Insight beyond the rating.

Rating Report

Report Date:
October 17, 2014

Previous Report:
October 11, 2013

Province of Manitoba

Analysts

Travis Shaw
+1 416 597 7582
tshaw@dbrs.com

Julius Nyarko
+1 416 597 7408
jnyarko@dbrs.com

The Province

Manitoba is located in Central Canada and ranks fifth among Canadian provinces by population and sixth in terms of GDP. The Province is home to significant renewable energy resources, with almost all electricity generated from water.

Treasury Bill Limit

$1.95 billion

Promissory Notes Limit

$750 million (excludes Manitoba Hydro)

Rating

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

*Issued/guaranteed by the Province, including the Manitoba-Hydro Electric Board.

Rating Update

DBRS has confirmed the Issuer Rating and Long-Term Debt ratings of the Province of Manitoba (the Province or Manitoba) at A (high), along with its Short-Term Debt rating at R-1 (middle). The trend on all ratings is Stable. Improvement in fiscal performance has been slow, although Manitoba remains on track to restore balance by 2016–17, as presented last year. While debt has increased notably from pre-recession levels, it now appears to be stabilizing, aided by supportive economic conditions and stronger external demand.

For the fiscal year ended March 31, 2014, Manitoba reported a deficit of $522 million in its recently released public accounts. On a DBRS-adjusted basis, after including capital expenditures as incurred rather than as amortized, this translates into a shortfall of $1.3 billion, or 2.2% of GDP, compared with a deficit of $1.6 billion anticipated at the time of DBRS's last review. The better-than-expected performance was entirely due to lower-than-planned capital spending, while revenues rose by 4.5%, consistent with budget. As a result, total DBRS-adjusted debt grew by 7.2% to $23.1 billion, pushing the debt-to-GDP ratio to 38.2% from 36.9% a year earlier. This represents the fourth-highest debt burden among Canadian provinces. (Continued on page 2.)

Rating Considerations

Strengths

(1) Diversified and resilient economy
(2) Manageable debt burden and sound debt management practices
(3) Abundant low-cost hydroelectricity

Challenges

(1) Slow fiscal progress dependent on successful renewal of public sector collective agreements
(2) High reliance on federal transfers
(3) Below-average income and GDP per capita

Financial Information

	For the year ended March 31				
(all financial figures DBRS adjusted)	2014-15B	2013-14	2012-13	2011-12	2010-11
Debt* ($ millions)	24,142	23,057	21,515	19,840	17,478
Debt*/GDP	38.6%	38.2%	36.9%	36.0%	33.0%
Surplus (deficit) ($ millions)	(1,330)	(1,301)	(1,322)	(1,966)	(1,102)
Surplus (deficit)/GDP	(2.1%)	(2.2%)	(2.3%)	(3.6%)	(2.1%)
Interest costs/total revenue	5.5%	5.4%	5.6%	5.5%	5.4%
Federal transfers/total revenue	26.0%	27.2%	29.2%	31.8%	30.7%
Nominal GDP ($ millions)	62,514	60,400	58,245	55,169	52,896
Real GDP growth rate	2.2%	2.4%	2.6%	1.7%	2.6%
Unemployment rate	5.2%	5.4%	5.3%	5.4%	5.4%

* DBRS-defined: tax-supported debt + unfunded pension liabilities. B = Budget.

Source: Province of Manitoba, Statistics Canada, and DBRS calculations.

Rating Update (Continued from page 1.)

Based on the current private sector consensus tracked by DBRS, real GDP is forecast to grow by 1.9% in 2014, which compares with the 2.2% assumed by Manitoba at budget time. However, for 2015, the private sector consensus looks somewhat stronger, pointing to real growth of 2.4%. A return to normal crop production will exert a modest drag on growth in 2014, but this is expected to subside the following year. In addition, investment activity is poised to regain some momentum heading into 2015, and an improving outlook for U.S. demand and a weaker Canadian dollar should be positive for exports and help to offset a soft domestic environment.

After experiencing a delay last year, Manitoba's target to restore fiscal balance by 2016–17 remains intact in the current budget. For 2014–15, a deficit of $357 million is projected, or $1.3 billion on a DBRS-adjusted basis. This equates to 2.1% of GDP – still one of the largest fiscal shortfalls among Canadian provinces. Aside from targeted tax credits for seniors and one to promote increased apprenticeship opportunities, this year's budget was devoid of any significant tax measures. Meanwhile, total spending is forecast to advance by 2.9% but will require sound fiscal discipline to help achieve targets. This includes limiting the growth in health-care spending to just 1.5% − an ambitious target. In this regard, the government has introduced a new lean council intended to enhance service delivery and workflow, although there are no specific savings targets associated with this initiative. Moreover, labour negotiations will be particularly important, with a number of collective agreements coming up for renewal. As a result, the debt-to-GDP ratio will continue to inch up to 38.6% in 2014–15 before stabilizing around 39% thereafter. This represents a slight improvement from the peak foreseen at the time of DBRS's last review and is considered manageable for the rating.

