Rating Report

Report Date:
November 10, 2010

Previous Report:
February 12, 2009

The Manitoba Hydro-Electric Board

Analysts

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The Utility

The Manitoba Hydro-Electric Board, a wholly owned Crown corporation of the Province of Manitoba, is a vertically integrated electric utility that provides generation, transmission and distribution of electricity to approximately 532,000 customers throughout Manitoba and natural gas service to approximately 264,000 customers via its subsidiary, Centra Gas Manitoba Inc. The Utility also exports electricity to more than 30 electric utilities through its participation in four wholesale markets in Canada and the mid-western United States.

Short-Term Promissory Notes Programme

$500 million

Ratings

Debt	Rating Action	Rating	Trend
Short-Term Obligations	Confirmed	R-1 (middle)	Stable
Long-Term Obligations	Confirmed	A (high)	Stable

Note: These Obligations are based on the implicit support of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Rating Update

DBRS has confirmed the Long-Term Obligations and Short-Term Obligations ratings of The Manitoba Hydro-Electric Board (Manitoba Hydro or the Utility) at A (high) and R-1 (middle), respectively. The trends are both Stable. Manitoba Hydro's ratings reflect the short- and long-term ratings of the Province of Manitoba (the Province; see the DBRS report). Manitoba Hydro's Long-Term Obligations and Short-Term Obligations ratings are a flow-through of the Province's ratings based on (1) the implicit support of the Province as Manitoba Hydro is for all purposes an agent of the Province (see methodology Rating Sovereign Governments for further detail) and (2) the unconditional guarantee provided by the Province on the majority of the Utility's outstanding third-party obligations. The Province's Short-Term Debt and Long-Term Debt ratings were confirmed by DBRS on October 8, 2010, at R-1 (middle) and A (high), respectively. The trends on both ratings are Stable.

The Province supports Manitoba Hydro by both advancing funds and guaranteeing its new issues. As at March 31, 2010, the Province has provided approximately 96% of the Utility's long-term debt in the form of provincial advances, with the same terms and conditions as the Province's external debt. Manitoba Hydro has issued $331 million of long-term debt in its own name, with an unconditional guarantee provided by the Province, except for $76 million of Manitoba Hydro-Electric Board Bonds, which do not benefit from an explicit provincial guarantee. (Continued on page 2.)

Rating Considerations

Strengths

(1) Agent of the Crown with debt securities held or guaranteed by the Province
(2) Low-cost hydro-based generation with substantial storage capacity
(3) Reasonable regulatory framework
(4) Interconnections with the United States, Saskatchewan and Ontario provide access to favourable export markets

Challenges

(1) Hydrology risk
(2) High leverage
(3) Heightened capital expenditure profile
(4) Net export revenues sensitive to fluctuations in exchange rates
(5) One Northern Flood Agreement (NFA) First Nations claim not yet settled

Financial Information

	For the year ended March 31				
Manitoba Hydro-Electric Board	2010	2009	2008	2007	2006
EBITDA interest coverage (times) (2)	2.02	2.18	2.47	1.83	2.41
% debt in capital structure (1)	77.5%	78.6%	79.0%	82.7%	83.7%
Cash flow/total debt	7.1%	8.3%	10.1%	6.7%	11.1%
Cash flow/capital expenditures (times)	0.51	0.69	0.84	0.70	1.48
Reported net income ($ millions)	163	266	346	122	415
Operating cash flow ($ millions)	547	634	695	454	737

(1) Net of sinking fund assets. (2) Before capitalized interest, AFUDC.

Rating Update (Continued from page 1.)

The Utility's credit profile is further supported by its low-cost hydro-based generation, a constructive regulatory environment and its vast interconnections (56% of installed capacity), which provide access to favourable export markets. Hydrology continues to be the primary risk factor affecting credit metrics, but this risk is somewhat mitigated by the geographic diversification of the watersheds, reservoir storage capacity and import capabilities. Over the medium term, the Utility has witnessed inflows that are well above average, resulting in above-average reservoir storage.

Manitoba Hydro's earnings and performance for the fiscal year ended March 31, 2010, was $103 million lower than in the previous fiscal year, due mainly to lower electricity prices in export markets. The lower export prices are directly tied to lower demand due to poor economic conditions and the current low natural gas prices.

