentally acceptable large-scale hydro projects left on the island, although there are a number of small-scale projects that might be cost effective. NLH has contracted a further 47 MW from two nonutility generators that will come into service in 2003. The cost of this supply will negatively affect earnings from the regulated operations this year, as it is not expected to be included in rates until 2004. Demand is growing on the island and additional generation resources will be required in a seven-year time frame.

Lower Churchill

The development of an additional 2,000 MW on the Lower Churchill River has been under discussion with Hydro-Quebec on and off since 1998; no agreement has been reached. If an agreement were reached the output would likely be for export.

Financials

Both NLH's revenue and income rose in 2002. Net income rose to C$58.0 million in 2002 from C$54 million in 2001 on a 7.7% increase in revenue to C$427.6 million. Higher energy sales of recall power to Hydro-Quebec from Churchill Falls and higher retail sales to a local utility, Newfoundland Power, were primarily responsible for the increase in revenues. Total expenses climbed 7.5% to C$369.6 million. Fuel costs in 2002 were C$23 million higher than in 2001.

Capital expenditures totaled C$109.7 million, an increase from the C$94.9 million outlay in 2001. The 2002 expenditures were for various additions to plant (including costs related to Granite Canal), transmission, and distribution facilities throughout the province. NLH expects to begin to recover these costs from rates beginning in 2004.

NLH borrowed C$250 million of long-term debt in 2002 and increased short-term promissory notes outstanding by C$44 million to C$181.5 million. Of these funds C$138 million were used to retire long-term debt, with an additional C$14 million used to make sinking fund contributions; overall net debt increased by C$140 million to C$1,538 million. The debt of the utility represents about 20% of the province's total debt burden in fiscal 2002.

NLH began paying dividends to its shareholder in 1995. NLH's dividend policy is to pay 100% of the net income from recall sales, plus up to 75% of net operating income prior to recall sales. In 2002, the board of directors, all appointed by the provincial government, approved a one-time special dividend requested by the government of C$65 million (dividend payout ratio of 220%). The regulator disallowed inclusion of this special dividend in its 2002 ruling on NLH's 2001 General Rate Application, which used 2002 as the test year for rate-making purposes.

On a consolidated basis, the capital structure of 70% debt to 30% equity reflects common practices among crown-owned utilities in Canada with a provincial debt guarantee. NLH pays a debt guarantee fee of 1% of debt outstanding. NLH's debt to capital for the regulated business at the end of 2002 was 85%. The long-term goal is to return this ratio to 80%.

Newfoundland and Labrador Hydro Financial Summary				
(Mil. C$)	**2002**	**2001**	**2000**	**1999**
Total operating revenue	310.6	309.0	298.7	336.2
Funds from operations (FFO)	169.4	53.9	86.3	142.3
Working capital	(186.2)	(219.4)	(249.1)	(23.6)
Gross interest expense	120.6	120.0	118.8	124.0
Total debt	1,594.3	1,443.1	1,360.3	1,322.5
Equity as % capital	26.90	31.40	32.70	35.20
Debt as % of capital	72.38	67.86	66.56	64.09
Equity as % assets	25.60	29.90	31.20	33.90
STD/total debt (%)	15.00	19.80	23.30	7.30
FFO interest coverage (x)	2.27	1.45	1.73	2.15
FFO/debt (%)	11.15	3.85	6.43	9.70
Adjusted ratios				
FFO interest coverage (x)	2.27	1.45	1.73	2.15
FFO/debt (%)	11.15	3.85	6.43	9.70
Equity as % of capital	26.90	31.40	32.70	35.20
Debt as a % of capital	72.38	67.86	66.56	64.09

Moody's Investors Service
Global Credit Research

Fundamental Credit Research
Opinion Update
Published 26 Jun 2003

Newfoundland and Labrador, Province of

Canada

Ratings

Category	Moody's Rating
Bonds	A3

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Opinion

Rating Rationale

Moody's assigns A3 ratings to the foreign and domestic currency debt of the Province of Newfoundland and Labrador, having raised the province's ratings in May 2002. The upgrade recognized the province's improved debt profile since the mid-1990s, its brighter economic prospects, and the support provided by federal fiscal transfers and other programs that benefit Newfoundland's finances and economy. The long-term sustainability of such programs is enhanced by the federal government's improved fiscal position.

The ratings also acknowledge that the province's debt ratios are still high when compared to other Canadian provinces; that incomes remain relatively low and the economic base narrow despite recent years' economic gains; and that the province's financial flexibility is consequently limited.

Rating Outlook - Stable

Recent provincial budgets have relied to a great extent on non-recurring measures to enhance short-term financial flexibility, although actual reliance on such measures has proven less significant than planned. The use of such measures in response to spending pressures that are ongoing - such as those posed by a costly salary agreement entered into in 2001 - is unsustainable. These circumstances limit the potential for further credit improvement.

Several large energy and mineral development projects, as they are realized, could have a large positive influence on the province's economy. Among the most prominent are those involving offshore oil, the exploitation by Inco of a nickel discovery at Voisey's Bay and development of a further hydroelectric facility on the Churchill River in Labrador.

Recent Developments

Newfoundland and Labrador estimated its cash deficit for 2002-03 at C$61.7 million (1.6%of revenue). This result is better than the C$93.3 million deficit initially budgeted and doesn't rely on some C$154 million of non-recurring revenue items budgeted but not used, a part of which -- less than 40% -- was deferred to 2003-04.

With borrowing for certain capital projects included, as the province has now started doing, the consolidated 2002-03 deficit reached C$143.2 million. The current (2003-04) budget projects a cash deficit of C$212.7 million (5.3%of revenue) and a consolidated deficit of C$286.6 million.

Provincial debt here is growing more rapidly over these two years than in the other provinces, but Newfoundland's more-rapid economic growth - led by growth in offshore oil production - will likely reduce the debt-to-GDP ratio. The government has also announced a deficit reduction program, to begin in 2004-05, targeted at producing a zero deficit in 2007-08.

Newfoundland and Labrador, Province of

Canada

Ratings and Contacts

Category	Moody's Rating
Bonds	A3

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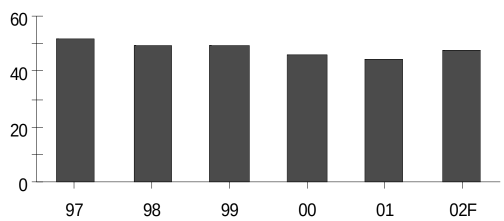
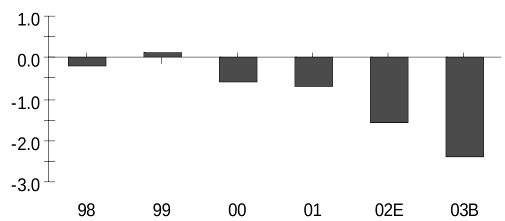
Net Debt % GDP



Surplus(Deficit) % of Revenue



Key Indicators

Newfoundland and Labrador, Province of

Debt Highlights (year ending 3/31)	**1997**	**1998**	**1999**	**2000**	**2001**	**2002F**
Net Direct & Guaranteed Debt (C$ millions)[1]	**5,396**	**5,229**	**5,517**	**5,728**	**6,261**	**6,597**
As a % of GDP	**51.6**	**49.4**	**49.1**	**46.3**	**44.5**	**47.4**
As a % of Total Revenue	**157.8**	**140.4**	**154.7**	**160.7**	**167.9**	**167.9**
Per Capita (C$)	**9,625**	**9,437**	**10,117**	**10,594**	**11,640**	**12,359**
Financial Highlights (year ending 3/31)	**1998**	**1999**	**2000**	**2001**	**2002E**	**2003B**
Financing Surplus (Requirement) (C$ millions)	**(7)**	**4**	**(23)**	**(26)**	**(64)**	**(93)**
As a % of Revenue:						
Financing Surplus (Requirement)	**(0.2)**	**0.1**	**(0.6)**	**(0.7)**	**(1.6)**	**(2.4)**
Financing Surplus (Requirement) excl. CAPEX	**6.5**	**8.1**	**7.8**	**6.8**	**5.5**	**3.3**
Interest Expense	**14.4**	**15.3**	**15.3**	**15.4**	**14.6**	**14.4**
Intergovernmental Transfers	**52.1**	**48.9**	**43.5**	**43.8**	**41.7**	**41.3**
Economic Highlights (year ending 12/31)[2]	**1997**	**1998**	**1999**	**2000**	**2001E**	**2002F**
Nominal GDP Growth (%)	**1.2**	**6.3**	**10.0**	**13.8**	**-1.2**	**1.4**
Per Capita Personal Income (C$)	**17,986**	**18,969**	**19,950**	**20,992**	**21,843**	**22,884**
Unemployment Rate	**18.6**	**18.0**	**16.9**	**16.7**	**16.1**	**15.7**

[1] After deducting for self-supporting debt and applicable sinking funds. [2] Source: Statistics Canada and the province.

Opinion

Rating Rationale

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The ratings also acknowledge that the province's debt ratios are still high when compared to other Canadian provinces; that incomes remain relatively low and the economic base narrow despite recent years' economic gains; and that the province's financial flexibility is consequently limited.

Rating Outlook - Stable

This year and last the province has relied to a great extent on non-recurring measures to enhance its short-term financial flexibility. The use of such measures in response to spending pressures that are ongoing - such as those posed by a costly salary agreement entered into last year - is unsustainable. These circumstances limit the potential for further credit improvement.

Several large energy and mineral development projects, as they are realized, could have a large positive influence on the province's economy. Among the most prominent are those involving offshore oil, the exploitation by Inco of a nickel discovery at Voisey's Bay and development of a further hydro-electric facility on the Churchill River in Labrador.

Rating Rationale

DEBT RATIOS EASING, BUT STILL HIGH

Newfoundland and Labrador's debt load has eased considerably since 1993-94 and 1994-95, when ratios reflecting ability-to-pay reached their recent peaks, but debt burden remains high when compared to Canadian peers.

The long-term improvement reflects several years of better budgetary performance and economic growth. Financial operations continued to generate financing requirements and, thus, additions to debt in most years, but these have been small and are outpaced by growth in GDP, personal income and provincial revenues. The province's debt-to-GDP ratio, which peaked at 56.8% in 1994-95, registered 47.1% in 2001-02, and debt-to-personal income fell from 58.9% to 56.2% over the same period.

There was also a temporary dip in debt measures brought about by a large federal payment received for sales tax harmonization in 1996-97. This provided a short-term boost to cash and allowed the province to avoid borrowing (other than for refinancing) that year and the next. The debt-to-revenue ratio, while falling from its 176.2% peak in 1993-94 to 166.8% in 2001-02, went as low as 136.2% in 1997-98.

Not formally recorded as a debt by Moody's, but certainly a long-term obligation to be considered, is the province's large unfunded pension liability, estimated at C$3.4 billion at March 31, 2002, an amount equal to roughly half of the province's net direct and guaranteed debt. The province had been reducing this liability in recent years with special payments - in addition to required contributions - made pursuant to statute and funded from borrowing.

Recent estimates indicate that the unfunded liability began to grow again in 2001 and 2002, but at a modest pace, and the province moved to increase its special payments in 2002. It is important to note that, while the funding of these special payments from borrowing increases Moody's tally of the province's debt, the corresponding reduction in unfunded pension liability is not so recorded.