Rating Considerations Details

Strengths

(1) Manitoba has one of the most resilient and well-diversified economies in the country. This strength was evident during the 2009 downturn when the Province experienced only a very mild recession. The economy boasts a well-balanced mix of industries, including agriculture and mining, manufacturing, financial services and transportation and has one of the lowest unemployment rates in Canada. In addition, the composition of Manitoba's exports also tends to be more diverse than that of other provinces. As a result of these factors, the provincial economy shows less volatility than its manufacturing- and resource-dependent neighbours.

(2) As of March 31, 2014, Manitoba's debt burden stood at 38.2% of GDP, and, although it has been creeping up since 2009, it is comparable to levels seen in the late 1990s and remains manageable for the current ratings. The Province maintains a relatively smooth debt maturity profile, with no unhedged foreign currency debt (excluding Manitoba Hydro) and a moderate level of floating-rate debt, which adds stability to debt-servicing requirements.

(3) Manitoba benefits from an abundance of low-cost hydroelectricity, resulting in some of the lowest electricity rates in North America. This gives the Province a distinct advantage when competing for new business investment. The 214 megawatt (MW) Wuskwatim dam project was completed in 2012, further adding to Manitoba's supply of hydroelectricity. In addition, the Keeyask generating station (695 MW for $6.5 billion) is moving forward with an anticipated in-service date of 2019, and Conawapa (1,485 for $10.7 billion) is also being considered but will be dependent on growth in domestic demand and Manitoba Hydro's ability to secure export contracts. DBRS notes that the relatively recent expansion of shale gas extraction has altered the competitive landscape by increasing the supply of low cost energy and may slow Manitoba's appetite for further development.

Challenges

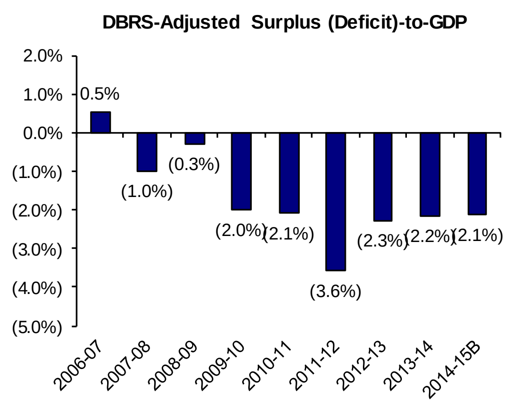
(1) With a return to balance not anticipated until 2016–17, Manitoba's fiscal recovery plan is one of the slowest recovery plans among Canadian provinces even though the depth of the recession was relatively mild. On a DBRS-adjusted basis, Manitoba's deficit has been equal to 2.0% of GDP or greater for five consecutive years, and this is expected to continue in 2014–15. Furthermore, adherence to fiscal targets will be dependent on the

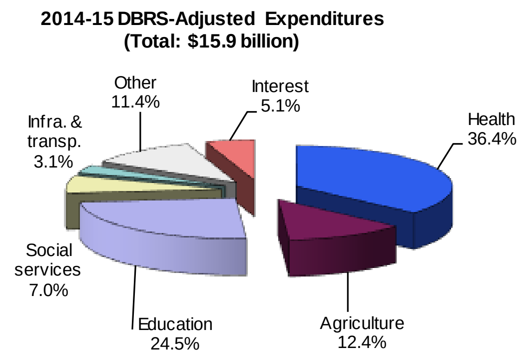
successful renewal of a number of collective agreements, including those with teachers and civil servants, which may be challenging in an environment of improving economic conditions.

(2) Despite its relatively resilient economy, Manitoba receives approximately 27% of its revenues by way of federal transfers, including roughly 13% from equalization, leaving it exposed to changes in federal transfer programs. This represents the highest reliance on federal revenues outside of Atlantic Canada.

(3) Manitoba boasts a well-diversified economy and healthy labour market; however, it continues to exhibit below-average wealth. The Province recorded primary household income per capita of $30,417 in 2012 (the latest year for which information is available), below the national average of $34,210. Manitoba also generates below-average GDP per capita, suggesting that productivity and high-value-added sectors may be lagging.

2014-15 Budget





After experiencing a delay last year, Manitoba's target to restore fiscal balance by 2016–17 remains intact in the current budget. For 2014–15, a deficit of $357 million is projected, or $1.3 billion on a DBRS-adjusted basis (after including capital expenditures as incurred rather than as amortized). This is consistent with the deficit realized in 2013–14 and equates to 2.1% of GDP – still one of the largest fiscal shortfalls among Canadian provinces.