Manitoba Hydro continues to seek new power purchase agreements. In April 2010, Manitoba Hydro and Xcel Energy (Xcel) entered into new power purchase and seasonal exchange agreements that will commence in 2015 and extend to 2025, following the expiry of existing power agreements between the utilities. Furthermore, these agreements will allow for access to purchase additional power during the summers and winter season. Additionally, Manitoba Hydro entered into an agreement to sell Xcel an additional 125 megawatts (MW) per year commencing in 2021. This agreement is subject to the construction of Conawapa Generating Station.

Looking forward, DBRS believes that Manitoba Hydro will continue to generate reasonable levels of EBIT and operating cash flows, with the potential for significant volatility resulting from hydrological and export market conditions. The ongoing heightened capital expenditure program is expected to continue to pressure balance sheet and credit metrics. In addition, completing the large hydro generation and transmission projects on time and within budget is key to maintaining a stable financial profile.

Rating Considerations Details

Strengths

(1) Manitoba Hydro is an agent of the Crown and its debt securities are almost entirely held or guaranteed by the Province. Therefore, the ratings assigned to Manitoba Hydro's obligations are a flow-through of the ratings of the Province.

(2) Low-cost hydroelectric-based generating capacity accounts for approximately 91% of installed capacity and results in one of the lowest variable cost structures in North America. The low-cost power generation has enabled Manitoba Hydro to provide electricity to its domestic customers at one of the lowest rates on the continent. This gives the Utility the flexibility to increase rates in the future, especially in light of the substantially heightened future capital expenditure requirements to replace aging infrastructure and develop new generation facilities. Furthermore, given the water storage capacity of its hydroelectric-based generating facilities, Manitoba Hydro has the ability to trade power, buying low-cost power during off-peak hours and selling its own power during peak periods at higher rates. Some geographic diversification of drainage basins somewhat reduces fluctuations in water flows and water levels.

(3) The regulatory environment in Manitoba is constructive. Manitoba's Public Utilities Board (PUB) has been supportive of Manitoba Hydro's rate applications and its financial targets. While Manitoba Hydro does not benefit from an automatic pass-through of costs, this is mitigated by its low-cost hydroelectric-based generating capacity and the PUB's demonstrated track record of approving rate increases during drought conditions.

(4) Manitoba Hydro's interconnections (approximately 56% of installed capacity), with 2,250 MW to the United States, 525 MW to Saskatchewan and 300 MW to Ontario, provide the Utility with access to favourable export markets. The interconnections also provide a secure supply of electricity for its domestic customers during times of poor hydrology.

Challenges

(1) Given that approximately 91% of Manitoba Hydro's installed generating capacity is hydroelectricity-based, earnings and cash flows are highly sensitive to hydrological conditions. The hydrology risk is somewhat mitigated by the geographic diversification of the watersheds, reservoir storage and import capacity. The two thermal generating stations, with a total capacity of 468 MW (Brandon and Selkirk), and the new 99 MW St. Leon wind farm provide a small amount of diversity to the generation mix. Given that 40% of Manitoba Hydro's exports are under a long-term fixed price-to-volume basis, during times of poor hydrological conditions such as in F2004, Manitoba Hydro may find itself procuring power supply from import markets to honour its export commitments under the fixed price-to-volume contract. This exposes Manitoba Hydro to significant price and volume risk. However, Manitoba Hydro employs the following strategies to mitigate these impacts:

- Manitoba Hydro sells long-term forward contracts into the export markets based on its historically lowest water flow conditions. Any excess power, after accounting for the long-term forward contract sales, is sold into the spot market.
- The three primary advantages of long-term forward contracts are (1) forward prices tend to be higher than spot market prices; (2) long-term large volume power contracts with other utilities provide an incentive for these utilities to build and/or expand transmission infrastructure in their respective jurisdictions to be able to import power, thus providing Manitoba Hydro with an expanded access to export and import markets; and (3) large long-term forward contracts also provide incentive to Manitoba Hydro to expedite the construction of new generating facilities, thus mitigating the price and volume risk.
- Growing its generation base both through upgrades at existing plants (estimated at 122 MW) and new greenfield developments (more than 2,200 MW), the Utility is currently constructing a 200 MW plant and is in the pre-project planning phase for two major hydro generation facilities. Over the longer term, once these projects are completed, Manitoba Hydro will be significantly long on power, thus mitigating long-term price and volume risk even further.
- Manitoba Hydro can file for a rate increase through a rate application to the PUB.

(2) Manitoba Hydro's leverage remains one of the highest among government-owned integrated utilities in Canada, limiting its financial flexibility.