The province's foreign-currency debt at the end of fiscal 2001-02, estimated at 24% of gross direct and guaranteed debt, has been declining (it was over 31% four years earlier) but is still substantial. A sinking fund in US dollars offers a partial hedge against swings in foreign exchange rates.

HYDRO SELF-SUPPORT CONTINUES

The self-supporting nature of Newfoundland and Labrador Hydro, with debt guaranteed by the province, mitigates concern about the contingent liability posed by the guarantee. The province also receives revenue from Hydro through dividends (which began in 1995-96) and guarantee fees (which began in 1989-90). The uncertain timing - with some dividends declared but deferred - and changing scope of the province's revenue demands on Hydro can complicate Hydro's ability to plan for the future and has forced it to increase its borrowing, but this has not materially affected Hydro's ability to service its debt.

Hydro's C$300 million of planned borrowings in 2002, after principal payments due this year, will add roughly C$150 million to its outstanding debt. A major uncertainty for Hydro's future debt position now awaiting resolution is the Lower Churchill hydro project in Labrador. After an original project, announced in 1998 with Quebec, was abandoned, and other options were explored, in August 2002 Newfoundland and Labrador announced an informal agreement with the Province of Quebec on a C$4 billion dam and transmission line project. Officials expect to reach definitive agreement in the fall.

In 2001-02 the province obtained from Hydro C$61.2 million of special dividends declared in earlier years but deferred. The province also required an accelerated payment of three-quarters (C$9.1 million) of the fee for Hydro debt outstanding at December 31, 2001, as included in earlier budgets but subsequently deferred, in addition to the regular guarantee fee (1% of Hydro's debt at fiscal year-end, December 31, 2000).

The total amount collected from Hydro in 2001-02 was C$125.4 million, including regular and special Hydro dividends (a total of C$71.9 million), guarantee fees (C$20.5 million regular and accelerated), revenue from a recall-of-power arrangement with Hydro-Québec (C$26.2 million) and dividends from Hydro's investment in CFLCo, which are passed through to the province (C$6.8 million).

For 2002-03, the provincial budget forecasts collection from Hydro of a total of C$61.2 million: C$44.2 million of regular dividends, recall revenues and CFLCo dividends (no special dividends are forecast), C$14 million of guarantee fees and C$3 million from the wind-up of Gull Island Power Company Limited (GIPCo). GIPCo is a Hydro subsidiary established to determine the feasibility of developing further hydroelectric potential on the Lower Churchill River. The revenue amount, which had been included in prior years' budgets, was deferred to 2002-03.

Contributing to Hydro's ability to deliver funds to the province has been revenue flowing from an agreement with its Quebec counterpart, renewed most recently in March 2001. The three-year, renewable agreement enables Hydro to recall from its subsidiary, CF(L)Co, unused power available under a power sale contract with Hydro-Québec, and re-sell it to Hydro-Québec at market prices. The initial agreement, with an initial revenue cap of C$78.9 million, generated profits (after power use in Labrador and transmission losses) of C$68.5 million for Hydro in its first three years. The new agreement, with a higher revenue cap of C$98 million and expected gross revenue of C$90 million, is projected to generate profits of C$80 million over its three-year term.

BRIGHTER ECONOMIC PROSPECTS, BUT INCOMES STILL LOW

Newfoundland and Labrador's economic growth indicators through 2001 have strengthened, with five-year gains in real GDP, jobs and retail sales all surpassing the national pace. The unemployment rate fell 3.2 percentage points during this period, although it remained high at 16.1% in 2001.

Much of the positive impetus is attributable to the offshore oil industry, the province's leading contributor to economic growth. Provincial forecasts that real exports will grow 14.5% in 2002 are led by crude oil exports, which the province expects will increase by 60% over 2001. Other forecasts for 2002 and 2003 place Newfoundland at or near the top among the provinces in terms of real GDP growth and jobs gains. This reflects expected increases in oil extraction, as well as development work at the White Rose oil project and the Voisey's Bay mining project.

Large projects involving energy and mineral development are the focus of the province's future economic prospects. In energy, this year's opening of the Terra Nova field and approval of White Rose - with construction to proceed through 2005 and production to begin in late 2005 - are the most definite and significant developments. In minerals, the province and Inco announced in June 2002 an agreement in principle on development of Voisey's Bay, and followed up with binding agreements signed in early October. Another energy initiative is the Hydro development on the Lower Churchill River in Labrador; in August, it was announced that Newfoundland and Quebec Provinces had reached informal agreement on a major dam and transmission line project. Officials expect to reach definitive agreement in the fall.

Recent years' strong economic growth reflects, in part, the low base against which the province's current progress is measured. Among the ten provinces, Newfoundland and Labrador reports the lowest personal income per capita, the highest unemployment rate, and the lowest labor force participation rate.

The province's population declined through most of the 1990s, dropping 7% between the 1996 and 2001census counts. The census count in 2001 was 512,930. The decline was triggered by weak economic conditions and a birth rate that is the lowest in Canada. But the population loss is estimated to have slowed in recent years as the province's economy strengthened.

Early in the 1990s the collapse of the fishing sector, a significant source of jobs, had a pervasive adverse effect on the province's economy. But over the ensuing decade this sector changed greatly. After hitting bottom in 1994, fish landings grew steadily through 1999, when they reached a plateau, and landed values grew rapidly through 2000. The industry was transformed from one dominated by groundfish to one in which shellfish - crab and shrimp in particular - became the most important species. Despite important gains since the mid-1990s low point, however, harvesting and processing jobs have not returned to earlier peak levels.

FISCAL CONSTRAINT, COMMITMENT TO BALANCE, BUT CONTINUING PRESSURE

In Newfoundland, both provincial finances and the economy benefit from the support provided by substantial federal revenue transfers. While federal funding had, in the early 1990s, been reduced by changes in health, education and general equalization programs, declining from a peak of 49% of total revenue in 1990 to 44% in 1997, it remains important.

The trend of federal fiscal support for the province during the decade of the 1990s and beyond has been uneven, however. Aside from the federal government's own fiscal developments, factors influencing federal support have included one-time events - variations in capital account transfers, formula changes and delayed recognition of revenue declines outside Newfoundland and Labrador in the early 1990s - and, later, a large transfer (C$347 million) for sales tax harmonization. Also, more recently, changes in the province's own fiscal capacity stemming from growth in oil royalties have begun to affect the level of federal support.

After recording large deficits in the early 1990s, a consequence of economic adversity, Newfoundland slowly improved its fiscal performance. Committing itself to fiscal balance, the province progressively reduced its budget gap - C$347 million or 11.7% of revenue in 1990-91 - through the application of spending restraint and, to a lesser degree, revenue enhancements.

The gap was eliminated in 1995-96 and for several years fiscal operations remained in or near balance. Small deficits recorded in most of the years since 1995-96 have not resulted in a substantial addition to debt, and debt ratios improved over much of this period.

But steps taken this year and last to address budget pressures, which include reliance on non-recurring measures to enhance short-term financial flexibility, will make more difficult the necessary task of achieving further financial improvement.

For 2001-02 the province adopted a budget with a deficit target of C$30.5 million, including a C$10 million contingency reserve. Revised estimates released in March indicate that the deficit grew to C$63.5 million, in spite of one-time revenue measures intended to shrink it. These included C$184 million released from CPP-related sinking funds when maturing obligations were refinanced (with a small part deferred to 2002-03) and over C$70 million from Hydro for special dividends and accelerated payment of its debt guarantee fee to the province. The deficit-shrinking steps were partly offset by the deferral of C$51.7 million of revenues to the following year and acceleration of C$25 million of spending deemed non-recurring, largely for health and education capital purposes.

For 2002-03, the province forecasts a deficit target of C$93.3 million, a consequence of agreed salary increases and the absence of last year's one-time measures. That the new budget limits the deficit to C$93.3 million is a reflection of this year's one-time measures. The new budget no longer contains a contingency reserve - last year's reserve was set at C$10 million, down from C$30 million in earlier years. It does include C$97 million as revenue from depleting what remains in the Labrador Transportation Initiative Trust Fund and C$77 million of the prior-year revenue deferrals and spending accelerations mentioned above.

The revenue estimate incorporates an earlier decision to postpone the planned final stage of personal income tax cuts (saving C$30 million annually) and a new measure to raise cigarette taxes that yields an extra C$14.5 million.

A primary source of budget pressure involves costly three-year public-sector salary agreements reached early in 2001-02 which cover that year as well as the next two. For some of these agreements, the increases due in 2001-02 were not paid until 2002-03. The agreements add C$497 million to provincial costs: C$65 million in 2001-02, C$152 million in 2002-03 and C$280 million in 2003-04.

Rating Outlook

This year and last the province has relied to a great extent on non-recurring measures to enhance its short-term financial flexibility. The use of such measures in response to spending pressures that are ongoing - such as those posed by last year's salary agreement - is unsustainable. These circumstances limit the potential for further credit improvement.

Several large projects involving energy and mineral development, as they are realized, could have a large positive influence on the province's economy.

FUTURE FEDERAL SUPPORT

Looking forward, three noteworthy developments will affect the scope of future federal transfers to the province, but in different ways. First, the Romanow Commission on the Future of Health Care in Canada is to make available its final report in November 2002. Report recommendations may include increases to federal financial participation in health care costs, a change that could ease fiscal pressures facing the province.

Second, the 2001 census counts released in March 2002 will result in changes to Statistics Canada's official annual population figures, to be released in September 2003. These in turn will generate adjustments to fiscal 2003-04 revenue calculations - both CHST and Equalization - that will likely have a negative impact on federal transfers to the province, because the official population figures will show the province with a greater population loss than had been previously estimated.

Finally, renewal of equalization arrangements is expected in April 2004. Changes to this important federal program along the lines proposed by this and other provinces would increase funds available to Newfoundland and Labrador, and reduce uncertainties associated with this funding source. It is not clear, however, to what extent the federal government will take into account the provinces' wishes as it goes about renewing the program.

Rating History

Date	Rating Action	Rating
May 2002	Upgrade	A3
June 1974	Upgrade	Baa1
January 1972	Upgrade	Baa
January 1953	Assigned	Ba
1933	Suspended	--
1929	Downgrade	A
1927	Downgrade	Aa
1918	Assigned	Aaa

Newfoundland and Labrador, Province of

Debt Statement (C$millions, as of 3/31)	1997	1998	1999	2000	2001	Forecast 2002
Due to Government of Canada [1]	711	674	639	634	634	634
Direct Debentures	4,463	4,344	4,977	5,185	5,610	5,570
Short-Term Debt	390	390	390	390	390	494
Gross Direct Debt	**C$5,564**	**C$5,408**	**C$6,006**	**C$6,209**	**C$6,634**	**C$6,697**
Newfoundland & Labrador Hydro [2]	1,100	1,135	1,100	1,125	1,161	1,320
Newf. Municipal Financing Corp. [3]	544	475	450	424	398	387
Other Guaranteed & Contingent [4]	427	363	266	376	501	554
Gross Direct & Guaranteed Debt	**C$7,635**	**C$7,536**	**C$7,822**	**C$8,134**	**C$8,694**	**C$8,958**
Less						
Self-Supporting Utility Debt	1,100	1,135	1,100	1,125	1,161	1,320
Sinking Funds [5]	1,139	1,172	1,205	1,280	1,272	1,041
Net Direct and Guaranteed Debt	**C$5,396**	**C$5,229**	**C$5,517**	**C$5,728**	**C$6,261**	**C$6,597**

[1] Mostly borrowings from the Canadian Pension Plan.
[2] As reported in the province's public accounts, net of sinking fund amounts. Budget year information as reported separately by the province to Moody's in comparable presentation.
[3] As reported in the province's public accounts before netting out sinking fund amounts.
[4] Includes debt of Newfoundland and Labrador Housing Corporation, other guaranteed Crown Corporation debt, and municipal debt.
[5] Sinking funds of province and Municipal Financing Corporation, as reported to Moodys by the province.

