

The Manitoba Hydro-Electric Board

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

for the six months ended September 30, 2010



Comments by
THE CHAIRMAN OF THE BOARD
and by
THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

FINANCIAL OVERVIEW

Manitoba Hydro's consolidated net income from electricity and natural gas operations was \$10 million for the first six months of the 2010-11 fiscal year. This represented an increase of \$2 million compared to the net income of \$8 million for the same period last year. The increase was largely attributable to higher revenues from domestic and extraprovincial sales partially offset by higher costs of operations.

Consolidated net income was comprised of a \$34 million profit in the electricity sector and a \$24 million 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.

With current favourable water flow conditions, it is projected that increased hydraulic generation will result in additional surplus energy available for sale on export markets. Based on current conditions, Manitoba Hydro is forecasting that net income will improve substantially over the balance of the fiscal year and should exceed \$150 million by March 31, 2011.

Electricity Operations

Revenues from electricity sales within Manitoba totaled \$541 million for the six-month period, an increase of \$9 million or 2 per cent higher than the same six-month period last year. The increase in domestic revenue was mainly attributable to an electricity rate increase of 2.8 per cent implemented on April 1, 2010 and warmer weather resulting in a higher cooling load. Extraprovincial revenues of \$236 million were \$13 million or 6 per cent higher than the same period last year reflecting increased prices in the export markets. Energy sold in the export market was 5.9 billion kilowatt-hours compared to the 6.3 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations totaled \$743 million for the six-month period, an increase of \$22 million over the previous year. The increase was the net result of a \$15 million increase in power purchases, a \$9 million increase in operating and administrative expenses and an increase of \$8 million in depreciation and amortization expense partially offset by a \$7 million decrease in finance expense. Power purchased costs increased primarily due to low water flows in early spring and the need to conserve water in storage. Operating and administrative costs increased as a result of higher system maintenance and IFRS-related accounting changes. Depreciation and amortization increased as a result of additions to capital assets over the past year. The decrease in finance expense was primarily the result of lower short-term interest rates and a stronger Canadian dollar partially offset by higher volumes of long term debt.

Capital expenditures for the six-month period amounted to \$568 million compared to \$550 million for the same period last year. Expenditures during the current fiscal year included \$203 million for Wuskwatim generation and transmission, \$41 million related to future Conawapa and Keeyask generation, \$20 million for Bipole III projects, \$19 million for the Riel Station, \$18 million for Pointe du Bois projects, \$15 million for upgrades to the Kelsey Generating Station, and \$13 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 \$24 million was incurred for the six-month period compared to a \$26 million net loss for the same period last year. Revenue, net of cost of gas sold, was \$44 million which was \$2 million lower than the same period last year. The decrease in revenues was primarily attributable to reduced weather-related demand over the six-month period. Delivered gas volumes were 515 million cubic metres compared to 605 million cubic metres in the prior period.

Expenses attributable to natural gas operations amounted to \$68 million which was \$4 million lower than the expenses incurred in the prior year. The decrease was mainly

attributable to lower property taxes applicable to the current year.

Capital expenditures in the natural gas sector were \$15 million for the current six-month period compared to \$16 million for the same period last year. Capital expenditures included \$11 million related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province, and \$4 million for demand-side management programs.

Bipole III Preliminary Preferred Route Released

Manitoba Hydro has released its preliminary preferred route for the Bipole III transmission line following three rounds of public consultation and public feedback. The preferred route is expected to have the least impact on the environment and on the communities and residents along the proposed path of the transmission line.

Manitoba Hydro has begun a further series of meetings and open houses with municipalities, Aboriginal groups, landowners and other stakeholders. Based on this feedback, a final proposed route will be submitted as part of the Environmental Impact Statement for regulatory approval expected in the fall of 2011.

The Bipole III project involves the construction of a new 500-kV high voltage direct current transmission line along with new converter stations, one in the north and another at the southern receiving end. The project is required to improve system reliability and to provide additional capacity for delivery of existing and proposed hydroelectric generation to southern markets.

Manitoba Awarded A+ for Energy Efficiency

Manitoba has been awarded an A+ on the recently released National Energy Efficiency report card. This is the fourth consecutive year in which Manitoba has either led or been tied for first place in the national rating performed by the Canadian Energy Efficiency Alliance.

Manitoba Hydro's Power Smart® program was recognized as being the largest contributor to the energy efficiency accomplishments in the province. The areas covered in the review incorporated efforts across a broad range of activities

including building codes, product standards, awareness building, public outreach, leadership initiatives, policy developments, evaluation and transportation.

Water and Energy Saver Program Launched

Manitoba Hydro has launched a new Power Smart program to help residential customers save water and energy. The program provides water and energy saver kits at no charge to homeowners and residential property managers.

The kits contain low-flow showerheads, faucet aerators and insulating pipe wrap. The low-flow technology is up to 40 per cent more efficient than other low-flow or standard devices in the market today.

Water heating is the second largest use of energy in a household next to space heating. It is estimated that the installation of a Power Smart water and energy saver kit will help Manitobans save up to \$35 per year on their residential energy bills and approximately 9 500 litres of water annually.