For 2014–15, the Province's revenue forecast is based on nominal GDP growth of 3.5%, which is expected to contribute to a 2.9% increase in total DBRS-adjusted revenues. Aside from targeted tax credits for seniors and one to promote increased apprenticeship opportunities, this year's budget was devoid of any significant tax measures. Nonetheless, tax revenues are projected to rise by close to 10.0% year over year, buoyed by an 8.8% increase in sales tax receipts, reflecting the full-year impact of the 1% rate adjustment – to 8% − implemented last year. Personal and corporate income taxes are also forecast to rise by 4.2% and 7.1%, respectively. However, reduced earnings at government business enterprises and a modest decline in federal transfers will provide a partial offset.

Similar to revenues, DBRS-adjusted total spending is forecast to advance by 2.9% but will require sound fiscal discipline to help achieve targets. In this regard, the government has introduced a new lean council intended to enhance service delivery and workflow, although there are no specific savings targets associated with this initiative. Labour negotiations will be particularly important, as a number of collective agreements are due to be renegotiated, including those with teachers and civil servants. Of note, the government continues to reduce the size of the civil service and is over halfway toward its target of a reduction in 600 (headcount). Of the key program areas, education will see the largest increase, rising by 9.4%, as the Province continues to target smaller class sizes. Meanwhile, health and social services will be limited to 1.5% and 3.8% growth, respectively. To contain health care costs, the Province is continuing with efforts to amalgamate the regional health authorities, better coordinate primary care and, where possible, move to generic drugs.

Nonetheless, an aging and growing population and general increases in demand for services is going to make achieving this target a challenging task. Most other program areas will see relatively flat or declining budget allocations. Gross capital spending is projected to rise by 16.5%, although DBRS notes that this is an area that is often underspent. Interest charges, net of sinking fund earnings, are projected to rise by 5.8%, reflective of Manitoba's growing debt burden, but DBRS notes that the currently low interest rate environment is likely to result in some savings in this area.

Outlook

First quarter results released on September 30, 2014, indicate that fiscal performance is tracking slightly ahead of plan. Stronger performance at government business enterprises has helped to boost revenues by $41 million, while underspending of $46 million is largely attributed to timing. However, DBRS notes that subsequent to the first quarter, the Province authorized $100 million in additional spending related to summer floods not yet incorporated in the above results. While mitigation efforts are being sought, this highlights the still challenging task of restoring fiscal balance.

Manitoba's medium-term fiscal outlook forecasts a deficit of $218 million in 2015–16, followed by small surpluses in both 2016–17 and 2017–18. On a DBRS-adjusted basis, deficits are expected to range between 1.0% and 1.8% of GDP over the forecast horizon but will require prudent fiscal discipline and a supportive economic backdrop if these targets are to be achieved.

2013–14 Results

For the fiscal year ended March 31, 2014, public accounts reported a deficit of $522 million. On a DBRS-adjusted basis, this translates into a shortfall of $1.3 billion, or 2.2% of GDP, compared with a deficit of $1.6 billion anticipated at the time of DBRS's last review. The better-than-expected performance was entirely due to lower-than-planned capital spending.

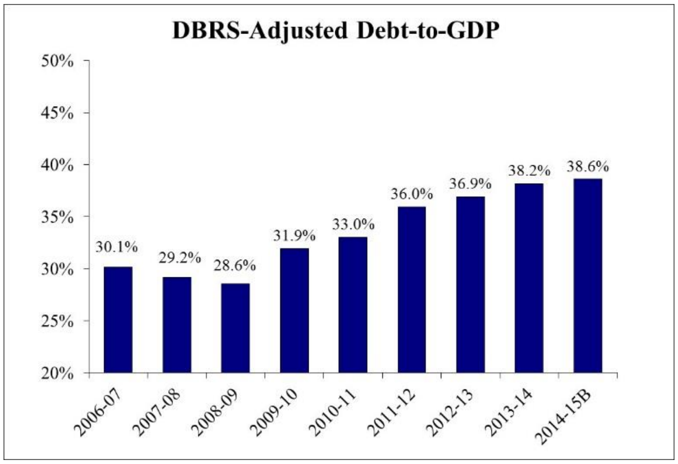
In 2013–14, total DBRS-adjusted revenues grew by 4.5% year over year, in line with budget. An increase in sales tax receipts was the primary driver as a result of last year's decision to raise the provincial rate to 8% from 7%, which took effect in July 2013. This boosted sales taxes by 14.8% from 2012–13. Corporate income tax was up by 6.0%, largely owing to favourable prior year adjustments. Results were also strong at Manitoba Hydro, as it reported its highest net income since 2008–09, owing to increased demand and prices during a cold winter. Federal transfers were an area of weakness, as they declined by 2.8% year over year as a result of a combination of lower equalization payments and other cost shared programs.