Debt Trends	1997	1998	1999	2000	2001	Forecast 2002
Net Debt (C$ millions)C$5,396	C$5,396	C$5,229	C$5,517	C$5,728	C$6,261	C$6,597
As % of GDP	51.6	49.4	49.1	46.3	44.5	47.4
As % of total revenue	157.8	140.4	154.7	160.7	167.9	167.9
As % of personal income	54.2	52.5	53.3	53.1	55.4	56.6
Per capita	C$9,625	C$9,437	C$10,117	C$10,594	C$11,640	C$12,359
Gross Debt (C$ millions)	C$7,635	C$7,536	C$7,822	C$8,134	C$8,694	C$8,958
% Hydro debt	14	15	14	14	13	15
Foreign currency debt (C$ millions) [1]	C$2,600	C$2,321	C$2,317	C$2,125	C$2,151	C$2,106
As % of gross direct and guaranteed debt	34	31	30	26	25	24
Foreign currency debt net of swaps/hedging (C$MM) [1]	C$2,380	C$2,153	C$2,161	C$1,950	C$1,932	C$1,849
As % of gross direct and guaranteed debt	31	29	28	24	22	21
Short-term and floating rate debt (C$ millions) [2]	708	847	811	576	650	811
As % of gross direct and guaranteed debt	9	11	10	7	7	9

[1] Amounts calculated using fiscal year-end exchange rates; forecast 2002 amounts use exchange rates as of March 8, 2002.
[2] Includes all debt with a maturity of less than one year, including current maturities of long-term debt, and floating-rate debt.

Economic Trends (as of 12/31) [1]	1997	1998	1999	2000	Estimate 2001	Forecast 2002
Population (000s)	554	545	541	538	534	532
Nominal GDP (C$ millions)	10,575	11,242	12,369	14,081	13,916	14,116
% change	1.2	6.3	10.0	13.8	-1.2	1.4
Real GDP % change						
Province	1.1	7.8	6.7	5.6	1.3	3.7
Canada	4.4	3.3	4.5	4.7	nd	nd
Federal govt. expenditures (C$ millions)	4,777	C$5,083	C$5,109	nd	nd	nd
As a factor of fed. govt. revenue [2]	2.6	2.7	2.6	nd	nd	nd
Personal Income (C$ millions)						
Per capita, province	17,986	18,969	19,950	20,992	21,843	22,884
As % of Canadian	75.3	76.8	77.7	77.9	78.7	nd
Labor force participation rate						
Province	52.5	53.9	56.3	55.8	57.3	nd
Canada	64.9	65.1	65.6	65.9	66.1	nd
Employment Growth (%)						
Province	1.2	2.6	5.5	-0.1	3.3	1.4
Canada	2.3	2.7	2.8	2.6	1.1	0.4
Unemployment Rate (%)						
Province	18.6	18.0	16.9	16.7	16.1	15.7
Canada	9.1	8.3	7.6	6.8	7.2	nd
Value of manufacturing shipments (C$ millions)	1,605	1,702	2,021	2,226	2,206	nd
Public-Private Investment (C$ millions) [3]						
Public investment	463	471	676	791	nd	nd
Public share as % of total	13.6	13.7	16.1	20.3	nd	nd
Housing starts (units)	1,696	1,450	1,371	1,459	1,788	1,864
Retail trade (C$ millions)	3,800	3,939	4,223	4,522	4,943	5,106
Per capita	6,858	7,224	7,810	8,407	9,260	9,605
Fish Landings						
Value (C$ millions)	307	384	509	571	489	nd
Volume ('000 metric tons)	204	249.5	271.4	267.4	249	262

[1] Sources: Statistics Canada and Province of Newfoundland and Labrador.
[2] Ratio of federal government expenditures in the province to federal revenues derived from the province.
[3] Includes construction and repairs.

Newfoundland and Labrador, Province of

Fiscal Operations [1]	1999	2000	2001	Budget 2002	Estimate 2002	Budget 2003
(C$millions, year ending 3/31)						
Revenues						
Personal Income Taxes	C$545	C$605	C$625	C$602	C$612	C$611
Corporate Income Taxes	83	84	75	80	55	58
Sales Taxes	449	457	493	503	535	562
Federal Aid [2]	1,743	1,551	1,632	1,649	1,638	1,636
Gasoline Tax	123	131	132	129	130	133
Other [3]	623	737	773	1,000	961	960
Total	**C$3,566**	**C$3,565**	**C$3,730**	**C$3,962**	**C$3,931**	**C$3,959**
Expenditures						
Health	908	934	1,013	1,101	1,127	1,161
Education	676	691	684	732	737	729
Social Services	484	472	505	527	537	543
Protection Services	149	147	158	160	171	167
Capital spending	286	300	281	271	281	225
Debt Service	547	547	574	571	575	570
Other	512	497	541	632	566	658
Total	**C$3,562**	**C$3,588**	**C$3,756**	**C$3,993**	**C$3,994**	**C$4,052**
Financing Surplus (Deficit) [4]	C$4	(C$23)	(C$26)	(C$31)	(C$64)	(C$93)
Financing Surplus (Deficit) excl. CAPEX	C$290	C$277	C$255	C$240	C$217	C$132
Principal payments on long-term debt	304	71	101	216	217	182
Gross Financing Surplus (Deficit) [5]	(300)	(94)	(127)	(247)	(281)	(275)
Operating Surplus (Deficit)	166	145	120	94	96	13

[1] These statements incorporate a cash basis of accounting.
[2] Includes federal recoveries for capital expenditures of C$61 million in 2002 estimate, and C$69 million in 2003 budget.
[3] Includes provincial recoveries for capital expenditures.
[4] Total revenue minus total expenditure.
[5] Total revenue minus total expenditure and debt principal payments.

Financial Trends [1]	1999	2000	2001	Budget 2002	Estimate 2002	Budget 2003
Financing Surplus (Requirement) as % of GDP	0.0	(0.2)	(0.2)	(0.2)	(0.5)	(0.7)
% Change in revenue	(4.3)	(0.0)	4.6	6.2	5.4	0.7
% Change in expenditure	(4.5)	0.7	4.7	6.3	6.3	1.5
As a % of Revenue						
Financing Surplus (Requirement)	0.1	(0.6)	(0.7)	(0.8)	(1.6)	(2.4)
Financing Surplus (Requirement) excl. CAPEX	8.1	7.8	6.8	6.1	5.5	3.3
Interest Expense	15.3	15.3	15.4	14.4	14.6	14.4
Intergovernmental Transfers	48.9	43.5	43.8	41.6	41.7	41.3
Expenditures per capita (C$)	C$6,532	C$6,635	C$6,982	C$7,480	C$7,482	C$7,622
Expenditure as % of GDP	31.7	29.0	26.7	28.7	28.7	28.7

[1] % Changes from previous year actual results. 2003 budget is measured against 2002 estimate.

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RATING

Rating	Trend	Rating Action	Debt Rated
R-2 (high)	Stable	Confirmed	Short-Term Debt*
BBB	Stable	Confirmed	Long-Term Debt*

* Issued/guaranteed by Province, including Newfoundland & Labrador Hydro and Newfoundland Municipal Financing Corporation.

RATING HISTORY	Current	2001	2000	1999	1998	1997	1996	1995
Short-Term Debt	R-2 (high)	R-2 (high)	R-2 (high)	R-2 (high)	R-2 (high)	R-2 (middle)	R-2 (middle)	R-2 (middle)
Long-Term Debt	BBB	BBB	BBB	BBB	BBB	BBB (low)	BBB (low)	BBB (low)

RATING UPDATE

DBRS is confirming the Province of Newfoundland and Labrador's ("Newfoundland" or the "Province") ratings as indicated above. The Province continued to face challenging fiscal conditions in 2001-02, ending the year with a shortfall estimated at $202 million on a modified cash basis, slightly better than budgeted. Although DBRS does not have sufficient information to convert the 2001-02 projected fiscal balance to a modified accrual basis, historical adjustments suggest that the accrual DBRS-adjusted shortfall probably exceeded $350 million. Fuelled by the large fiscal imbalance and continued growth in pension liabilities, total DBRS-adjusted debt (tax-supported debt plus unfunded pension liabilities) grew by $443 million in 2001-02, bringing Newfoundland's debt level to almost $10 billion or 72.4% of GDP.

Newfoundland's fiscal position appears unlikely to improve in 2002-03. Budget estimates suggest that the Province's DBRS-adjusted shortfall could grow to an estimated $258 million (modified cash basis). Spending increases are expected to be modest, largely earmarked for salary increases and rising demand for health care services, while revenues are projected to be virtually unchanged in 2002-03. Note, however, that revenue projections are based on very conservative economic assumptions, which suggests that the shortfall for the year will likely be lower than budgeted. Weak fiscal results combined with growing pension plan liabilities are expected to drive debt growth, pushing the total to an estimated $10.4 billion by the end of 2002-03 (DBRS-adjusted). Due to faster economic growth, however, a notable decline should be recorded in the Province's debt to GDP ratio.

Renewed economic growth will have a positive impact on revenues and should help to maintain the downward trend of the debt to GDP ratio. However, opportunities for fiscal improvement are expected to remain limited in the near term, as the Province continues to match a large part of revenue growth with new spending. As a result, DBRS-adjusted deficits should continue for the foreseeable future. Other challenges the Province faces include: (1) a high debt level – the highest of all provinces when measured as a percentage of GDP; (2) below-average economic fundamentals despite the strong boost provided by the energy sector in recent years; (3) a high dependence on federal funding; and (4) the Province's continued use of modified cash accounting for budgeting purposes, which generally understates the Province's fiscal imbalance.