(3) The need to refurbish its aging infrastructure, combined with the aggressive development of both new hydro generation and transmission facilities, will require Manitoba Hydro to deploy significant capital into its electricity infrastructure over the next several years. DBRS expects these heightened future capital expenditures to pressure the already high debt levels. The extent of this pressure is largely contingent on hydrology and export market conditions, which, if robust, would limit funding needs.

(4) The Utility's income statement and balance sheet are sensitive to changes in the U.S.-Canadian dollar exchange rate, since approximately 28% of its outstanding debt and 26% of electricity revenues (at March 31, 2010) are denominated in U.S. dollars. While U.S. dollar-denominated debt is fully hedged by export revenues, the net U.S. dollar surplus is sensitive to changes in the exchange rate; however, this amount is within the Company's risk tolerance levels.

(5) Four out of five First Nations claims related to the NFA have been settled; however, one NFA First Nations claim (Cross Lake) has not. The NFA provided for compensation and remedial measures necessary to ameliorate the impact of the Churchill River diversion and Lake Winnipeg regulation projects. Manitoba Hydro continues to address the adverse effects of its northern hydroelectric developments on five First Nations communities. Expenditures to mitigate the Churchill River diversion and the Lake Winnipeg regulation projects amounted to $37 million in F2008, with $653 million having been spent since 1977. In recognition of future anticipated mitigation payments, the Utility has recorded a liability of $127 million.

Rating Methodology Update

Manitoba Hydro is, for all purposes, an agent of the provincial government and its powers may be exercised only as an agent of the government. When rating the financial obligations of agents of the federal or provincial governments, DBRS generally flows through the rating of the parent government if (1) the status of the agent is explicitly provided to the organization through legislation or regulation; (2) the agent is empowered to borrow in its constituting act; and (3) there is no provision in the constituting act or the terms of the debt precluding the applicability of the agent status to borrowing activities. As these three criteria apply to Manitoba Hydro, the Province of Manitoba's ratings will flow through to the Utility.

In addition, provincial support for the Utility is reflected in the fact that it advanced approximately 96% of the Utility's long-term debt ($8,288 million) and has provided unconditional guarantee for the rest of the long-term debt ($331 million), the exception being the $76 million Manitoba Hydro-Electric Board Bonds issued for mitigation projects (as part of the NFA), which do not benefit from the provincial guarantee.

Regulation

Manitoba Hydro is governed by the *Manitoba Hydro Act* and its electricity and natural gas rates are regulated by the Manitoba PUB.

Electricity
Each year, Manitoba Hydro reviews its financial targets, with particular focus on its debt-to-equity target capital structure of 75%-to-25%. If it deems a rate adjustment is needed to meet its financial targets, it submits a rate application to the PUB. The PUB reviews the rate adjustment application with the objective of allowing Manitoba Hydro to recover its cost of service and achieve its long-term debt-to-equity target of 75%-to-25%. The PUB does not have the mandate to pre-approve capital expenditures. The capital expenditure planning responsibility resides with Manitoba Hydro and the government of Manitoba.

In February 2010, the PUB approved, on an interim basis, new electricity rates effective April 1, 2010, for all Manitoba Hydro customer classes, except area and roadway lighting, resulting in an average rate increase of 2.8%. This interim increase is subject to change pending the outcome of Manitoba Hydro's General Rate Application (GRA) which is currently under review by the PUB. A final order is not expected until 2011.

While Manitoba Hydro is the sole retail electricity supplier in Manitoba, under the *Manitoba Hydro Amendment Act of 1997* (the Act), other utilities may access the transmission system to reach customers in neighbouring provinces and states. The Act also explicitly allows Manitoba Hydro to build new generating capacity for export sales, to offer new energy-related services, to enter into strategic alliances and joint ventures and to create subsidiaries.

There are presently no plans to move to full retail competition in the province. Manitoba retail customers currently enjoy rates that are among the lowest in North America because of Manitoba Hydro's predominantly hydroelectric generation, generally profitable exports and efficient resource management. More than 80% of Manitoba Hydro's export sales are through the Midwest Independent Transmission System Operator (MISO), which is a centrally operated electricity market in the U.S. Midwest region (from parts of North Dakota down through Minnesota, Wisconsin and Illinois through to Kentucky). This market operates much like a typical power pool, with utilities transacting directly with the exchange rather than with one another. The energy saved under the Utility's Power Smart program is sold into these higher-margin markets.