DBRS-adjusted spending growth was limited to 4.0% in 2013–14, helped by gross capital spending that came in $332 million below budget. Health-care costs advanced by 4.6%, driven by inflationary pressures at the regional health authorities. Meanwhile, education costs grew by 6.7%, partly driven by the government's initiative to fund smaller class sizes and also higher pension costs as a result of required increases in employer contributions. Volume and price pressures contributed to increases in social services by 3.8%. During the year, the Province also set aside $100 million in provisions for a flood settlement with First Nations communities related to long-standing claims.

Province of Manitoba

Report Date:
October 17, 2014

Debt Profile



In 2013–14, total DBRS-adjusted debt (defined as tax-supported debt plus unfunded pension liabilities) grew by 7.2% to $23.0 billion. This was somewhat faster than expected, driven by increased debt at crown corporations and municipalities as well as faster growth in unfunded pension liabilities that were only partly offset by lower-than-planned capital spending. As a result, this boosted the debt-to-GDP ratio to 38.2% from 36.9% a year earlier and represents the fourth-highest debt burden among Canadian provinces.

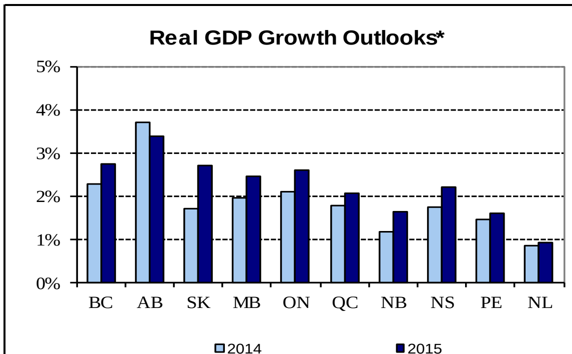
Manitoba boasts sound debt management practices with a relatively smooth debt maturity profile. As of March 31, 2104, the Province had no unhedged foreign currency debt (aside from Manitoba Hydro) and floating-rate debt comprised only 15% of total debt. This adds stability to borrowing costs, which accounted for only 5.4% of total revenues in 2013–14.

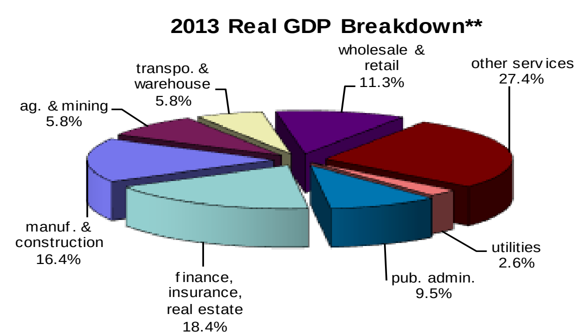
Outlook

For 2014–15, debt is expected to grow by a further $1.1 billion, or 4.7%, driven by the fiscal deficit and capital spending in excess of amortization. As such, debt-to-GDP will continue to inch up to 38.6%. Gross borrowing requirements are forecast at $4.8 billion and comprise $2.4 billion in refinancing needs, $842 million for fiscal shortfall and capital needs, and the remainder for crown corporations, largely Manitoba Hydro. At the time of writing, approximately $3.3 billion, or 70%, of borrowing needs had been fulfilled.

Based on the Province's medium-term plan, debt is expected to continue growing between 3% and 6% annually until 2017–18. This should result in Manitoba's debt burden stabilizing around 39% of GDP, a slight improvement from the peak foreseen at the time of DBRS's last review and considered manageable for the rating.

Economy





*Based on major Canadian banks' forecasts at the time of this report. **Statistics Canada, CANSIM 379-0028.

Manitoba's economy continued to outperform the national average in 2013, with real GDP advancing by 2.4%. A strong agricultural sector was a key contributor, owing to favourable weather conditions and a bumper crop. In addition, increased activity in the oil sector helped to offset declines in base metal production, while electricity generation showed improvement aided by a full year of production from the new Wuskwatim generating facility. According to Statistics Canada's survey of private and public investment intentions (PPI survey), non-residential construction, machinery and equipment investment was also strong, rising by 8.0% in

Province of Manitoba

Report Date:
October 17, 2014

2013 – well above the national average. Population growth was relatively sound, supported by international immigration and, when combined with a low interest rate environment, helped to propel housing starts to their highest level since the late 1980s. However, employment growth was somewhat soft, as gains in private sector employment, particularly in agriculture, were mostly offset by reductions in the public sector. Nevertheless, the unemployment rate remained relatively steady at 5.4% – the third lowest among Canadian provinces.