RATING CONSIDERATIONS

Strengths:
- Stronger economic fundamentals and positive outlook
- Improved debt burden
- Declining tax burden
- Rapidly growing energy sector

Challenges:
- No commitment to balanced budgets
- Relatively high debt level
- Below-average economic fundamentals
- High dependence on federal transfers
- Continued use of cash-based budgets

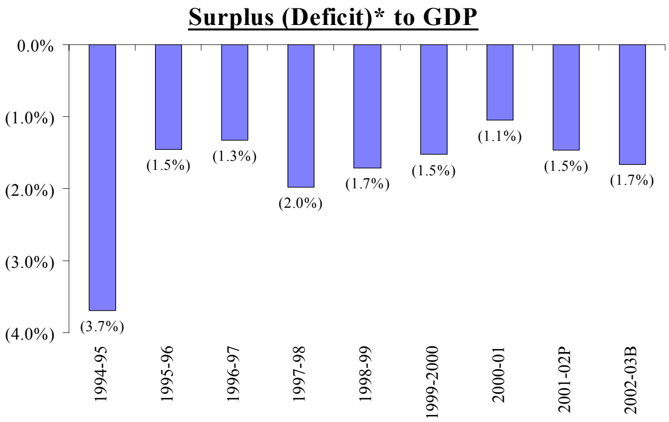
FINANCIAL INFORMATION

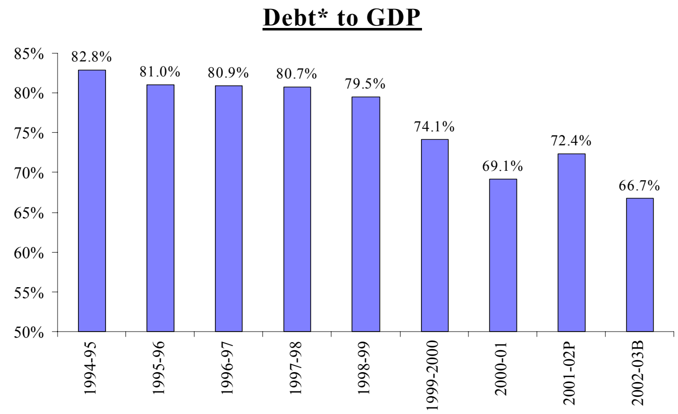
	2002-03B	2001-02P	2000-01	1999-2000	1998-99	1997-98	1996-97
Debt* ($ millions)	10,372	9,962	9,519	9,030	8,885	8,498	8,459
Debt*/GDP	66.7%	72.4%	69.1%	74.1%	79.5%	80.7%	80.9%
Surplus (deficit)* ($ millions)	(258)	(202)	(145)	(186)	(192)	(222)	(140)
Surplus (deficit)*/GDP	(1.7%)	(1.5%)	(1.1%)	(1.5%)	(1.7%)	(2.0%)	(1.3%)
Interest costs/total revenue*	14.2%	13.8%	13.6%	13.6%	13.5%	14.2%	13.8%
Federal transfers/total revenue*	43.3%	43.9%	44.3%	43.6%	47.2%	45.5%	42.0%
Nominal GDP ($ millions)	15,550	13,761	13,770	12,186	11,176	10,533	10,450
Real GDP growth	7.5%	1.3%	5.9%	5.8%	5.4%	0.7%	(4.2%)
Unemployment rate	15.7%	16.1%	16.7%	16.9%	18.0%	18.6%	19.3%

Source: Province of Newfoundland and Labrador, Statistics Canada, DBRS calculations.
* DBRS-adjusted; Projected and budgeted numbers as well as historical ratios are presented on a modified cash basis.
Historical surplus (deficit) numbers have been converted to modified accrual basis to be comparable with other provinces.

PROVINCE

Newfoundland is located on the Atlantic seaboard, and has the second smallest population of the Canadian provinces.





* DBRS-adjusted. Historical surplus and deficit numbers are on modified accrual basis while projected and budgeted fiscal balances are on modified cash basis.

RATING CONSIDERATIONS

Strengths: (1) The Province remains among the growth leaders of Canada. The decline in fishing activities in the mid-1990s forced economic restructuring, which led to significant infrastructure development and increased reliance on value-added manufacturing activities and non-traditional sectors such as energy, tourism, and customer contact centres. This has enhanced economic stability.

(2) Newfoundland's debt to GDP ratio has declined significantly since its peak of 82.8% reached in 1994-95. Despite an increase in 2001-02, the debt to GDP ratio should continue to decline over the medium term, assuming economic growth remains strong.

(3) Personal and corporate taxes have been declining in recent years, which has improved the Province's competitiveness. Due to weaker fiscal conditions, tax cuts planned for this year had to be deferred indefinitely, but the Province remains committed to further tax cuts.

(4) The energy sector has greatly invigorated the region in recent years and continues to hold great promises. The beginning of operation at Terra Nova in 2002 should boost oil production by 60% this year, while development of the White Rose project is expected to translate into investments of about $2 billion over the next three years. If approved, the $4 billion Lower Churchill project would also greatly benefit Newfoundland.

Challenges: (1) Significant DBRS-adjusted deficits continue to be budgeted and incurred by the Province ($258 million projected in 2002-2003). The rescheduling of the postponed tax cuts, the precedent created in the public workforce by the generous agreement reached with the teachers in 2001 (18.9% raise over three years), and the rising pressures faced by the health sector suggest that fiscal improvements will be limited in the foreseeable future.

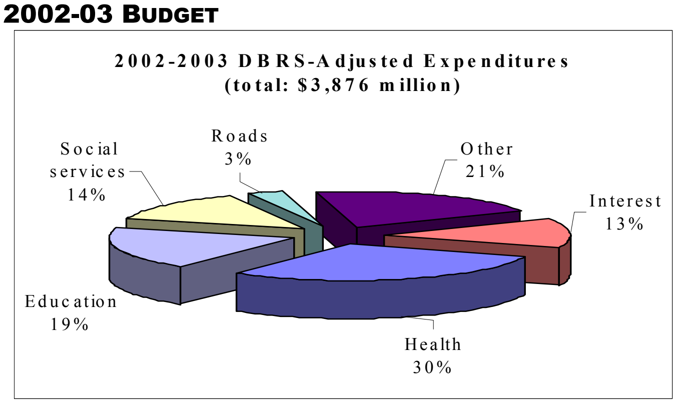
(2) Newfoundland's debt to GDP ratio remains the highest among all provinces, at 72.4%. Since 1997-98, total debt (tax-supported debt plus unfunded pension liabilities) has grown by $1.5 billion to nearly $10 billion. With sizeable DBRS-adjusted deficits expected to continue for some time, debt is expected to maintain its upward trend, slowing improvements in the debt to GDP ratio.

(3) Although substantially improved, the economic fundamentals of Newfoundland remain weaker than most other provinces and strongly linked to the performance of resource industries. For the Province, this results in a more volatile economic base, high unemployment, and a declining population due to sustained inter-provincial out-migration.

(4) A strong dependence on federal transfers (44% of total revenue in 2001-02) exposes the Province to adverse changes in the funding formula and in the level of economic activity in the largest provinces.

(5) The Province continues to use cash accounting for budget purposes, instead of the modified accrual accounting approach used by all of the other provinces. This generally considerably understates the Province's fiscal imbalance, reducing the incentives to improve fiscal results.

2002-03 BUDGET



- Based on budget estimates, the Province's DBRS-adjusted shortfall will grow to $258 million in 2002-03, from $202 million the year before
- The weaker fiscal position mainly reflects:
  - Large provisions for labour negotiations;
  - Continued growth in health care spending; and
  - Muted revenue growth
- Province continues to use modified cash accounting for budget purposes. Under accrual accounting, budgeted shortfalls would likely be much larger
  - Pension charges alone are generally understated by at least $200 million annually

- **Total DBRS-adjusted spending is up 2.1%**
- Largest increase budgeted in General government spending, up $86 million or 40% due to provisions made in anticipation of new labour settlements with various employee groups including physicians
- 3% increase budgeted for health care
  - Including anticipated cost of labour contract with physicians (currently in arbitration) brings overall increase closer to 8%
- Declining K-12 student enrolment to allow for a modest reduction in education spending (-1%)
- Capital spending down by one-third to $107 million, with education (-71%) and health (-50%) projects being the hardest hit
- Interest burden projected to reach new high (14.2% of total revenue) due to modest increase in net debt charges
  - Gross charges down slightly, but sinking fund earnings down even more due to winding up of CPP sinking funds
- **Muted growth forecast on revenue side** despite improving economic conditions
- No new tax cuts for businesses and three-year personal income tax relief plan deferred until fiscal conditions permit
- Sound support expected from sales and tobacco tax proceeds, up 5% and 23%, respectively
  - Improvement driven by continued growth in retail trade and higher taxes on tobacco products ($5 per carton)
- Only notable revenue decline expected in "other" sources
  - Largely due to lower revenue from the Offshore Revenue Fund
  - Due to unpredictable nature of the receipts, Province prefers to budget zero revenue
- Federal transfers down slightly due mainly to a reduction in cost-shared initiatives

MID-YEAR FISCAL UPDATE

- Latest figures suggest that 2002-03 shortfall could be $30 million less than budgeted
  - In-year spending increases offset by higher revenues from sales tax, oil royalties and federal transfers
  - Real GDP growth forecast revised upward to 7.5%, from 3.7% budget assumption

LONGER-TERM OUTLOOK

- Strengthening economic conditions and a deferral of new tax cuts should help strengthen fiscal results
  - However, shortfall expected to remain considerable on a DBRS-adjusted basis, as a large part of revenue growth continues to be matched with higher spending
- Health care likely to remain key driver of future spending
  - Ongoing doctor strike is likely to exacerbate pressures. Doctors are asking for salary parity with other Atlantic provinces, which could cost an additional $100 million per year to the Province
- Sustained population decline also poses risk to outlook
  - 4.8% cumulative reduction over past five years
  - Leads to erosion of provincial tax base and reduction in federal transfers while prematurely increasing the relative importance of elderly people
- Use of cash accounting will continue to undermine fiscal improvement
  - Results in understatement of fiscal imbalance, which reduces incentives to balance budget on accrual basis

Note: The difference between the DBRS forecast and the Province's $93 million budgeted deficit reflects adjustments made by DBRS to: (1) include sinking fund earnings and exclude the recovery of sinking fund surpluses; (2) replace dividends from Newfoundland and Labrador Hydro by its actual earnings; and (3) exclude arbitrary revenue measures, namely $20 million in one-time dividends from government organizations and the withdrawal of $97 million from the Labrador Transportation Initiative Fund (established to fund in perpetuity marine freight and passenger services on and to the coast of Labrador).

2001-02 PROJECTED RESULTS (MODIFIED CASH BASIS)

- Preliminary estimates suggest that the Province ended 2001-02 with a DBRS-adjusted deficit of $202 million, slightly below expectations
- Total DBRS-adjusted spending exceeded target by $33 million (0.9%), driven by:
  - Year-end acceleration of health and education capital investments; and
  - Public wage settlements costlier than budgeted (15% over three years), which affected most spending areas
- Sharp decline in General government spending caused by reallocation of budget provisions for salary increases to specific spending areas (no impact on fiscal balance)
- Province implemented a freeze on non-essential hiring and travels to help contain spending growth
- Total revenue as defined by DBRS came in $45 million stronger than expected, an increase of 1.3%
- Strong support originated from "Other revenues," which came in 18.9% above estimates due to unexpected revenue from the Offshore Revenue Fund
- A robust in-year increase was also recorded in sales tax revenue (+6.4%), reflecting healthy growth in retail trade activities
- The only notable shortfall was posted in corporate tax revenue, which was 30% below target due to weak corporate earnings