Natural Gas Distribution
Manitoba Hydro distributes natural gas through its wholly owned subsidiary, Centra Gas Manitoba Inc. (Centra Gas). In accordance with the rate-setting methodology for natural gas, commodity rates are changed every quarter based on 12-month forward natural gas market prices. The commodity cost of gas is a pass-through with no markup to customers.

Non-commodity costs, such as transportation, distribution and operating and general expenses related to the natural gas business, are passed on as well. The PUB allows Centra Gas to target an annual profit of approximately $3 million, which is fairly modest compared with Manitoba Hydro's consolidated earnings. In addition, the PUB allows Manitoba Hydro to collect $12 million per year through rates to meet its debt servicing and acquisition costs related to its 1999 purchase of Centra Gas from Westcoast Energy Inc.

Earnings and Outlook

	For the year ended March 31				
(CAD millions)	2010	2009	2008	2007	2006
Net electricity revenues (1)	1,469	1,574	1,565	1,413	1,702
Net gas revenues	136	147	142	129	120
Total revenues	1,633	1,757	1,730	1,558	1,839
EBITDA	937	1,026	1,095	921	1,205
EBIT	553	658	746	589	883
Gross interest expense (2)	463	471	444	504	501
Net interest expense (3)	335	397	367	435	435
Reported net income	163	266	346	122	415
Return on average equity	7.6%	13.6%	21.4%	9.1%	38.5%

(1) Net electricity revenues are gross revenues less cost of purchased power. Net gas revenues are gross revenues less cost of gas.

(2) Incudes F/X gain/losses on U.S. denominated debt. (3) Adjusted for investment income and interest allocated to construction.

Summary

During the fiscal year ending 2010, Manitoba Hydro witnessed a decrease both in earnings as measured by EBIT and in reported net income. The decrease is directly attributable to lower export prices and lower electricity demand caused by poor economic conditions and lower natural gas prices. Extraprovincial revenues decreased by $196 million in 2010 to $427 million.

As a result of lower prices and a soft economic environment, expenses for electricity and natural gas operations decreased from $1.67 billion for fiscal 2009 to $1.57 billion in fiscal 2010. This is attributable to lower fuel and power purchased costs as well as lower finance expenses and partially offset by an increase in depreciation and amortization costs, operating and administrative costs and capital and other taxes.

Outlook

Earnings are expected to remain relatively stable over the next fiscal year, primarily due to above-average energy in reservoir storage, and increases in domestic electricity rates. Manitoba Hydro is projecting that its net income will exceed $100 million for 2010-11. Factors that will continue to affect EBIT stability over the longer term include the following:

- Hydrological levels at the Utility's watersheds.
- Demand for power in Manitoba Hydro's export markets and the prevailing exchange rates.
- Domestic rate increases.
- Domestic load growth.

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Financial Profile

Statement of Cash Flow (CAD millions)	2010	2009	2008	2007	2006
	For the year ended March 31				
Reported net income	163	266	346	122	415
Depreciation & amortization	384	368	349	332	322
Other non-cash adjustments	-	-	-	-	-
Cash Flow From Operations	**547**	**634**	**695**	**454**	**737**
Capital expenditures (net of contrib.)	(1063)	(915)	(827)	(645)	(498)
Dividends		-	-	-	-
Cash Flow Before W/C Changes	**(516)**	**(281)**	**(132)**	**(191)**	**239**
Changes in working capital	4	54	(65)	(11)	(27)
Net Free Cash Flow	**(512)**	**(227)**	**(197)**	**(202)**	**212**
Acq./divest./sinking fund pmt./other inv.	(624)	(171)	(158)	(143)	(179)
Cash Flow bef. Financing	**(1,136)**	**(398)**	**(355)**	**(345)**	**33**
Sinking fund withdrawals	263	261	0	-	84
Net change in long-term debt	873	157	522	240	11
Other financing	15	6	(35)	(13)	(18)
Net Change in Cash Flow	**15**	**26**	**132**	**(118)**	**110**

Key Financial Ratios					
EBITDA interest coverage (times) (2)	2.02	2.18	2.47	1.83	2.41
% debt in capital structure (1)	77.5%	78.6%	79.0%	82.7%	83.7%
Cash flow/total debt	7.1%	8.3%	10.1%	6.7%	11.1%

(1) Net of sinking fund assets. (2) Before capitalized interest, AFUDC.