Outlook

Based on the current private sector consensus tracked by DBRS, real GDP is forecast to grow by 1.9% in 2014, which compares with the 2.2% assumed by Manitoba at the time of the budget. The investment climate appears to be somewhat soft, with Statistics Canada's PPI survey pointing to a slight decline in non-residential construction, machinery and equipment spending. Similarly, residential investment is likely to slow, as CMHC forecasts a 14.3% decline in housing starts following a very strong 2013. The outlook for agricultural output appears favourable although unlikely to repeat last year's solid performance. There are also signs that oil production, which has been a major driver of growth in recent years and now accounts for 2.5% of real GDP, may be reaching a plateau absent any significant new discoveries. As of August, Manitoba's unemployment rate stood at 5.5% (seasonally adjusted), up from 5.3% during the same period a year ago and remains above the budget estimate. Retail trade is up by 5.3% (seasonally adjusted) as of July 2014 compared with the prior year, and this is above the national average advance of 5.0%. Encouragingly, export markets are expected to provide an offset to domestic softness, supported by a weaker Canadian dollar and improving U.S. demand.

For 2015, the private sector consensus points to real GDP growth of 2.4%, in line with budget estimates. With a return to normal crop production in 2014, this will no longer be a drag in 2015, and investment is also expected to regain some momentum. Economic risks are considered to be more balanced relative to last year's forecast, providing greater confidence that improving economic conditions will be sustained and supportive of Manitoba's fiscal targets.

Economic Statistics	For the year ended December 31						
	2015P	2014P	2013	2012	2011	2010	2009
Nominal GDP ($ millions)	65,265	62,514	60,400	58,245	55,169	52,896	50,636
Nominal GDP growth	4.4%	3.5%	3.7%	5.6%	4.3%	4.5%	(2.5%)
Real GDP growth	2.4%	2.2%	2.4%	2.6%	1.7%	2.6%	(0.2%)
Population (thousands)	1,296	1,282	1,265	1,250	1,234	1,221	1,209
Population growth	1.1%	1.3%	1.2%	1.4%	1.0%	1.0%	0.9%
Employment (thousands)	648	640	633	630	625	620	608
Unemployment rate	5.0%	5.2%	5.4%	5.3%	5.4%	5.4%	5.2%
Housing starts (units)	6,500	6,400	7,465	7,242	6,083	5,888	4,174
Retail sales ($ millions)	18,739	18,028	17,297	16,652	16,443	15,770	14,920
Inflation rate (CPI)	1.9%	1.8%	2.2%	1.6%	3.0%	0.8%	0.6%
Household income per capita ($)	32,867	31,563	31,000	30,417	29,324	28,260	27,814

Sources: Statistics Canada (actuals); Manitoba Finance and DBRS estimates; CMHC (housing projections). P= Projected. n.a. = not available.

DBRS

Province of Manitoba

Report Date:
October 17, 2014

Province of Manitoba

Budget Summary* ($ millions)	Budget 2014-15	2013-14	Budget 2013-14	2012-13	2011-12	2010-11
Revenue	14,561	14,152	14,146	13,540	13,621	13,173
Program expenditure	15,088	14,694	15,004	14,097	14,839	13,569
Program surplus (deficit)	(527)	(542)	(858)	(557)	(1,218)	(396)
Interest expense	803	759	776	765	748	706
DBRS-Adjusted Surplus (Deficit)	(1,330)	(1,301)	(1,635)	(1,322)	(1,966)	(1,102)
DBRS adjustments:						
Capital expenditures less amortization	973	779	1,117	762	965	923
Other non-recurring items, incl. assets sales	-	-	-	-	-	-
Surplus (deficit), as reported	(357)	(522)	(518)	(560)	(1,001)	(179)
Tax-supported debt + unfunded pension liabilities	24,142	23,057	22,392	21,515	19,840	17,478
Gross borrowing requirements (all entities)	4,766	4,528	4,753	3,493	5,424	3,550
Gross capital expenditure	1,553	1,333	1,665	1,273	1,441	1,361

* DBRS adjusts reported figures to exclude certain non-recurring items (e.g. asset sales). DBRS also recognizes capital expenditures as incurred, rather than as amortized, to improve inter-provincial comparability.