DEBT PROFILE

- Total DBRS-adjusted debt (tax-supported debt plus unfunded pension liabilities) is expected to have grown by $443 million in 2001-02 to an estimated $9.96 billion
- Net direct debt accounted for a large part of the increase, mainly driven by:
  - Larger-than-expected fiscal shortfall;
  - Special pension fund contributions in excess of budgeted cash pension expenses; and
  - Increased foreign currency debt due to a weaker Canadian dollar
- Unfunded pension liabilities and "other" tax-supported debt also contributed to the increase, reflecting lower returns on pension assets and increased funding for municipal and education infrastructure
  - On March 31, 2002, unfunded pension liabilities stood at 24.6% of GDP, which is considerable relative to other provinces
- Debt to GDP ratio jumped 3 percentage points in 2001-02 to 72.4%, cancelling much of the improvement posted the previous year
- **DBRS estimates that debt could grow by as much as $410 million in 2002-03**, bringing the total to almost $10.4 billion
  - Fiscal imbalance and growing pension plan liabilities to remain primary drivers of debt
- Despite higher debt, debt to GDP ratio should resume downward trend owing to sound projected GDP growth
- External financing requirements are projected at $400 million in 2002-03, including:
  - $147 million for debt repayment and sinking fund contributions;
  - $148 million for special payments to pension funds; and
  - $93 million to cover the Province cash budget shortfall
- As at the end of October 2002, $250 million had been raised by the Province through a 40-year domestic issue
- Part of the funding requirements will also be met internally through the rollover of CPP debentures
  - $78 million expected to be recovered in CPP sinking fund assets 2002-03
- Downward trend in foreign currency exposure (28% at March 31, 2002) should continue in 2002-03, since much of planned borrowing is expected to take place in domestic market
- Little change expected in interest rate exposure, as Province continues to favour fixed-rate debt instruments to lock in low financing rates
  - At March 31, 2002, floating rate debt accounted for only 9% of total tax-supported debt
- Despite continued refinancing of high interest debt, interest burden projected to be highest in five years, at 14.2% of total revenue (modified cash basis)
- No material change expected in liquid reserves, which stood at an estimated $375 million on March 31, 2002
- Strong liquidity position also supported by a $200 million committed bank line
  - Virtually untouched at October 31, 2002

LONGER-TERM OUTLOOK

- Provincial debt likely to continue to grow at robust pace over the coming years, fuelled primarily by sustained fiscal shortfalls
- Lower returns on pension assets likely to exacerbate pressures in near term
  - Special non-budgetary pension contributions (financed through debt) will continue to be required to contain unfunded liabilities
- As a percentage of GDP, indebtedness should remain under control over the near term, assuming sound economic growth continues

ECONOMY

- Real GDP growth in Newfoundland slowed to 1.3% in 2001 after three years of expansion in excess of 5%
- Continued decline in business investments and softer exports largely contributed to the weaker performance
  - Business investment fell 4.2% due mainly to the winding up of Terra Nova construction and several health care projects
  - Low oil prices and weaker demand for newsprint, iron ore and in fish products were the main drags on exports (-1.5%)
- Like the rest of Canada, consumers remained the main engine of growth in Newfoundland
  - Retail sales and housing starts up 8.5% and 22.5%, respectively, fuelled by tax cuts and low interest rates
- Robust employment growth pushed the unemployment rate down to 16.2%, its lowest level since 1989
- Sustained out-migration led to eight consecutive years of decline in Newfoundland's population (0.6%)

LONGER-TERM OUTLOOK

- Real GDP growth to rebound to 4%-5% for 2002, based on most private sector forecasts
- Major boost to be provided by energy sector in 2002
  - First year of production at Terra Nova and higher production at Hibernia to increase oil output by 60%

- Strengthening export markets should benefit most resources-based industries except mining, which will continue to suffer from low iron ore prices
- Sound, though more moderate growth projected in retail sales and residential construction, but little support expected from business investments in 2002
- The Province is expected to remain among the top performers in 2003, with growth in excess of 3%
  - Fuelled by accelerating work on the $2.35 billion White Rose oil project and the Voisey's Bay mining project
- Job creation forecast to outpace labour force growth, pushing unemployment rate down to new lows
- Key risks include a double-dip recession in the U.S., further deterioration in the fishing industry and, over the longer term, the Province's declining population

	For the calendar year						
Economic Statistics	2002P	2001	2000	1999	1998	1997	1996
Nominal GDP ($ millions)	15,550	13,761	13,770	12,186	11,176	10,533	10,450
Nominal GDP growth	13.0%	(0.1%)	13.0%	9.0%	6.1%	0.8%	(2.3%)
Real GDP growth	7.5%	1.3%	5.9%	5.8%	5.4%	0.7%	(4.2%)
Population (thousands)	532	534	538	541	545	554	561
Population growth	(0.4%)	(0.8%)	(0.6%)	(0.8%)	(1.6%)	(1.2%)	(1.3%)
Employment (thousands)	214	211	205	205	194	189	187
Unemployment rate	15.7%	16.1%	16.7%	16.9%	18.0%	18.6%	19.3%
Housing starts	1,865	1,788	1,459	1,371	1,450	1,696	2,034
Retail sales ($ millions)	5,066	4,943	4,522	4,223	3,939	3,800	3,542
Inflation rate (CPI)	1.7%	1.1%	3.0%	1.5%	0.2%	2.1%	1.5%
Personal income per capita	24,072	21,588	20,719	19,669	18,787	17,984	17,788

Source: Statistics Canada (actuals and demographic projections), Province of Newfoundland (other projections).

Political Background Information			
Party in Power:	Liberals	Number of Seats:	27 of 48
Premier:	Roger Grimes	Election required by:	February 2004

Province of Newfoundland and Labrador

Financial Summary ($ millions)	Budget 2002-03	Projected 2001-02	Budget 2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97
Revenue (DBRS-adj. modified cash)	3,618	3,593	3,548	3,550	3,404	3,454	3,240	3,277
Program expenditure (DBRS-adj. modified cash)	(3,364)	(3,298)	(3,266)	(3,048)	(2,909)	(2,890)	(2,730)	(2,804)
Adj. to modified accrual	n/a	n/a	n/a	91	22	48	(15)	(3)
Program surplus (deficit)	254	295	283	593	518	611	495	471
Debt charges	(512)	(497)	(497)	(484)	(463)	(468)	(459)	(452)
Debt charges adj. to modified accrual	n/a	n/a	n/a	(254)	(241)	(335)	(258)	(159)
DBRS-Adjusted Surplus (Deficit)	**(258)**	**(202)**	**(214)**	**(145)**	**(186)**	**(192)**	**(222)**	**(140)**
Less: Sinking fund income	(57)	(78)	(74)	(89)	(84)	(80)	(79)	(79)
Contingency reserve	-	-	(10)	-	-	-	-	-
Add: Recovery sinking fund surpluses	115	156	185	27	10	9	12	13
Adj. for Hydro	(10)	61	72	18	18	(53)	(23)	(16)
Non-recurring revenues	117	-	10	-	-	32	32	42
Adj. to change to modified cash basis	n/a	n/a	n/a	163	218	287	273	161
Surplus (deficit), as reported (modified cash)	(93)	(64)	(31)	(26)	(23)	4	(7)	(19)
Surplus (deficit), as reported (modified accrual)	n/a	n/a	n/a	(135)	(148)	(200)	(221)	(120)
Tax-Supported Debt & Unf. Pension Liab.*	**10,372**	**9,962**	**9,600**	**9,519**	**9,030**	**8,885**	**8,498**	**8,459**
Gross borrowing requirements	400	404	321	450	410	666	589	307
Gross capital expenditure	225	281	271	281	300	286	249	243

Note: Historical DBRS-adjusted fiscal results have been revised to be comparable with other provinces. Revisions include converting to a modified accrual basis and including net earnings of Newfoundland & Labrador Hydro rather than dividends paid. However, budgeted and projected figures remain on on modified cash basis.

* DBRS estimate for 2002-2003B; historicals have been revised to include pension plan unamortized experience gains (losses).

Selected Financial Indicators (DBRS-adjusted)

	Budget 2002-03	Projected 2001-02	Budget 2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97
Debt/ GDP	66.7%	72.4%	69.8%	69.1%	74.1%	79.5%	80.7%	80.9%
Surplus (deficit)/GDP	(1.7%)	(1.5%)	(1.6%)	(1.1%)	(1.5%)	(1.7%)	(2.0%)	(1.3%)
Surplus (deficit)/total revenue	(7.1%)	(5.6%)	(6.0%)	(4.0%)	(5.5%)	(5.5%)	(6.8%)	(4.2%)
Interest costs/total revenue**	14.2%	13.8%	14.0%	13.6%	13.6%	13.5%	14.2%	13.8%
Interest costs/total revenue (mod. accrual)	n/a	n/a	n/a	20.3%	20.7%	23.1%	22.1%	18.4%
Federal transfers/total revenue**	43.3%	43.9%	44.5%	44.3%	43.6%	47.2%	45.5%	42.0%
Total expenditure/total revenue**	107.1%	105.6%	106.0%	99.5%	99.1%	97.2%	98.4%	99.3%
Program expenditure/total revenue**	93.0%	91.8%	92.0%	85.8%	85.4%	83.7%	84.2%	85.6%
Total revenue growth**	0.7%	1.2%	(0.1%)	4.3%	(1.4%)	6.6%	(1.1%)	(0.5%)
Program expenditure growth**	2.0%	8.2%	7.2%	4.8%	0.6%	5.9%	(2.7%)	(0.1%)
Total expenditure growth**	2.1%	7.4%	6.5%	4.7%	0.4%	5.3%	(2.1%)	(0.4%)

** On a modified cash basis.

(Modified cash basis) Revenue Ratios (DBRS-adjusted)	Budget 2002-03	Projected 2001-02	Budget 2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97
Total tax revenue/total revenue	42.0%	41.0%	40.4%	42.5%	42.9%	40.6%	42.5%	47.0%
Corporate tax revenue/total revenue	3.9%	3.8%	4.3%	4.5%	4.9%	4.8%	4.9%	4.4%
Personal income tax revenue/total revenue	15.9%	16.1%	15.8%	17.4%	17.6%	15.8%	16.7%	18.6%
Retail sales tax/total revenue	14.6%	14.0%	13.2%	13.8%	13.4%	13.0%	13.6%	17.1%
Federal equalization/total revenue	32.0%	32.4%	32.8%	32.5%	31.5%	33.8%	31.1%	29.2%
Federal transfers/total revenue	43.3%	43.9%	44.5%	44.3%	43.6%	47.2%	45.5%	42.0%
Expenditure Ratios (DBRS-adjusted)								
Health & social services exp./total exp.	32.8%	33.6%	43.3%	43.0%	41.7%	41.5%	40.6%	39.2%
Education expenditure/total expenditure	18.8%	19.4%	19.5%	19.4%	20.5%	20.1%	20.4%	21.3%
Interest costs/total expenditure	13.2%	13.1%	13.2%	13.7%	13.7%	13.9%	14.4%	13.9%
Interest costs/total exp. (modified accrual)	n/a	n/a	n/a	19.5%	19.7%	21.9%	20.6%	17.6%
Capital expenditure/total expenditure	5.8%	7.4%	7.2%	7.9%	8.9%	8.5%	7.8%	7.5%
Per capita program expenditure ($)	6,328	6,178	6,118	5,666	5,377	5,301	4,926	5,002