Capital Structure	2010	2009	2008	2007	2006
Short-term debt	310	619	353	553	118
Long-term debt	8,228	7,668	7,217	6,822	7,051
LESS: sinking funds	822	666	700	630	555
Total Debt	**7,716**	**7,621**	**6,870**	**6,745**	**6,614**
Equity	2,239	2,076	1,822	1,407	1,285
Total Capital	**9,955**	**9,697**	**8,692**	**8,152**	**7,899**

Summary

Despite relatively strong operating cash flow, Manitoba Hydro continued to generate free cash flow deficits, largely as a result of substantial capital expenditures. Cash flow deficits are typically funded with debt and sinking fund withdrawals. Increased capital expenditures have been driven primarily by (1) generation system upgrades; (2) the development of new generation facilities, specifically Wuskwatim (200 MW), Conawapa (1,485 MW) and Keeyask (695 MW) generating stations; and (3) upgrades and additions to improve the reliability of Manitoba Hydro’s aging transmission and distribution infrastructure.

Capital expenditures during the fiscal year ending March 31, 2010, amounted to just over $1 billion for the electricity segment, up from $888 million one year earlier. Capital expenditures for the electricity segment are for ongoing plant and equipment requirements, upgrades and new generation projects. For the gas segment, capital expenditures amounted to $25 million compared to $32 million in the previous fiscal year. Capital expenditures are related to new business, system improvement and other expenditures to meet the needs of natural gas customers.

Growth in retained earnings has more than offset higher debt levels, resulting in continued improvement in the debt-to-capital ratio. However, Manitoba Hydro’s leverage still remains one of the highest among government-owned integrated utilities in Canada. With no mandatory dividend payment requirements, the Utility has been able to shore up its balance sheet through retained earnings.

Outlook
Capital expenditures are expected to remain higher over the medium term as Manitoba Hydro continues to upgrade and improve the reliability of its aging electric infrastructure, as well as invest in the development of new hydro generation facilities. The ongoing heightened capital program is expected to result in continued cash flow deficits. The extent of the Utility's funding requirements will largely be dependent on hydrology and export market conditions.

Although debt balances will increase over the medium term, leverage could improve modestly from current levels due to increased retained earnings. In addition, completing large hydro generation and transmission projects on time and within budget is key to maintaining a stable financial profile.

Long-Term Debt Maturities and Bank Lines

		For year ended March 31,	
Debt Profile (CAD millions)	**%**	**2010**	**2009**
Advances from the Province	96%	8,288	7,836
Manitoba Hydro Bonds	2%	132	165
Manitoba Hydro-Electric Board Bonds*	2%	199	216
Total		8,619	8,217

* $76 million of unguaranteed bonds are part of the $199 million.

Debt Maturities		
Year	**%**	**(CAD millions)**
2011	4%	310
2012	0%	16
2013	2%	178
2014	12%	1,073
2015	1%	100
Thereafter	81%	6,942
Total		**8,619**

Summary
The Province supports Manitoba Hydro by advancing funds or guaranteeing the Utility's long-term debt issues. Long-term debt at March 31, 2010, consisted of the following:
- $8,288 million in advances from the Province (all of which have annual sinking fund requirements).
- $132 million Manitoba Hydro Bonds.
- $199 million Manitoba Hydro-Electric Board Bonds.
- $2,426 million or 28% of all obligations are denominated in U.S. dollars.

Manitoba Hydro maintains a relatively smooth maturity profile, no unhedged foreign currency debt and a moderate level of floating-rate debt, which adds stability to debt servicing costs and minimizes interest rate risk. The Utility has bank credit facilities that provide for overdrafts and notes payable up to $500 million denominated in Canadian and/or U.S. dollars. At March 31, 2010, there were no amounts outstanding. Manitoba Hydro issues short-term debt in its own name for all its short-term cash requirements and does not receive short-term funding from the Province. These short-term notes are guaranteed by the Province of Manitoba. Only $76 million of Manitoba Hydro-Electric Board Bonds do not carry the provincial guarantee.