Selected Financial Indicators (DBRS-Adjusted)						
Debt*/GDP	38.6%	38.2%	37.3%	36.9%	36.0%	33.0%
Surplus (deficit)/GDP	(2.1%)	(2.2%)	(2.7%)	(2.3%)	(3.6%)	(2.1%)
Surplus (deficit)/total revenue	(9.1%)	(9.2%)	(11.6%)	(9.8%)	(14.4%)	(8.4%)
Interest costs/total revenue	5.5%	5.4%	5.5%	5.6%	5.5%	5.4%
Total tax revenues/total revenue	54.0%	50.7%	52.3%	49.2%	47.6%	48.0%
Federal transfers/total revenue	26.0%	27.2%	27.3%	29.2%	31.8%	30.7%
Program expenditures/total revenue	103.6%	103.8%	106.1%	104.1%	108.9%	103.0%
Health expenditures/total expenditures	36.4%	36.9%	35.9%	36.7%	34.2%	35.3%
Program expenditure growth	2.7%	4.2%	4.8%	(5.0%)	9.4%	5.0%
Total expenditure growth	2.8%	4.0%	4.7%	(4.7%)	9.2%	5.0%
Total revenue growth	2.9%	4.5%	3.0%	(0.6%)	3.4%	4.7%

* DBRS-defined: tax-supported debt + unfunded pension liabilities.

Background Political Information

Party in power:	New Democratic Party	Legislature seats:	35 of 57
Premier:	Greg Selinger	Election to be held by:	October 2015*

*If a federal election is held within two weeks of this date, the provincial election will be postponed until April 2016.

Province of Manitoba

Report Date:
October 17, 2014

Province of Manitoba

Revenue ($ millions)	Budget 2014-15	2013-14	Budget 2013-14	2012-13	2011-12	2010-11
Personal income tax	3,102	2,978	2,953	2,846	2,697	2,592
Retail sales tax	2,207	2,028	2,047	1,767	1,658	1,618
Corporate taxes	1,096	1,024	966	965	919	824
Gasoline & motive fuel tax	340	329	326	332	269	256
Tobacco taxes	286	272	283	252	249	234
Education property tax (1)	701	434	676	380	554	690
Energy, mining, and other taxes	131	105	130	124	142	114
Total tax revenue	7,864	7,169	7,381	6,667	6,488	6,328
Lottery income (2)	575	554	615	298	338	332
Liquor control commission (2)	-	-	-	261	254	251
Manitoba Hydro	62	174	72	92	61	150
Natural resource levies	178	176	170	168	187	169
Fees, permits, licences, & other	2,089	2,237	2,031	2,102	1,961	1,896
Total Own-Source Revenue	10,768	10,310	10,270	9,587	9,289	9,126
Equalization payments	1,750	1,799	1,799	1,872	1,942	2,001
Canada health & social transfer	1,610	1,524	1,564	1,487	1,417	1,365
Other federal transfers	433	519	513	594	973	681
Total Federal Transfers	3,793	3,842	3,876	3,953	4,332	4,047
DBRS-Adjusted Revenue	14,561	14,152	14,146	13,540	13,621	13,173
Expenditures ($ millions)						
Health	5,791	5,706	5,689	5,454	5,328	5,044
Education and training	3,895	3,562	3,786	3,339	3,389	3,330
Social services (3)	1,115	1,074	1,069	1,035	1,013	978
Justice	542	534	521	500	460	435
Infrastructure and transportation	500	501	498	540	525	540
Agriculture, economic, & resource dev. (3)	1,977	1,914	1,985	1,883	2,209	1,860
Other general government	444	624	489	584	950	459
Capital expenditures less amortization (4)	973	779	1,117	762	965	923
Other	(150)	-	(150)	-	-	-
DBRS-Adjusted Program Expenditures	15,088	14,694	15,004	14,097	14,839	13,569
DBRS-Adjusted Program Surplus (Deficit)	(527)	(542)	(858)	(557)	(1,218)	(396)
Net interest expense (5)	803	759	776	765	748	706
DBRS-adjusted Expenditures	15,891	15,453	15,780	14,862	15,587	14,275
DBRS-Adjusted Surplus (Deficit)	(1,330)	(1,301)	(1,635)	(1,322)	(1,966)	(1,102)
DBRS adjustments:						
Capital expenditures less amortization (4)	973	779	1,117	762	965	923
Non-recurring revenue (expenditure)	-	-	-	-	-	-
Surplus (deficit), as reported	(357)	(522)	(518)	(560)	(1,001)	(179)

(1) For 2012-13 and 2013-14 actual results, education property tax is now reported net of tax credits. As a result, figures are not directly comparable with budget or for years 2011-12 and prior.

(2) In budget 2013-14, the Manitoba Lotteries Commission was merged with the Manitoba Liquor Control Commission.

(3) Due to government reorganization, budget and projected results in social services and agriculture, economic & resource development are not directly comparable with reported results for 2010-11 and prior years.