Province of Newfoundland and Labrador

Revenues* ($ millions)	Budget 2002-03	Projected 2001-02	Budget 2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97
Personal income tax	611	612	602	625	605	545	543	618
Retail sales tax	562	535	503	494	459	449	444	567
Gasoline tax	133	130	129	132	131	123	123	121
Corporate income & capital tax	65	61	88	82	91	91	85	70
Payroll tax	85	82	78	80	76	75	74	76
Insurance premium tax	27	26	25	25	23	22	22	21
Tobacco tax	81	66	67	64	67	66	66	64
Mining tax & royalties and other	53	50	51	28	21	27	28	23
Total Taxes	1,614	1,561	1,541	1,529	1,474	1,397	1,385	1,560
Liquor profits	93	90	90	90	96	80	81	75
Vehicle drivers licences	55	55	53	52	54	53	53	47
Interest income	3	5	7	8	9	15	16	21
Lottery revenues	106	102	99	94	101	90	78	76
Net income of Nfld and Labrador Hydro (1)(3)	54	53	51	35	52	70	43	29
Other revenues	126	151	127	168	136	119	109	95
Total Own-Source Revenue	2,051	2,017	1,968	1,976	1,921	1,824	1,765	1,902
Equalization payments	1,158	1,162	1,163	1,153	1,071	1,166	1,006	958
Canada Health & Social Transfer	341	331	336	335	290	273	280	342
HST transition	-	-	-	31	63	127	127	-
Other federal sources	68	83	81	55	58	64	62	75
Total Federal Government Transfers	1,567	1,576	1,581	1,574	1,483	1,630	1,475	1,375
Total DBRS-Adjusted Revenue	3,618	3,593	3,548	3,550	3,404	3,454	3,240	3,277
Term 29 special payment (2)	-	-	-	-	-	32	32	42
Other non-recurring income	117	-	10	-	-	-	-	-
Adjustment for Hydro (3)	(10)	61	72	18	18	(53)	(23)	(16)
Recoveries - sinking fund surpluses	115	156	185	27	10	9	12	13
Total revenue, as reported	3,840	3,810	3,816	3,595	3,433	3,442	3,261	3,316
Expenditures*								
Health	1,161	1,127	1,101	1,013	934	908	820	787
Education	729	737	732	684	691	676	650	693
Social services	543	537	527	505	472	484	475	489
Resources & trade	142	133	151	108	100	104	111	108
Transportation & communication	115	118	115	124	105	97	94	90
General government	303	217	259	217	207	206	216	226
Public protection	167	171	160	158	147	149	135	154
Other	98	98	96	92	84	104	97	118
Net capital expenditures	107	160	125	146	168	163	132	139
DBRS-Adjusted Program Expenditures	3,364	3,298	3,266	3,048	2,909	2,890	2,730	2,804
Net interest charges (4)	512	497	497	484	463	468	459	452
DBRS-Adjusted Expenditures	3,876	3,795	3,762	3,532	3,372	3,358	3,189	3,256
DBRS adjustment (sinking fund earnings):	57	78	74	89	84	80	79	79
Total expenditures, as reported	3,933	3,873	3,836	3,621	3,456	3,438	3,268	3,335

* DBRS-adjusted revenue and expenditure figures do not include adjustments to convert to modified accrual.

(1) DBRS estimates for 2002-2003B.

(2) The federal government advanced $130 million over three years instead of $160 million over 20 years in light of Newfoundland's needs.

(3) DBRS includes in revenues the net income of Newfoundland & Labrador Hydro rather than the dividends paid to the Province.
The "Adjustment for Hydro" converts back to dividends. It includes dividends in excess of (less than) earnings and special dividends/fees.

(4) Interest costs are net of sinking fund income.

Note: 1997-98 revenues and expenditures exclude $348 million received from federal government for Labrador Ferry Service transfer.

Province of Newfoundland and Labrador

Balance Sheet -- Consolidated Revenue Fund

($ millions)

Financial Assets	2001	2000	1999
Cash & marketable securities	308	225	304
Accounts receivable	238	166	187
Loans	39	57	66
Investments	75	75	78
Other	1	1	3
Total Financial Assets	661	524	639

Liabilities	2001	2000	1999
Treasury bills	385	385	385
Other current liab.	483	467	558
Deferred revenue	17	57	98
Other long-term liabilities	369	346	352
Unfunded pens. liab.	3,348	3,309	3,352
Debt	4,747	4,515	4,346
Total Liabilities	9,350	9,078	9,091
Net Debt	(8,689)	(8,555)	(8,453)
	661	524	639

Public Sector Debt

($ millions) — As at March 31

	2002P	2001	2000	1999	1998	1997	1996
Direct debt	6,697	6,634	6,209	6,006	5,408	5,564	5,943
Less: sinking funds	(1,024)	(1,282)	(1,229)	(1,123)	(1,057)	(1,029)	(1,013)
Net Direct Debt	5,674	5,352	4,980	4,883	4,351	4,535	4,930
Housing	116	124	127	126	132	153	166
Municipal	550	500	461	486	512	565	608
Other guaranteed debt	231	195	153	39	112	154	93
Total other tax-supported debt	897	819	741	650	755	872	867
Total Tax-Supported Debt	6,570	6,171	5,721	5,533	5,106	5,407	5,797
Nfld. & Labrador Hydro	1,150	1,056	1,061	1,096	1,181	1,439	1,442
Less: sinking funds	(182)	(165)	(146)	(156)	(273)	(449)	(379)
Net Hydro debt (1)	968	891	915	940	908	990	1,063
Total public sector debt	7,538	7,062	6,636	6,473	6,014	6,397	6,860
Unfunded Pension Liabilities (2)	3,392	3,348	3,309	3,352	3,392	3,052	2,860

(1) All short-term and long-term Hydro borrowings are guaranteed by the Province.
(2) DBRS estimates for some years. Includes unamortized experience gains and losses.

Per capita ($)							
Tax-supported debt	12,309	11,473	10,578	10,147	9,216	9,645	10,207
Tax-supported debt+unf. pension liab.	18,663	17,697	16,695	16,294	15,338	15,089	15,243
As a % of GDP							
Tax-supported debt	47.7%	44.8%	47.0%	49.5%	48.5%	51.7%	54.2%
Tax-supported debt+unf. pension liab.	72.4%	69.1%	74.1%	79.5%	80.7%	80.9%	81.0%

Unfunded Pension Liabilities

As at March 31 ($ millions)

		2001		2000	
	Latest Valuation	Unfund. liability	Unamortized gains (losses)	Unfund. liability	Unamortized gains (losses)
Public service plan	1997	1,096	361	1,074	384
Teachers plan	1997	1,772	(129)	1,571	42
Other	1996/97	257	(9)	248	(10)
Total		3,125	224	2,892	417

Province of Newfoundland and Labrador

Detailed Gross Debt Breakdown by Type (1)

as at March 31, 2002

($ millions)	Direct Debt	Other Tax-supported Debt	Utility Debt	Total Public Sector Debt
Domestic Currency				
Treasury bills/commercial paper	494	-	-	494
Loans/private placements	200	217	-	417
Medium-term notes	-	-	-	-
Public bonds	3,264	709	1,150	5,123
Savings bonds	-	-	-	-
CPP borrowing	634	-	-	634
Total	4,592	926	1,150	6,668
Foreign Currency				
Commercial paper	-	-	-	-
Loans/private placements	-	-	-	-
Medium-term notes	-	-	-	-
Public bonds	2,106	-	-	2,106
Total	2,106	-	-	2,106
Total debt	6,697	926	1,150	8,773

Gross Debt Breakdown by Currency (1)

($ millions)	As at March 31, 2002			As at March 31, 2001		
	Cdn$-pay	Non-Cdn$	Total	Cdn$-pay	Non-Cdn$	Total
Direct debt	4,592	2,106	6,697	4,483	2,152	6,634
Other tax-supported debt	926	-	926	899	-	899
Utility debt	1,150	-	1,150	1,056	-	1,056
Total public sector debt	6,668	2,106	8,773	6,437	2,152	8,589
Tax-supported debt only:	72%	28%	100%	71%	29%	100%

Fixed/Floating Rate Gross Debt Breakdown (1) (2)

($ millions)	As at March 31, 2002			As at March 31, 2001		
	Floating	Fixed	Total	Floating	Fixed	Total
Direct debt	594	6,103	6,697	508	6,126	6,634
Other tax-supported debt	94	833	926	61	838	899
Utility debt	-	1,150	1,150	-	1,056	1,056
Total public sector debt	688	8,086	8,773	569	8,020	8,588
Tax-supported debt only:	9%	91%	100%	8%	92%	100%

Gross Market Debt Maturity Profile*

As at March 31, 2002

($ millions)	Direct Debt	Nfld. Municipal Financing Corp	Nfld. and Labrador Hydro	Total	
2002-03	394	44	100	538	7%
2003-04	192	79	-	271	4%
2004-05	246	62	-	308	4%
2005-06	151	34	-	185	2%
2006-07	60	30	100	189	2%
2007-08 to 2011-12	1,538	116	200	1,853	24%
2012-13+	3,624	23	725	4,371	57%
Total	6,203	387	1,125	7,715	100%

(1) Including hedges (if any).

(2) Floating rate debt is defined as debt that matures or is repriced within 12 months.

* Does not include all debt. For Hydro, excludes $25 million in loans due to the Government of Canada.

Newfoundland and Labrador Hydro

(The rating is based on the Provincial guarantee. This report specifically analyzes Newfoundland and Labrador Hydro.)

Current Report: July 30, 2002
Previous Report: October 2, 2001

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RATING

Rating	Trend	Rating Action	Debt Rated
BBB	Stable	Confirmed	Long-Term Debt
R-2 (high)	Stable	Confirmed	Commercial Paper/Treasury bills

RATING HISTORY

	Current	2001	2000	1999	1998	1997	1996
Long-Term Debt	BBB	BBB	BBB	BBB	BBB	BBB (low)	BBB (low)
Commercial Paper/Treasury bills	R-2 (high)	R-2 (high)	R-2 (high)	R-2 (high)	R-2 (high)	R-2 (middle)	R-2 (middle)

UPDATE

Newfoundland and Labrador Hydro's ("the Utility") rating is a flow-through of the rating of the Province of Newfoundland and Labrador ("the Province"), which unconditionally guarantees the Utility's debt. The Utility's net earnings rebounded sharply in 2001 as a result of the favourable re-negotiation of the three-year recall agreement with Hydro-Québec. Despite the higher net earnings, operating cash flow weakened significantly due to the sharp increase in the rate stabilization plan as a result of the significant cost variances in 2001 between actual fuel prices and the base price. Prior to 2002, rates were set based on an oil price of Cdn$12.5/barrel, with the difference between the base prices and actual price (currently around Cdn$25/barrel) recovered through rates over the following three-year period. The reduced operating cash flows, combined with the high dividend payments and high capital expenditures, resulted in another free cash flow deficit, which was financed with debt. The Utility's leverage and cash flow/debt ratio deteriorated further in 2001, while EBIT interest coverage recovered somewhat from its sharp decline in 2000.

The medium-term outlook for the Utility's financial profile remains reasonable. Net income is expected to remain stable or post modest growth, while operating cash flows should improve significantly (and be less volatile) as a result of some of the recent regulatory decisions, namely, the annual re-basing of fuel costs based on forecast fuel prices. Despite the projected improvement in cash flows, the Utility will continue to post free cash flow deficits in the short term due to the major capital projects currently underway and the substantial projected dividend payment to the Province in 2002. As a result, leverage will increase and key financial ratios are expected to remain weak. Over the medium term, the Utility's financial profile is expected to remain weaker relative to comparable investor-owned utilities.

Over the long term, the key challenges facing the Utility include the ongoing sensitivity of cash flows to water levels and fuel prices, although the volatility has been significantly reduced due to recent regulatory decisions. Its financial profile could also be negatively impacted if the proposed large Labrador projects go ahead, depending on the form of the Utility's participation. The Utility's competitiveness could also be negatively impacted by any future environmental issues associated with the high sulphur content of Bunker C fuel.