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The Watershed Storage Capacity

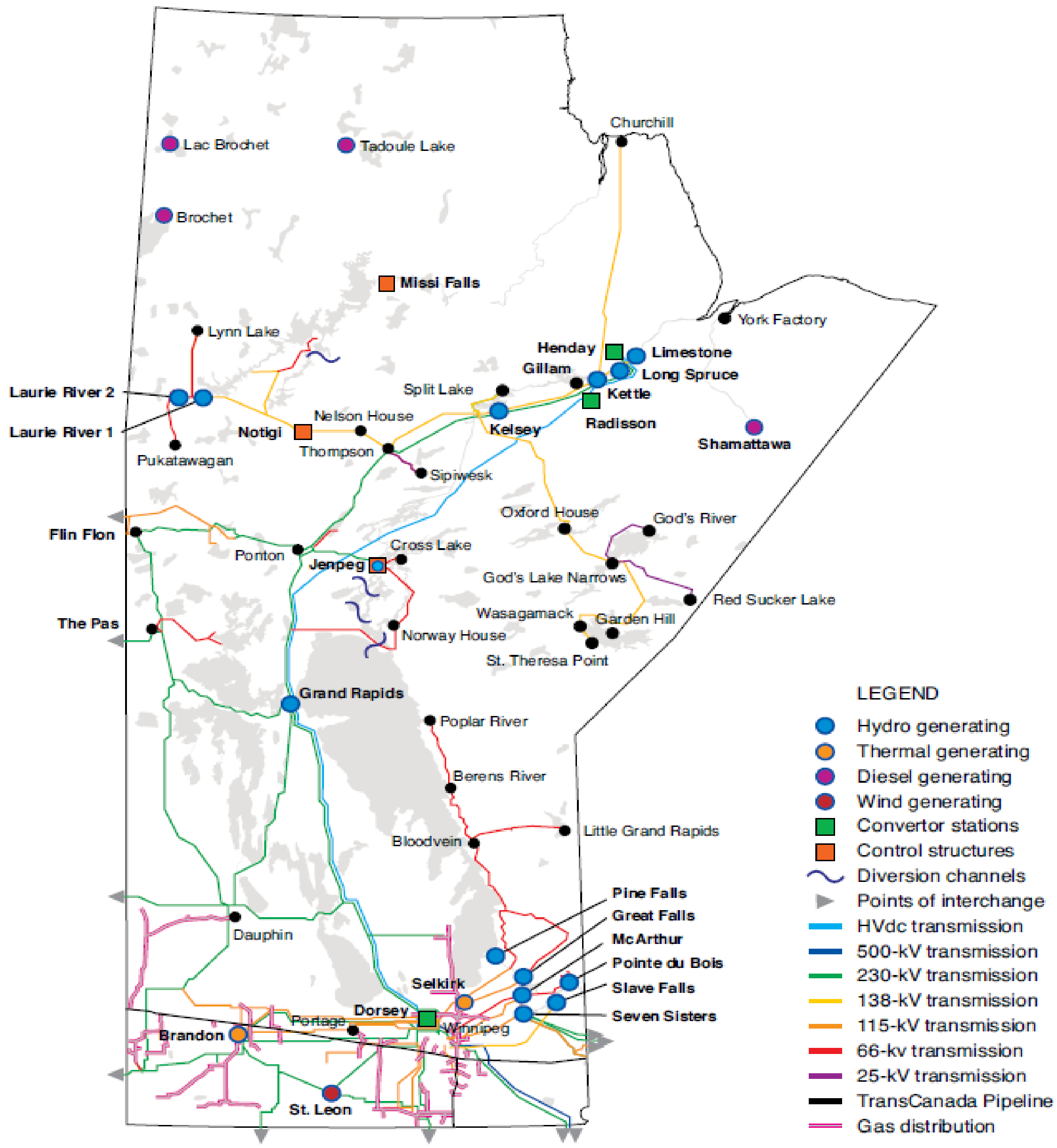
Manitoba Hydro draws water from four distinct watersheds: Nelson River, Winnipeg River, Saskatchewan River and Churchill River (including the Laurie River). This provides the Utility with some geographic diversification, especially during times of low hydrology. The main generation source is the Nelson River, which accounted for approximately 81% of power generated in F2010.

SOURCE OF ELECTRICAL ENERGY GENERATED AND IMPORTED

For the year ended March 31, 2010

Nelson River	**81.44%**	**Saskatchewan River**	**3.4%**
Billion kWh generated	**28.2**	**Billion kWh generated**	**1.2**
Limestone	27.06%	Grand Rapids	3.37%
Kettle	25.66%		
Long Spruce	21.20%	**Churchill River (including the Laurie River)**	**0.18%**
Kelsey	4.93%	**Billion kWh generated**	**0.1**
Jenpeg	2.59%	Laurie River #1	0.10%
		Laurie #2	0.08%
Winnipeg River	**12.62%**		
Billion kWh generated	**4.4**	**Thermal**	**0.41%**
Seven Sisters	3.60%	**Billion kWh generated**	**0.1**
Great Falls	2.93%	Brandon	0.32%
Pine Falls	2.04%	Selkirk	0.09%
Pointe du Bois	1.75%		
Slave Falls	1.00%	**Imports**	**1.02%**
McArthur	1.30%	**Billion kWh imported**	**0.4**
		Wind	**0.96%**
		Billion kWh imported	**0.3**

Source: Manitoba Hydro.



