

The Manitoba Hydro-Electric Board

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

for the three months ended June 30, 2009



FINANCIAL OVERVIEW

Manitoba Hydro's consolidated net income from electricity and natural gas operations was \$13 million for the first three months of the 2009-10 fiscal year compared to \$55 million for the same period last year. Consolidated net income was comprised of a \$23 million profit in the electricity sector and a \$10 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 winter heating season.

Consolidated net income was \$42 million lower than the same three-month period last year which reflects the net impact of lower prices in extraprovincial markets partially offset by higher sales and prices in domestic markets. If economic conditions improve in the latter part of the fiscal year, revenues from export sales should recover to more favourable historic levels.

Electricity Operations

Revenues from electricity sales within Manitoba totaled \$282 million for the three-month period, an increase of \$30 million or 12% higher than the same three-month period last year. The increase in domestic revenue was attributable to rate increases implemented July 1, 2008 and April 1, 2009 plus increased usage across most customer sectors. Extraprovincial revenues of \$109 million were \$65 million or 37% lower than the same period last year reflecting lower prices in the export markets due to poor economic conditions.

Expenses attributable to electricity operations totaled \$368 million, an increase of \$4 million or 1% higher than the previous year. The increase was the result of a \$6 million increase in depreciation and amortization expense, a \$5 million increase in finance expense, a \$4 million increase in operating and administrative expenses,

partially offset by a \$12 million decrease in power purchases. The increase in depreciation and amortization expense was the result of additions to capital assets over the past year. The increase in finance expense was the result of higher U.S. exchange rates partially offset by lower short-term interest rates. The increase in operating and administrative expenses was primarily due to higher maintenance requirements on the generation, transmission and distribution systems. The decrease in power purchases was primarily the result of lower purchases for resale into export markets.

Capital expenditures for the three-month period amounted to \$271 million compared to \$188 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 \$115 million for Wuskwatim generation and transmission, \$27 million related to future Conawapa and Keeyask generation facilities, \$12 million for upgrades to the Kelsey Generating Station, \$10 million for Manitoba Hydro's new head office, and \$8 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 \$10 million was incurred for the three-month period compared to a \$7 million net loss for the same period last year. Revenue, net of cost of gas sold, was \$27 million which is comparable to the same period last year. Delivered gas volumes were 367 million cubic metres compared to 381 million cubic metres in the prior period.

Expenses attributable to gas operations amounted to \$37 million compared to \$34 million in the first three months of the prior year. The current year increase was due to higher operating and maintenance requirements and increased amortization costs.

Capital expenditures in the natural gas sector were \$8 million for the current three-month period compared to \$7 million for the same period last year. Capital expenditures included \$5 million related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province, and \$3 million for demand side management programs.

Manitoba Hydro Recognized as a Top Corporate Citizen in Canada

Manitoba Hydro has been named by Corporate Knights magazine as one of the Best 50 Corporate Citizens in Canada. Corporate Knights is an independent Canadian-based media company that promotes sustainable development in Canada. The ranking of the Best 50 Corporate Citizens considers such features as diversity, renewable energy investments, and Aboriginal relations. Manitoba Hydro was the only Manitoba-based company to rank in the top 50.

Manitoba Hydro Place Named Best Tall Building in the Americas

Manitoba Hydro's new head office, Manitoba Hydro Place, has been named the Best Tall Building in the Americas for 2009 by the prestigious Council on Tall Buildings and Urban Habitat. This award recognizes Manitoba Hydro Place as the number one office tower in North America with regard to design, quality of space, urbanism, sustainability and energy efficiency. The building's technology is integrated to achieve a 60% energy savings over a typical large office tower. The building uses a "living building" concept that interprets and reacts to its physical environment rather than the traditional method of achieving energy savings by isolation from the elements through insulated and sealed construction. Manitoba Hydro Place uses geothermal energy storage, which produces all the energy required to cool the building and 60% of the energy needed to heat it. Because of its positioning and other design features it also optimizes the use of passive solar energy.

Historic Joint Keeyask Development Agreement Signed

A historic signing ceremony took place in Split Lake with members and representatives from the Keeyask Cree Nations (Tataskweyak Cree Nation, War Lake First Nation, Fox Lake Cree Nation, and York Factory First Nation) and Manitoba Hydro. The event marked the official signing of the Joint Keeyask Development Agreement (JKDA) which outlines the partnership arrangements for First Nations' participation in the development and operation of the Keeyask Generating Station in northern Manitoba. The site for the Keeyask Generating Station is on the Nelson River, approximately 60 km downstream from Split Lake and 175 km northeast of

Thompson. Signing of the JKDA is a significant step in the process of gaining the necessary approvals and licenses required to construct and operate the generating station.