CONSIDERATIONS

Strengths:

- Debt is unconditionally guaranteed by the Province
- New regulatory environment – rate of return basis
- Two-thirds interest in Churchill Falls
- Geographic isolation and unavailability of gas minimizes competitive pressures, impact of industry deregulation
- Rate Stabilization Plan contributes to long-term earnings stability

Challenges:

- Cash flows sensitive to water levels and oil prices
- High realized foreign exchange losses
- Large Labrador projects could pressure key debt ratios should construction commence
- Environmental issues related to sulphur content of Bunker C fuel

FINANCIAL INFORMATION

	For the years ended December 31					
	2001	2000	1999	1998	1997	1996
EBIT interest coverage (times)	1.39	1.17	1.51	1.45	1.24	1.17
% net debt in capital structure (1)	68.2%	66.4%	63.1%	65.2%	68.1%	69.4%
Cash flow/total net debt (times) (1)	0.03	0.06	0.11	0.09	0.06	0.04
Cash flow/capital expenditures (times) (1)	0.39	1.33	1.97	3.11	2.30	1.61
Net income (bef. extras.) ($ millions)	53	35	68	70	43	29
Operating cash flow ($ millions)	32	62	111	86	58	39
Electricity sales (millions of kWhs)	8,341	8,206	7,988	7,598	6,781	6,589
Electricity revenues (cents per kWh sold)	3.88	3.68	3.96	3.98	4.30	4.35
Variable costs (cents per net gen kWh sold)	2.40	2.35	2.17	2.04	2.02	2.10
Fixed costs (cents per net gen kWh sold)	2.10	2.25	2.33	2.46	2.32	2.46
Avg. coupon on long-term debt	8.07%	8.40%	8.38%	8.73%	9.51%	10.10%

(1) Cash flows include dividends received, debt is net of sinking fund assets.

THE COMPANY

Newfoundland and Labrador Hydro, a Crown corporation of the Province of Newfoundland and Labrador, generates and transmits electricity in Newfoundland and Labrador. The Utility sells about 65% of its output to a private sector electricity distributor, Newfoundland Power Inc., and distributes the remainder to rural customers and a small group of industrial companies.

AUTHORIZED PAPER AMOUNT (ORDER-IN-COUNCIL LIMIT) Cdn$300 million

REGULATION

Newfoundland and Labrador Hydro is regulated by the Board of Commissioners of Public Utilities ("PUB"). In 1996, the Province enacted legislation that changes the way the Utility is to be regulated to a rate of return basis. In May 2001, the Utility filed its first general rate application since 1991 and its first full rate base application. The Board released its decisions with respect to the application on June 7, 2002. The following includes the key decisions rendered by the Board that will have an impact on the Utility's finances: (1) the annual re-basing of the price of Bunker C fuel to an average fuel price based on monthly forecast fuel prices (the base price had been set at $12.50/bbl since 1992); (2) the removal of the existing $50 million cap on Newfoundland Power's portion of the Rate Stabilization Plan ("RSP"); (3) the deferral of additional recovery of the existing RSP balances until 2003; (4) an ROE of 3% and a regulated debt/equity ratio of 83/17 for 2002; (5) approval of a target short-term debt/equity ratio of 80/20 (beyond 2002); and (6) approval to move to full cost recovery for federal and provincial government departments in rural areas. The PUB did not accept the Utility's request to move to an ROE and capital structure over the longer term that is more comparable to those of investor-owned utilities.

The Utility plans to file another rate application in 2003 to adjust 2004 rates to recover the costs associated with the new power coming on line from Granite Canal.

CONSIDERATIONS

Strengths: (1) The Utility's debt is unconditionally guaranteed by the Province of Newfoundland and Labrador. As a result, the rating of the Utility is a flow-through of the provincial government rating.

(2) A number of the decisions by the PUB in response to the Utility's first full rate base application, including the decision to allow the Utility to use the forecast average fuel price in base rates, will improve the Utility's operating cash flows. However, improvement in the Utility's earnings growth profile is limited given the PUB's denial of the Utility's request to be treated as an investor-owned utility.

(3) The Utility has a two-thirds interest in Churchill Falls (Labrador) Corporation Limited, the lowest-cost and most efficient hydro-electric utility in North America. A long-term (until 2041) power contract with Hydro-Québec at rates well below market prices neutralizes much of the current cost advantage of this investment. The Guaranteed Winter Availability contract with Hydro-Québec provides for some incremental earnings growth until 2008, at which point the revenue associated with this contract increases at a rate of 1% per year until 2041.

(4) The Utility's geographic isolation and unavailability of natural gas in much of the service region should minimize competitive pressures over the medium term from deregulation occurring throughout the North American industry. However, the Utility's geographic isolation also greatly limits its export potential.

(5) The Rate Stabilization Plan (RSP) contributes to earnings stability over the longer term. The RSP provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price (base price now to be set annually), levels of precipitation and load. Customer rates are adjusted every 12 months to recover outstanding balances in the RSP over the following three years. However, due to the PUB's decision to allow the Utility to use the forecast average fuel price in base rates, which will result in significant rate increases for 2002, the PUB is postponing the additional recovery of the existing RSP balance until 2003.

Challenges: (1) Annual cash flows are sensitive to water levels and oil prices given the Utility's generation base (about 56% hydro, 40% thermal), although the recent regulatory decision to re-base annually the cost of fuel included in rates based on the average forecast price should reduce the volatility of cash flows. Earnings, however, are not impact because any cost variances from changes in fuel prices (relative to the base price) and water levels are deferred to the Rate Stabilization Plan and recovered over time.

(2) The Utility has $96 million in realized foreign exchange losses. This amount will be recovered in future rates.

(3) Potential new Labrador capacity projects could be set up as independent operating companies, similar to Churchill Falls, with Newfoundland and Labrador Hydro holding an equity stake in the subsidiary. If the new entity or the projects are set up as part of Newfoundland and Labrador Hydro, the Utility's key debt ratios could be negatively impacted given the lack of access to the equity market for financing.

(4) A significant percentage of the Utility's electricity is thermal-based and is fuelled by Bunker C fuel, which has a high sulphur content. The Utility may have to deal with the environmental issues related to the sulphur content, which could result in increased costs.

EARNINGS AND OUTLOOK

($ millions)	2001	2000	1999	1998	1997	1996
	For the years ended December 31					
Revenues	325.3	303.2	317.0	304.2	292.7	287.8
EBITDA	153.0	136.4	166.7	170.7	156.6	151.0
EBIT	120.8	100.9	130.6	138.6	126.7	122.4
Net interest expense	80.4	83.5	82.2	87.4	95.8	102.3
Net income before equity income & extras.	40.4	17.4	48.4	51.2	30.9	20.1
Net income before extras	53.4	34.9	68.3	69.6	43.4	28.9
Net income	53.4	34.9	51.6	69.6	43.4	28.9
Return on average equity (before extras.)	9.39%	5.84%	11.22%	12.31%	8.23%	5.69%

- EBIT and net income rebounded in 2001
  - Largely due to the re-negotiation of the three-year recall agreement with Hydro-Québec, effective March 9, 2001
  - New recall agreement includes a higher revenue cap than under the previous agreement
- Net interest expense down due to higher interest income
  - Positive impact on net income offset by decline in equity income from Churchill Falls (Labrador) Corporation Limited

Outlook:

- Net income expected to remain relatively stable or grow at a modest pace over next two years
  - Higher revenue cap under re-negotiated three-year recall agreement with Hydro-Québec will provide support to earnings
  - However, actual profit from re-call agreement depends on amount of energy produced and the amount used in Labrador
- Earnings from domestic sales expected to be supported by the PUB's decisions regarding the Utility's general rate application
  - Forecast price of No. 6 fuel included in rates to be based on the average monthly year-ahead forecast for the price of fuel (set at Cdn$25.91/bbl for 2002) versus the previous Cdn$12.50/bbl
  - Approval to move to full cost recovery for federal and provincial government departments in rural areas
- Earnings growth in 2002 will be constrained by:
  - PUB's denial of the recovery of interest costs associated with financing dividend payments to the Province in excess of the Utility's dividend policy (up to 75% of net income)
  - Earnings growth could be constrained by the implementation of a productivity factor ($2 million) if the Utility fails to achieve such savings
- Over the longer term, the Utility's earnings growth will remain weaker than investor-owned utilities
  - PUB has denied the Utility's request to be treated as an investor-owned utility
  - Deemed capital structure expected to remain around 80% debt/20% equity, well above that of investor-owned utilities
  - Allowed ROE, however, could move above the 2002 allowed ROE of 3%

FINANCIAL PROFILE AND SENSITIVITY ANALYSIS

($ millions)	For years ending Dec. 31			Stress Testing		
Cash Flow Statement (non-consolidated)	2001	2000	1999	Year 1	Year 2	Year 3
EBITDA	153.0	136.4	166.7	137.7	137.7	137.7
Net income (before extras.)	53.4	34.9	68.3	19.5	8.1	3.8
Depreciation	32.2	35.5	36.1	37.5	36.4	37.6
Other non-cash adjustments	(53.6)	(8.1)	6.8	0.0	0.0	0.0
Operating Cash Flow	32.0	62.3	111.2	56.9	44.5	41.4
Dividends received	4.3	5.2	8.4	5.2	5.2	5.2
Common dividends	(53.3)	(69.9)	(17.0)	(105.0)	(6.1)	(2.8)
Capital expenditures (net of contrib.)	(92.1)	(50.7)	(60.8)	(100.0)	(80.0)	(25.0)
Gross Free Cash flow	(109.1)	(53.1)	41.8	(142.9)	(36.4)	18.7
Working capital changes	8.8	(2.7)	(3.1)	0.0	0.0	0.0
Free Cash Flow	(100.3)	(55.8)	38.7	(142.9)	(36.4)	18.7
Other investments	(6.1)	(4.2)	95.2	0.0	0.0	0.0
Net financing	110.0	60.5	(140.2)	142.9	36.4	(18.7)
Net Change in Cash	3.6	0.5	(6.3)	0.0	0.0	(0.0)
Total net debt (1)	1,219	1,123	1,073	1,362.3	1,398.7	1,379.9
% net debt in capital structure (1)	68.2%	66.4%	63.1%	73.8%	74.2%	73.9%
EBIT interest coverage (times)	1.39	1.17	1.51	1.04	0.94	0.91
Cash flow/ total debt (1)	0.03	0.06	0.11	0.04	0.03	0.03
(1) Cash flows include dividends received, debt is net of sinking fund assets.						
Stress Test Assumptions						
EBITDA growth				-10%	0%	0%
Interest rate				8.7%	8.7%	8.7%

Financial Profile:

- The Utility has generated free cash flow deficits over the past two years
  - Have resulted in a significant increase in leverage and a sharp deterioration in cash flow/debt
  - Free cash flow deficit in 2001 due to a combination of weak operating cash flows, higher-than-normal dividend payments and high capital expenditures
- Operating cash flows weakened significantly in 2001 despite rebound in net income
  - Due almost entirely to significant increase in rate stabilization plan – flows through earnings, but the cash is recovered from customers only over the following three years
- Capital expenditures higher in 2001 primarily due to construction of Granite Canal project (a $135 million, new 40-MW generating facility), major transmission line upgrades and a new microwave system

Outlook:

- Capital expenditures are projected to increase to about $100 million in 2002 and decline to $80 million in 2003
  - Majority of capital expenditures related to Granite Canal project
  - Last year of the five-year (1997-2002) transmission and system reliability improvement program also accounts for the high level
- Capital expenditures expected to decline to about $20 million - $30 million after 2003
- High capital expenditures in 2002 and 2003 will result in free cash flow deficits
  - Operating cash flows should improve as a result of regulatory decisions
  - However, will not be sufficient to cover the increased capital expenditures and projected dividend payments (estimated at $105 million in 2002 including a special dividend of $64.3 million, and 75% of net income in 2003)
  - Utility expects to issue $300 million in term debt in 2002
- Balance sheet deterioration will continue over next two years
- Cash flow/debt should improve somewhat, but will remain weak
- Interest coverage expected to remain weak as well

Sensitivity Analysis:

DBRS stress tests the financial strength of companies analyzed to measure their sensitivity under various extreme scenarios. The assumptions used are not based on any specific information provided by the Utility, or DBRS expectations concerning the future performance of the Utility. Assumptions: Utility's EBITDA declines 10% in Year 1 and remains flat thereafter; capital expenditures based on Utility's projections; dividends at $105 million in Year 1 and 75% of net income thereafter; free cash flow deficits are debt financed.