(4) This adjustment converts capital expenditures to a pay-as-you-go basis.

Province of Manitoba

Balance Sheet (Consolidated Statement)

($ millions)	As at March 31				As at March 31		
Financial Assets	2014	2013	2012	**Liabilities**	2014	2013	2012
Cash and cash equivalents	1,802	1,522	1,579	A/P and accrued charges	4,043	3,862	3,936
Amounts receivable	1,548	1,661	1,647	Debt (1)	32,662	30,602	28,742
Loans & advances (1)	11,828	10,871	10,050	Unamortized for. exch. fluc.	(33)	(39)	(44)
Equity in gov't enterprises	3,820	3,766	3,617	Unfunded pension liability	2,038	1,828	1,634
Net tangible capital assets	10,599	9,842	9,097	Other liabilities	-	-	-
Other assets	2,488	2,655	2,934	**Total Liabilities**	38,710	36,253	34,268
Total Financial Assets	32,085	30,317	28,924	**Accumulated Deficit**	(6,625)	(5,936)	(5,344)
				Total Liabilities	32,085	30,317	28,924

Net Public Sector Debt*

($ millions)	As at March 31 2015B	2014	2013	2012	2011	2010	2009	2008
Net general purpose debt	16,275	15,730	14,851	13,956	11,907	10,949	9,739	9,208
Crown corporation & gov't agencies	2,583	2,512	2,246	1,926	1,641	1,478	1,341	1,269
Schools and universities	620	590	538	495	461	432	384	387
Health facilities	1,477	1,262	1,149	1,094	1,015	949	831	833
Municipalities (2)	926	926	903	735	723	602	544	476
Net Tax-Supported Debt	21,881	21,019	19,687	18,206	15,747	14,410	12,839	12,174
Self-supporting debt:								
Manitoba Hydro	12,390	10,835	9,609	8,999	8,362	7,730	7,499	6,794
Total net public sector debt	34,271	31,855	29,296	27,205	24,109	22,140	20,338	18,968
Unfunded Pension Liabilities (3)	2,261	2,038	1,828	1,634	1,731	1,768	1,991	2,209
Per Capita (CAD) (3)								
Tax-supp. debt + unf. pension liabilities	18,831	18,221	17,205	16,082	14,316	13,386	12,382	12,093
Total public sector debt	26,732	25,174	23,427	22,051	19,747	18,319	16,980	15,948
As a % of GDP (3)								
Tax-supp. debt + unf. pension liabilities	38.6%	38.2%	36.9%	36.0%	33.0%	31.9%	28.6%	29.2%
Total public sector debt	54.8%	52.7%	50.3%	49.3%	45.6%	43.7%	39.2%	38.5%
Debt Breakdown by Currency (4)								
Cdn$ pay	n/a	100%	100%	100%	100%	100%	100%	100%
Non-CAD pay	n/a	0%	0%	0%	0%	0%	0%	0%
Fixed/Floating Rate Debt Breakdown (4)								
Fixed rate	n/a	85%	77%	80%	76%	82%	80%	81%
Floating rate	n/a	15%	23%	20%	24%	18%	20%	19%

Unfunded Pension Liabilities (Tax-Supported)

($ millions)	Valuation Date	Mar. 31, 2014
Civil service (5)	Dec. 2012	2,527
Teachers (5)	Jan. 2012	3,152
Other plans (includes MLAs, judges, other)	Various	1,765
	Total liabilities:	7,444
	Less pension assets:	5,406
	Total Unfunded Pension Liabilities:	2,038

Gross Debt Maturity Profile

Public Sector Debt	($ millions)	%
2014-15	4,224	13.0%
2015-16	2,066	6.4%
2016-17	2,601	8.0%
2017-18	2,513	7.7%
2018-19	2,712	8.3%
2019-20 to 2023-24	6,421	19.7%
2024-25+	11,993	36.9%
Total	32,529	100%

* Net of sinking fund and Debt Retirement Fund assets. B = Budget; n/a = not applicable.
(1) Includes asset and liability items related to debt of The Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation.
(2) Not guaranteed by the Province. DBRS estimate for 2014; 2015B.
(3) Excludes pension liabilities of self-supporting Crown corporations.
(4) Net of hedges (if any). Floating rate debt is defined as debt that matures or is repriced within 12 months.
(5) Civil Service includes amounts for indexation and unamortized pension adjustment; Teachers includes amount for indexation.

DBRS

Province of Manitoba

Report Date:
October 17, 2014

Rating

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

*Issued/guaranteed by the Province, including the Manitoba-Hydro Electric Board.