Source: Manitoba Hydro.

Favourable characteristics inherent in Manitoba Hydro's watersheds include the following:

- Cold temperatures reduce overall evaporation rates as much of the water is frozen for up to five months of the year.
- A significant portion of the watersheds consist of rock, which has lower seepage rates and higher runoff than predominantly soil-covered watersheds.
- Lake Winnipeg, Cedar Lake and South Indian Lake serve as large storage reservoirs. The Utility's water storage capacity is a competitive advantage in trading electricity (buying surplus U.S. power at low off-peak prices and selling its electricity during peak demand periods at higher prices).

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Manitoba Hydro's Generating Capacity

Manitoba Hydro owns and operates an aggregate generating capacity of 5,511 MW and is counterparty to an additional 99 MW of contracted wind capacity.

Manitoba Hydro's Generating Stations and Capabilities

Power Station	Location	of uni	Net Capacity (MW)
Hydroelectric			
Seven Sisters	Winnipeg River	6	165
Great Falls	Winnipeg River	6	136
Pine Falls	Winnipeg River	6	89
McArthur Falls	Winnipeg River	8	55
Pointe du Bois	Winnipeg River	16	77
Slave Falls	Winnipeg River	8	67
Grand Rapids	Saskatchewan R	4	479
Limestone	Nelson River	10	1,340
Kettle	Nelson River	12	1,220
Long Spruce	Nelson River	10	1,010
Kelsey	Nelson River	7	250
Jenpeg	Nelson River	6	135
Laurie River (2)	Laurie River	3	10
Total Hydroelectric Generation		**102**	**102**
Thermal			
Brandon (coal: 98 MW, gas: 241 MW)		3	339
Selkirk (gas)		**2**	**129**
Total Thermal Generation		**5**	**468**
Isolated Diesel Capabilities			
Brochet			3
Lac Brochet			2
Shamattawa			3
Tadoule Lake			2
Total Isolated Diesel Generation			**10**
Total Generation Capacity			**580**

Source: Manitoba Hydro.

The Province of Manitoba

(*Excerpt from DBRS rating report dated October 8, 2010*)

The Province of Manitoba (Manitoba or the Province) has a relatively resilient and diversified economy, which has resulted in only a modest deterioration in fiscal performance. While Manitoba's debt burden continues to grow, unwinding some of the positive momentum of recent years, the Province maintains considerable flexibility within its ratings and is well positioned to withstand a potentially prolonged period of slow economic growth.

In 2009-10, the Province recorded a deficit of $201 million, weaker than the small surplus originally budgeted. This translates into a DBRS-adjusted deficit of $685 million, or 1.4% of GDP – still a favourable result in relation to provincial peers. For the current fiscal year, the budget points to a deficit of $545 million, or $1.2 billion on a DBRS-adjusted basis. Despite improving economic conditions, total revenues are only budgeted to grow by a modest 0.6% in the current fiscal year, slower than the 4.4% increase in spending. Health care will account for the bulk of new spending as the Province aims to tightly manage growth in program costs and pursue labour agreements with no increases, which DBRS views as an ambitious target. The Province anticipates a return to balance by 2014-15, which equates to DBRS-adjusted deficits ranging from 2.0% to less than 1.0% of GDP.

DBRS-adjusted debt grew by $1.4 billion in 2009-10, which pushed the debt-to-GDP ratio up to 31.6% from 28.9% a year earlier. Debt is expected to grow by a further $1.4 billion in 2010-11, or 9.0%, taking the debt-to-GDP ratio to slightly above 33.0% and eroding some of the progress of recent years.

An improving fiscal picture and gradual decline in capital needs is expected to result in debt-to-GDP peaking at around 34% in 2012-13. This represents a somewhat higher peak than what was assumed at the time of last year's review but is nonetheless very manageable within the rating.