- Under the above assumptions, the Utility would face debt requirements of $150 million over the three-year period
- Leverage would rise to 74% in Year 2 (although not inconsistent with the capital structure approved by the regulator), and interest coverage would deteriorate sharply and quickly
- DBRS expects that in such a situation, the Utility would likely receive regulatory relief through rates to stabilize income

LONG-TERM DEBT MATURITIES AND BANK LINES

(Includes term debt maturities and sinking fund requirements for the Utility only.)

	2002	2003	2004	2005	2006
($ millions)	114.4	14.6	10.5	10.9	109.9

The Utility has a Cdn$50 million operating line of credit, which currently remains unused. The Utility also has a Cdn$300 million commercial paper program. As at June 30, 2002, the Utility had Cdn$168 million of commercial paper outstanding.

Newfoundland and Labrador Hydro

(Non-consolidated)

Balance Sheet

($ millions)

Assets	2001	2000	1999	Liabilities and Equity	2001	2000	1999
	As at December 31				As at December 31		
Cash + equivalents	1.1	0.4	4.4	Accts pay + accr'ds	70.3	57.5	63.8
Receivables	42.8	41.3	45.5	Promissory notes	139.8	125.6	58.9
Rate stabilization acct.	21.1	11.5	17.0	L.t.d. due in one year	114.4	162.9	12.1
Fuel, supplies + prepaids	41.4	45.0	44.9	Current liabilities	324.5	346.0	134.8
Current assets	106.4	98.2	111.8	Long-term debt	1,007.9	870.2	1,030.8
Fixed assets	1,314.4	1,256.8	1,243.2	FX losses	10.0	9.0	8.0
Investments	298.4	293.2	290.0	Employee future ben	24.1	22.8	2.0
Rate stabilization acct.	63.9	24.1	17.5	Shareholders' equity	568.7	568.6	626.2
Sinking funds	42.7	35.4	28.8				
Def'd charges + long-term receivables	109.4	108.9	110.5				
Total	1,935.2	1,816.6	1,801.8	Total	1,935.2	1,816.6	1,801.8

Ratio Analysis (1)

For years ended December 31

Liquidity Ratios	2001	2000	1999	1998	1997	1996	1995	1994
Current ratio	0.33	0.28	0.83	0.46	0.24	0.31	0.20	0.39
Accumulated depreciation/gross fixed assets	23.6%	23.2%	22.1%	21.1%	19.4%	17.9%	16.5%	15.1%
Cash flow/total net debt (2)	0.03	0.06	0.11	0.09	0.06	0.04	0.04	0.05
Cash flow/capital expenditures	0.39	1.33	1.97	3.11	2.30	1.61	1.34	2.38
Cash flow-dividends/capital expenditures	(0.18)	(0.05)	1.69	2.58	1.60	1.15	0.81	2.38
% net debt in capital structure (2)	68.2%	66.4%	63.1%	65.2%	68.1%	69.4%	70.1%	70.3%
Average coupon on long-term debt	8.07%	8.40%	8.38%	8.73%	9.51%	10.10%	10.10%	10.80%
Common equity in capital structure	31.8%	33.6%	36.9%	34.8%	31.9%	30.6%	29.9%	29.7%
Common dividend payout (before extras.)	99.8%	200.3%	24.9%	24.1%	48.2%	44.6%	59.3%	0.0%
Coverage Ratios (3)								
EBIT interest coverage	1.39	1.17	1.51	1.45	1.24	1.17	1.19	1.11
EBITDA interest coverage	1.72	1.54	1.89	1.71	1.45	1.38	1.39	1.30
Fixed-charges coverage	1.39	1.17	1.51	1.45	1.24	1.17	1.19	1.11
Earnings Quality/Operating Efficiency								
Power purchases/revenues	6.2%	6.7%	6.0%	4.4%	1.9%	1.8%	1.7%	1.9%
Fuel costs/revenues	15.4%	14.0%	11.1%	8.8%	15.0%	14.5%	14.1%	14.0%
Operating margin	37.1%	33.3%	41.2%	45.6%	43.3%	42.5%	43.6%	42.5%
Net margin (before extras.)	16.4%	11.5%	21.5%	22.9%	14.8%	10.0%	11.5%	7.6%
Return on avg equity (before extras.)	9.4%	5.8%	11.2%	12.3%	8.2%	5.7%	6.7%	4.5%
Profit returned to government (bef. extras.) (4)	99.8%	176.8%	35.3%	34.8%	58.7%	59.7%	69.1%	33.3%
GWh sold/employee	0.0	7.9	7.7	7.3	6.7	6.5	6.1	5.5

Self Generation – Cost Structure (5) (cents per net generated kWh sold) (Tables may not add due to rounding)

	2001	2000	1999	1998	1997	1996	1995	1994
OM&A	1.54	1.62	1.54	1.54	1.28	1.37	1.37	1.44
Fuel	0.85	0.74	0.63	0.51	0.74	0.72	0.71	0.70
Variable costs	2.40	2.35	2.17	2.04	2.02	2.10	2.08	2.14
Gov't levies	0.19	0.19	0.20	0.21	0.19	0.19	0.18	0.19
Net interest expense	1.42	1.48	1.48	1.60	1.58	1.71	1.73	1.87
Total cash costs	4.01	4.01	3.85	3.86	3.79	4.00	3.99	4.20
Non-cash financial charges	(0.05)	(0.03)	0.01	0.04	0.05	0.07	0.06	0.05
Depreciation	0.55	0.62	0.65	0.60	0.51	0.50	0.48	0.47
Total costs	4.50	4.60	4.50	4.50	4.34	4.56	4.53	4.72
Purchased power (cents per gross kWh purchased)	0.79	0.80	0.74	0.57	0.61	0.60	0.60	0.62

(1) Debt-related ratios not directly comparable to periods before 1996 due to a change in accounting policies.

(2) Cash flows include dividends received. Debt is net of sinking fund assets.

(3) Before capitalized interest, AFUDC, and debt amortizations.

(4) Includes all taxes, guarantee fees, and dividends.

(5) Note: costs used are Utility's total costs, and not just those related to generation. Internally generated energy less energy used + lost (excluding power purchases). Transmission losses apportioned relative to total energy supplied.

Newfoundland and Labrador Hydro
(Non-consolidated)

Operating Statistics		For years ended December 31						
Electricity Sold – Breakdown		2001	2000	1999	1998	1997	1996	1995
Utilities (mainly Nfld L+P)		4,423	4,263	4,084	4,157	4,306	4,187	4,214
Rural		832	842	830	811	815	765	751
Industrial		1,528	1,607	1,343	1,286	1,660	1,637	1,541
Exports		1,558	1,494	1,731	1,344	0	0	0
Total (GWh sold)		8,341	8,206	7,988	7,598	6,781	6,589	6,506
Energy sales growth		1.6%	2.7%	5.1%	12.0%	2.9%	1.3%	2.2%
Generation								
Hydro	56%	899	899	899	899	899	899	899
Thermal	40%	645	645	645	645	645	645	645
Diesel	3%	57	55	55	58	58	58	57
Installed capacity (MW)		1,601	1,599	1,599	1,602	1,602	1,602	1,601
Energy Generated - hydro		3,959	5,016	4,801	4,260	4,628	4,574	4,393
- thermal		2,095	966	914	1,255	1,528	1,409	1,533
- diesel		46	43	41	41	41	64	74
Gross energy generated – GWh	69%	6,100	6,025	5,756	5,556	6,197	6,047	6,000
Plus: purchases	31%	2,551	2,545	2,538	2,382	932	878	838
Energy generated + purchased		8,651	8,570	8,294	7,938	7,129	6,925	6,838
Less: transmission losses + internal use		310	364	306	340	348	336	332
Total – GWh sold		8,341	8,206	7,988	7,598	6,781	6,589	6,506
Energy lost + used/energy gen. + purch.		3.6%	4.2%	3.7%	4.3%	4.9%	4.9%	4.9%
Maximum primary peak demand		1,262	1,240	1,265	1,295	1,229	1,318	1,250
Peak demand/available capacity		78.8%	77.5%	79.1%	80.8%	76.7%	82.3%	78.1%

Unit Revenues and Costs (cents per kWh sold) (Tables may not add due to rounding)

	2001	2000	1999	1998	1997	1996	1995
Revenues:							
Utilities	4.50	4.49	4.50	4.49	4.48	4.50	4.50
Rural	5.58	5.88	5.55	5.40	5.51	5.83	5.97
Industrial	3.14	2.96	3.56	3.27	3.23	3.27	3.27
Exports	1.97	0.89	2.22	2.22	-	-	-
Average electricity revenues	3.88	3.68	3.96	3.98	4.30	4.35	4.38
Ancillary revenues	0.02	0.02	0.01	0.02	0.02	0.02	0.02
Average revenues	3.90	3.69	3.97	4.00	4.32	4.37	4.40
Costs:							
Operating + administration	1.09	1.14	1.07	1.08	1.11	1.20	1.20
Power purchases	0.24	0.25	0.24	0.18	0.08	0.08	0.08
Fuel	0.60	0.52	0.44	0.35	0.65	0.63	0.62
Variable costs	1.93	1.90	1.74	1.61	1.84	1.91	1.90
Government levies	0.13	0.13	0.14	0.15	0.16	0.16	0.16
Net interest expense	1.00	1.04	1.03	1.12	1.37	1.49	1.52
Cash costs	3.07	3.07	2.91	2.88	3.38	3.57	3.58
Cash margin	0.83	0.63	1.06	1.13	0.94	0.80	0.82
Non-cash financial charges	(0.04)	(0.02)	0.00	0.03	0.04	0.06	0.05
Depreciation	0.39	0.43	0.45	0.42	0.44	0.43	0.42
Pre-tax margin	0.48	0.21	0.61	0.67	0.46	0.31	0.35
Variable costs	1.93	1.90	1.74	1.61	1.84	1.91	1.90
Fixed costs (deprec., int. + levies)	1.48	1.58	1.62	1.72	2.02	2.15	2.15
Total costs	3.42	3.48	3.36	3.33	3.86	4.06	4.05