

The Manitoba Hydro-Electric Board

Q U A R T E R L Y R E P O R T

for the nine months ended December 31, 2009



FINANCIAL OVERVIEW

Manitoba Hydro's consolidated net income from electricity and natural gas operations was \$34 million for the first nine months of the 2009-10 fiscal year. This represented a decrease of \$183 million from the \$217 million net income for the same period last year. The decrease was attributable to lower prices on export markets mainly due to low prices for competing natural gas-fueled generation and reduced power demand due to economic conditions.

Consolidated net income was comprised of a \$50 million profit in the electricity sector and a \$16 million net loss in the natural gas sector. The loss in the natural gas sector is the result of seasonal variations in the demand for natural gas and will be recouped over the remainder of the winter heating season.

Manitoba Hydro is forecasting that net income will improve over the balance of the fiscal year and should exceed \$120 million by March 31, 2010.

Electricity Operations

Revenues from electricity sales within Manitoba totaled \$821 million for the nine-month period, an increase of \$26 million or 3% higher than the same nine-month period last year. The increase in domestic revenue was attributable to an electricity rate increase of 2.9% implemented on April 1, 2009 plus increased usage across most customer sectors. Extraprovincial revenues of \$328 million were \$204 million or 38% lower than the same period last year reflecting lower prices in the export markets. Energy sold in the export market was 9.1 billion kilowatt-hours which is comparable to the 9.0 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations totaled \$1 099 million for the nine-month period which was \$2 million higher than the same nine months last year. The increase was the net result of an \$18 million increase in operating and administrative expense, a \$13 million increase in finance expense, a \$12 million increase in depreciation and amortization expense, a \$7 million increase in capital and other taxes, a \$46 million decrease in power purchases, and a \$2 million reduction in water rentals and assessments. The increase in operating and administrative expenses was due to higher labour and associated costs that were incurred as a result of recent contract settlements, the filling of a number of trades trainee positions, and increased system maintenance requirements. The increase in finance expense was the result of higher U.S. exchange costs partially offset by lower interest rates. The increase in depreciation and amortization expense was the result of additions to capital assets over the past year. The decrease in power purchases was primarily the result of lower purchases for resale into export markets.

Capital expenditures for the nine-month period amounted to \$801 million compared to \$643 million for the same period last year. The increase was mainly the result of planning and construction activities related to new generation. Expenditures during the current fiscal year included \$292 million for Wuskwatim generation and transmission, \$71 million related to future Conawapa and Keeyask generation, \$31 million for upgrades to the Kelsey Generating Station, \$19 million for Manitoba Hydro's new head office, and \$25 million for demand-side management programs. The remaining capital expenditures were incurred for ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province.

Natural Gas Operations

In the natural gas sector, a net loss of \$16 million was incurred for the nine-month period compared to a \$13 million net loss for the same period last year. Revenue, net of cost of gas sold, was \$88 million which was \$4 million lower than the same period last year. The decrease in revenues was primarily attributable to reduced weather-

related demand over the nine-month period. Delivered gas volumes were 1 260 million cubic metres compared to 1 300 million cubic metres in the prior period.

Expenses attributable to gas operations amounted to \$104 million which was \$1 million lower than the expenses incurred in the prior year.

Capital expenditures in the natural gas sector were \$26 million for the current nine-month period compared to \$32 million for the same period last year. Capital expenditures included \$18 million related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province, and \$8 million for demand-side management programs.

Maintaining Financial Strength

Despite the impacts of depressed export prices on current year net income, Manitoba Hydro is in the strongest financial position than at any time in its history. The long-term financial target of 75:25 for the debt/equity ratio was achieved last year, three years ahead of the target date. Other key financial measures for interest coverage and capital coverage are also strong. All financial and operational risks are being prudently managed and with relatively modest rate increases for electricity and natural gas, Manitoba Hydro will maintain its strong financial position for the long-term benefits of all Manitoba ratepayers.

Providing Customers with Exceptional Value

Manitoba Hydro prides itself in providing exceptional value to customers through a safe and secure system, high reliability, superior service and low rates. Based on independent surveys, Manitoba Hydro consistently ranks as the top utility in Canada for customer satisfaction. Rates for electricity service are amongst the lowest in North America.

Manitoba Hydro's recent application to the Public Utilities Board for a 2.9% rate increase effective April 1, 2010 and 2.9% effective April 1, 2011 strives to maintain the appropriate balance between customer sensitivity and fiscal responsibility. Manitoba Hydro is

cognizant of the financial impacts of current economic conditions on ratepayers and is proposing relatively modest rate increases to meet its increased costs of operations and to maintain its strong financial position. By comparison, in some other jurisdictions in Canada, electricity rate increases range from 7% to 10% per year.

Investing for the Future

Manitoba Hydro is entering an exciting new decade of investment in the future of our province. Major projects such as Keeyask, Conawapa and Bipole III transmission will require large capital investments but the returns to Manitobans are many times greater and will endure for generations to come.

Of course, such bold new initiatives will not be undertaken before a comprehensive stakeholder consultation and approval process is completed. Firm export contracts must be secured to ensure the required return on investments; environmental licences must be obtained; regulatory approvals must be in place; appropriate benefits to Aboriginal people must be provided or arranged; and a public needs and justification review process will be conducted prior to the commencement of construction.