Victor H. Schroeder, QC

Chairman of the Board

A stylized, handwritten signature in black ink, likely belonging to Victor H. Schroeder.



R. B. Brennan, FCA

President and
Chief Executive Officer
November 15, 2010

A stylized, handwritten signature in black ink, likely belonging to R. B. Brennan.

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Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	<i>Six Months Ended September 30</i>		<i>Three Months Ended September 30</i>	
	2010	2009	2010	2009
Revenues				
Electric – Manitoba	541	532	269	250
– Extraprovincial	236	223	144	114
Gas – Commodity	53	77	20	24
– Distribution	44	46	20	19
	<u>874</u>	<u>878</u>	<u>453</u>	<u>407</u>
Cost of gas sold	53	77	20	24
	<u>821</u>	<u>801</u>	<u>433</u>	<u>383</u>
Expenses				
Operating and administrative	230	222	110	108
Finance expense	219	226	109	110
Depreciation and amortization	200	193	101	95
Water rentals and assessments	56	58	31	30
Fuel and power purchased	58	43	32	18
Capital and other taxes	48	51	25	27
	<u>811</u>	<u>793</u>	<u>408</u>	<u>388</u>
Net Income (Loss)	<u>10</u>	<u>8</u>	<u>25</u>	<u>(5)</u>

Consolidated Balance Sheet

In Millions of Dollars (Unaudited)

	<i>As at September 30</i>	<i>As at September 30</i>
	2010	2009
Assets		
Capital assets	10 524	9 754
Current assets	609	586
Other assets	927	818
	<u>12 060</u>	<u>11 158</u>
Liabilities and Equity		
Long-term debt (net)	7 696	7 024
Current liabilities	850	926
Other liabilities	686	649
Contributions in aid of construction	295	294
Retained earnings	2 249	2 084
Accumulated other comprehensive income	284	181
	<u>12 060</u>	<u>11 158</u>

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	<i>Six Months Ended September 30</i>		<i>Three Months Ended September 30</i>	
	2010	2009	2010	2009
Operating Activities				
Cash receipts from customers	897	1 045	387	459
Cash paid to suppliers and employees	(511)	(515)	(251)	(211)
Net interest	(267)	(283)	(137)	(144)
	<u>119</u>	<u>247</u>	<u>(1)</u>	<u>104</u>
Financing Activities	510	359	257	117
Investing Activities	<u>(632)</u>	<u>(651)</u>	<u>(325)</u>	<u>(326)</u>
Net increase (decrease) in cash	(3)	(45)	(69)	(105)
Cash at beginning of period	<u>174</u>	<u>159</u>	<u>240</u>	<u>219</u>
Cash at end of period	<u><u>171</u></u>	<u><u>114</u></u>	<u><u>171</u></u>	<u><u>114</u></u>

Consolidated Statement of Comprehensive Income

In Millions of Dollars (Unaudited)

	<i>Six Months Ended September 30</i>		<i>Three Months Ended September 30</i>	
	2010	2009	2010	2009
Net Income (Loss)	<u>10</u>	<u>8</u>	<u>25</u>	<u>(5)</u>
Other Comprehensive Income				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	(27)	345	57	168
Realized foreign exchange (gains) losses on debt in cash flow hedges reclassified to income	1	5	1	2
Unrealized fair value gains (losses) on available-for-sale U.S. sinking fund investments	<u>24</u>	<u>—</u>	<u>8</u>	<u>8</u>
	<u>(2)</u>	<u>350</u>	<u>66</u>	<u>178</u>
Comprehensive Income	<u><u>8</u></u>	<u><u>358</u></u>	<u><u>91</u></u>	<u><u>173</u></u>

Segmented Information

In Millions of Dollars (Unaudited)

<i>Six Months Ended September 30</i>	Electricity		Gas		Total	
	2010	2009	2010	2009	2010	2009
Revenue (net of cost of gas sold)	777	755	44	46	821	801
Expenses	743	721	68	72	811	793
Net Income (Loss)	34	34	(24)	(26)	10	8
 <i>Three Months Ended September 30</i>						
Revenue (net of cost of gas sold)	413	364	20	19	433	383
Expenses	375	353	33	35	408	388
Net Income (Loss)	38	11	(13)	(16)	25	(5)
 Total Assets	 11 496	 10 588	 564	 570	 12 060	 11 158

Generation and Delivery Statistics

	<i>Six Months Ended September 30</i>		<i>Three Months Ended September 30</i>	
	2010	2009	2010	2009
Electricity in gigawatt-hours				
Hydraulic generation	15 838	16 603	8 840	8 629
Thermal generation	30	43	12	18
Scheduled energy imports	168	54	36	17
Wind purchase (MB)	167	165	81	77
Total system supply	16 203	16 865	8 969	8 741
 Gas in millions of cubic metres				
Gas sales	220	251	84	79
Gas transportation	295	354	140	159
	515	605	224	238

For further information contact:

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*Cover: Erecting a transmission line in northern
Manitoba.*