Rate Changes

Electricity rate increases averaging 2.9% for all customer classes, with the exception of area and roadway lighting, were implemented April 1, 2009. The rate increase will allow the Corporation to achieve its financial targets and to reduce borrowing that would otherwise be required to fund capital construction projects. Even with the 2.9% rate increase, Manitoba Hydro will continue to have among the lowest electricity rates in Canada.

Natural gas rates for residential customers decreased on May 1, 2009 by approximately 7.5% or \$90 per year. Rate decreases for larger volume customers ranged from 8.1% to 11.3%, depending on customer class and consumption levels. The rate decreases are the net result of reductions in the price that Manitoba Hydro pays for natural gas from Alberta.



Victor H. Schroeder, QC
Chairman of the Board

A handwritten signature in black ink, appearing to read "Victor H. Schroeder". The signature is fluid and cursive, with a long horizontal tail.



R. B. Brennan, FCA
President and
Chief Executive Officer
August 15, 2009

A handwritten signature in black ink, appearing to read "Bob Brennan". The signature is cursive and stylized.

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	<i>Three Months Ended June 30</i>	
	2009	2008
Revenues		
Electric - Manitoba	282	252
- Extraprovincial	109	174
Gas - Commodity	53	58
- Distribution	27	27
	<u>471</u>	<u>511</u>
Cost of gas sold	53	58
	<u>418</u>	<u>453</u>
Expenses		
Operating and administrative	114	108
Finance expense	116	111
Depreciation and amortization	98	91
Water rentals and assessments	28	29
Fuel and power purchased	25	37
Capital and other taxes	24	22
	<u>405</u>	<u>398</u>
Net Income	<u><u>13</u></u>	<u><u>55</u></u>

Consolidated Balance Sheet

In Millions of Dollars (Unaudited)

	<i>As at June 30</i>	<i>As at June 30</i>
	2009	2008
Assets		
Capital assets	9 696	9 049
Current assets	744	547
Other assets	1 472	1 447
	<u>11 912</u>	<u>11 043</u>
Liabilities and Equity		
Long-term debt (net)	7 103	6 490
Current liabilities	982	731
Other liabilities	1 397	1 338
Contributions in aid of construction	294	300
Retained earnings	2 133	1 877
Accumulated other comprehensive income	3	307
	<u>11 912</u>	<u>11 043</u>

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

*Three Months Ended
June 30*

	2009	2008
Operating Activities		
Cash receipts from customers	589	639
Cash paid to suppliers and employees	(310)	(366)
Net interest	(146)	(134)
	<u>133</u>	<u>139</u>
Financing Activities	243	(8)
Investing Activities	<u>(320)</u>	<u>(251)</u>
Net increase (decrease) in cash	56	(120)
Cash at beginning of period	<u>170</u>	<u>133</u>
Cash at end of period	<u><u>226</u></u>	<u><u>13</u></u>

Consolidated Statement of Comprehensive Income

In Millions of Dollars (Unaudited)

*Three Months Ended
June 30*

	2009	2008
Net Income	<u>13</u>	<u>55</u>
Other Comprehensive Income		
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	177	19
Realized foreign exchange (gains) losses on debt in cash flow hedges reclassified to income	3	(6)
Unrealized fair value gains (losses) on available-for- sale U.S. sinking fund investments	(8)	(11)
	<u>172</u>	<u>2</u>
Comprehensive Income	<u><u>185</u></u>	<u><u>57</u></u>

Segmented Information

In Millions of Dollars (Unaudited)

<i>Three Months Ended</i> <i>June 30</i>	Electricity		Gas		Total	
	2009	2008	2009	2008	2009	2008
Revenue (net of cost of gas sold)	391	426	27	27	418	453
Expenses	<u>368</u>	<u>364</u>	<u>37</u>	<u>34</u>	<u>405</u>	<u>398</u>
Net Income (Loss)	<u>23</u>	<u>62</u>	<u>(10)</u>	<u>(7)</u>	<u>13</u>	<u>55</u>
Total Assets	11 352	10 454	560	589	11 912	11 043

Generation and Delivery Statistics

Three Months Ended
June 30

	2009	2008
Electricity in gigawatt-hours		
Hydraulic generation	7 974	7 896
Thermal generation	25	46
Scheduled energy imports	37	15
Wind purchase (MB)	<u>88</u>	<u>87</u>
Total system supply	<u>8 124</u>	<u>8 044</u>
Gas in millions of cubic metres		
Gas sales	172	177
Gas transportation	<u>195</u>	<u>204</u>
	<u>367</u>	<u>381</u>

For further information contact:
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Cover: the spillway at Kettle Generating Station.