Victor H. Schroeder, QC
Chairman of the Board

A handwritten signature in black ink, appearing to read "Victor H. Schroeder".



R. B. Brennan, FCA
President and
Chief Executive Officer
February 15, 2010

A handwritten signature in black ink, appearing to read "Bob Brennan".

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	<i>Nine Months Ended</i>		<i>Three Months Ended</i>	
	<i>December 31</i>		<i>December 31</i>	
	2009	2008	2009	2008
Revenues				
Electric – Manitoba	821	795	290	286
– Extraprovincial	328	532	105	147
Gas – Commodity	186	241	109	152
– Distribution	88	92	41	46
	<u>1 423</u>	<u>1 660</u>	<u>545</u>	<u>631</u>
Cost of gas sold	186	241	109	152
	<u>1 237</u>	<u>1 419</u>	<u>436</u>	<u>479</u>
Expenses				
Operating and administrative	334	315	112	106
Finance expense	336	325	110	107
Depreciation and amortization	293	282	97	99
Water rentals and assessments	90	92	32	32
Fuel and power purchased	75	121	32	45
Capital and other taxes	75	67	27	24
	<u>1 203</u>	<u>1 202</u>	<u>410</u>	<u>413</u>
Net Income	<u>34</u>	<u>217</u>	<u>26</u>	<u>66</u>

Consolidated Balance Sheet

In Millions of Dollars (Unaudited)

	<i>As at</i>	<i>As at</i>
	<i>December 31</i>	<i>December 31</i>
	2009	2008
Assets		
Capital assets	10 074	9 344
Current assets	815	717
Other assets	1 511	1 498
	<u>12 400</u>	<u>11 559</u>
Liabilities and Equity		
Long-term debt (net)	7 349	7 308
Current liabilities	938	638
Other liabilities	1 439	1 373
Contributions in aid of construction	297	295
Retained earnings	2 154	2 038
Accumulated other comprehensive income	223	(93)
	<u>12 400</u>	<u>11 559</u>

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	<i>Nine Months Ended</i>		<i>Three Months Ended</i>	
	<i>December 31</i>		<i>December 31</i>	
	2009	2008	2009	2008
Operating Activities				
Cash receipts from customers	1 485	1 766	431	569
Cash paid to suppliers and employees	(819)	(913)	(292)	(292)
Net interest	(332)	(355)	(34)	(61)
	<u>334</u>	<u>498</u>	<u>105</u>	<u>216</u>
Financing Activities	697	353	338	134
Investing Activities	<u>(878)</u>	<u>(796)</u>	<u>(240)</u>	<u>(271)</u>
Net increase (decrease) in cash	153	55	203	79
Cash at beginning of period	<u>170</u>	<u>133</u>	<u>120</u>	<u>109</u>
Cash at end of period	<u><u>323</u></u>	<u><u>188</u></u>	<u><u>323</u></u>	<u><u>188</u></u>

Consolidated Statement of Comprehensive Income

In Millions of Dollars (Unaudited)

	<i>Nine Months Ended</i>		<i>Three Months Ended</i>	
	<i>December 31</i>		<i>December 31</i>	
	2009	2008	2009	2008
Net Income	<u>34</u>	<u>217</u>	<u>26</u>	<u>66</u>
Other Comprehensive Income (loss)				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	392	(366)	47	(304)
Realized foreign exchange (gains) losses on debt in cash flow hedges reclassified to income	6	(13)	1	(2)
Unrealized fair value gains (losses) on available-for-sale U.S. sinking fund investments	(6)	(18)	(6)	(4)
	<u>392</u>	<u>(397)</u>	<u>42</u>	<u>(310)</u>
Comprehensive Income	<u><u>426</u></u>	<u><u>(180)</u></u>	<u><u>68</u></u>	<u><u>(244)</u></u>

Segmented Information

In Millions of Dollars (Unaudited)

<i>Nine Months Ended</i> <i>December 31</i>	Electricity		Gas		Total	
	2009	2008	2009	2008	2009	2008
Revenue (net of cost of gas sold)	1 149	1 327	88	92	1 237	1 419
Expenses	1 099	1 097	104	105	1 203	1 202
Net Income (Loss)	50	230	(16)	(13)	34	217

Three Months Ended
December 31

Revenue (net of cost of gas sold)	395	433	41	46	436	479
Expenses	378	376	32	37	410	413
Net Income	17	57	9	9	26	66
Total Assets	11 780	10 898	620	661	12 400	11 559

Generation and Delivery Statistics

	<i>Nine Months Ended</i> <i>December 31</i>		<i>Three Months Ended</i> <i>December 31</i>	
	2009	2008	2009	2008
Electricity in gigawatt-hours				
Hydraulic generation	25 469	26 008	8 866	8 927
Thermal generation	117	270	74	131
Scheduled energy imports	195	144	141	122
Wind purchase (MB)	254	272	89	106
Total system supply	26 035	26 694	9 170	9 286
Gas in millions of cubic metres				
Gas sales	659	702	408	444
Gas transportation	601	598	247	249
	1 260	1 300	655	693

For further information contact:
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Cover: A denizen of the north poses casually on the outskirts of Churchill, Manitoba.