After experiencing only a minor contraction in 2009, the Province is anticipating a modest recovery with real growth of 2.5% in 2010. Lower non-residential investment in the Province and reduced agricultural output due to a wet summer are likely to dampen growth prospects. However, improving demand for non-renewable resources and sound domestic demand, supported by a growing population, should provide an offset. For 2011, the Province has assumed growth of 3.0%, consistent with the current private sector average, which DBRS believes carries some downside risks related to the uncertain pace of global economic recovery, and the impact of a strong Canadian dollar on exports. Overall, soft fiscal results and recent debt accumulation have lessened some of the positive momentum of recent years, but DBRS believes that Manitoba's above-average economic and fiscal performance through the recent downturn leaves it well positioned to withstand a potentially uneven economic recovery.

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Balance Sheet (CAD millions)	As at March 31					As at March 31			
Assets	2010	2009	2008	2007	**Liabilities & Equity**	2010	2009	2008	2007
Cash & equivalents	174	159	133	1	Short-term debt	0	100	0	148
Accounts receivable + accrued rev.	365	434	465	426	L.t. debt due one yr.	310	519	353	405
Interest receivable & materials	104	88	111	127	A/P & accrued liab.	417	430	443	443
Current Assets	**643**	**681**	**709**	**554**	**Current Liabilities**	**727**	**1,049**	**796**	**996**
Net fixed assets	10,128	9,382	8,912	8,378	Long-term debt	8,228	7,668	7,217	6,822
Deferred charges + Goodwill	545	531	665	560	Def'd & other liab.	215	218	613	736
Pension assets	299	287	781	800	Pension obligation	448	409	714	663
Sinking fund investments	822	666	700	630	Equity & Other	2,819	2,203	2,427	1,705
Total Assets	**12,437**	**11,547**	**11,767**	**10,922**	**Total Equity & Liabilities**	**12,437**	**11,547**	**11,767**	**10,922**

Ratio Analysis	For the year ended March 31						
Liquidity Ratios	2010	2009	2008	2007	2006	2005	2004
Current ratio	0.88	0.65	0.89	0.56	1.30	0.88	0.64
Total debt in the capital structure (1)	77.5%	78.6%	79.0%	82.7%	83.7%	88.5%	90.2%
Cash flow/total debt (1)	7.1%	8.3%	10.1%	6.7%	11.1%	6.7%	(2.1%)
Cash flow/capital expenditures (2)	0.51	0.69	0.84	0.70	1.48	0.89	(0.28)
Debt/EBITDA	8.2	7.4	6.3	7.3	5.5	7.4	21.2
Coverage Ratios (3)							
EBIT interest coverage	1.19	1.40	1.68	1.17	1.76	1.21	0.05
EBITDA interest coverage	2.02	2.18	2.47	1.83	2.41	1.85	0.65
Cash flow interest coverage	2.18	2.35	2.57	1.90	2.47	1.91	0.72
Earnings Quality/Operating Efficiency							
Puchased power/revenues	6.6%	10.1%	7.9%	12.6%	6.0%	8.0%	40.7%
Operating margin	28.7%	34.3%	38.3%	31.6%	43.6%	34.8%	(1.4%)
Net margin (before extras.)	9.4%	13.8%	18.6%	6.9%	21.3%	8.3%	(31.0%)
Return on avg. equity (before extras.)	7.6%	13.6%	21.4%	9.1%	38.5%	17.0%	(45.8%)
Customers/employee	86	88	90	93	92	92	93
Growth in electricity customer base	0.9%	1.1%	0.9%	1.4%	0.8%	0.8%	0.8%
GWh sold/employee	5.1	5.2	5.5	5.4	6.1	5.3	4.4

(1) Debt net of sinking fund assets.

(2) Capital expenditures net of customer contributions.

(3) Before capitalized interest, AFUDC

The Manitoba Hydro-Electric Board

Report Date:
November 10, 2010

Ratings

Debt	Rating Action	Trend
Short-Term Obligations	R-1 (middle)	Stable
Long-Term Obligations	A (high)	Stable

Note: These Obligations are based on the implicit support of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Rating History

	Current	2009	2008	2007	2006	2005
Short-Term Obligations	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)
Long-Term Obligations	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)

Note: These Obligations are based on the implicit support of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Related Research

- DBRS Confirms the Province of Manitoba at A (high) and R-1 (middle), October 8, 2010.
- Province of Manitoba Rating Report, October 8, 2010.

Note:
All figures are in Canadian dollars unless otherwise noted.