Rating History

	Current	2013	2012	2011	2010	2009
Issuer Rating	A (high)	A (high)	A (high)	NR	NR	NR
Long-Term Debt	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Short-Term Debt	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)

Related Research

- Rating Canadian Provincial Governments, September 2014.
- DBRS Updates Provincial Government Fact Sheet, October 10, 2014.

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

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

Rating Report
Report Date:
October 23, 2014
Previous Report:
September 16, 2013

DBRS
Insight beyond the rating.

The Manitoba Hydro-Electric Board

Analysts
Tom Li
+1 416 597 7378
tli@dbrs.com

James Jung, CFA, FRM, CMA
+1 416 597 7577
jjung@dbrs.com

Henry Zhu
+1 416 597 7459
hzhu@dbrs.com

The Utility
The Manitoba Hydro-Electric Board (the Utility), 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 555,760 customers throughout Manitoba and natural gas service to approximately 272,228 customers via its subsidiary, Centra Gas Manitoba Inc. The Utility also exports electricity to more than 23 electric utilities through its participation in four wholesale markets in Canada and in the midwestern United States.

Short-Term Promissory Notes Programme
$500 million

Ratings

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

Note: These Obligations are based on the status of Manitoba Hydro-Electric Board as a Crown agent 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

On October 17, 2014, DBRS confirmed the Issuer Rating and Long-Term Debt rating of the Province of Manitoba (the Province) at A (high) and its Short-Term Debt rating at R-1 (middle), all with Stable trends (see DBRS press release, "DBRS Confirms Province of Manitoba at A (high) and R-1 (middle)," dated October 17, 2014). Consequently, the ratings of the Manitoba Hydro-Electric Board (Manitoba Hydro or the Utility) were confirmed, as the ratings of the Utility are a flow-through of the ratings of the Province. Pursuant to *The Manitoba Hydro Act*, the Province unconditionally guarantees almost all of Manitoba Hydro's outstanding third-party debt (see the *DBRS Criteria: Guarantees and Other Forms of Explicit Support* methodology for further details). The Province also provides most of the Utility's financing through provincial advances (approximately 97% of total debt as at March 31, 2014).

Manitoba Hydro is currently undergoing a period of significant capital expenditure (capex) to increase generating capacity and to improve the reliability of its system. On July 2, 2014, the Province released the Public Utilities Board's (PUB) *Report on the Needs For and Alternatives To (NFAT): Review of Manitoba Hydro's Preferred Development Plan*. The NFAT report recommended that the Province and the Utility proceed with the 695 megawatt (MW) Keeyask Infrastructure and Generating Station Projects (Keeyask Project; approximately $6.5 billion) and the Manitoba-Minnesota Transmission Project (approximately $350 million), but stop spending on the 1,485 MW Conawapa Generating Station (approximately $10.7 billion) and the North-South Transmission Upgrade Project (approximately $500 million). The Province accepted these recommendations but also noted that the Conawapa Generating Station may be brought back for independent review in the future if an improved business case with more confirmed export sales can be made.

The large projects at Manitoba Hydro, including the Keeyask Project and the Bipole III Transmission Reliability Project (Bipole III; approximately $4.6 billion), will likely result in negative free cash flows for the Utility over the medium term and require substantial external funding. The Utility is expected to finance any cash shortfalls through advances from the Province. DBRS expects the Utility's key financial ratios to remain relatively flat as expected rate increases should improve cash flow and service debt obligations.

Rating Considerations

Strengths	Challenges
(1) Debt is a direct obligation of the Province	(1) Hydrology risk
(2) Low-cost hydro-based generation	(2) High leverage
(3) Access to favourable export markets	(3) High level of planned capex

Financial Information

The Manitoba Hydro-Electric Board	For the year ended March 31				
(CA$ millions where applicable)	2014	2013	2012	2011	2010
Total debt in capital structure (1)	79.4%	78.5%	77.9%	77.2%	77.0%
Cash flow/Total debt	6.4%	6.1%	6.3%	7.1%	7.6%
EBIT gross interest coverage (times)	0.95	0.89	0.80	1.00	1.01
Net income before non-recurring items	178	92	61	150	163
Cash flow from operations	690	589	567	595	589

(1) Adjusted for other comprehensive income.

Rating Considerations Details

Strengths

(1) **Debt is a direct obligation of the Province.** Manitoba Hydro is an agent of the Crown and its debt securities, except for $65 million of Manitoba Hydro-Electric Board Bonds (less than 1% of total debt at March 31, 2014), are held or guaranteed by the Province; therefore, the ratings assigned to Manitoba Hydro's obligations are a flow-through of the ratings assigned to the Province.

(2) **Low-cost hydro-based generation.** Low-cost hydroelectric-based generating capacity results in one of the lowest variable cost structures in North America, which 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 capex requirements.

(3) **Access to favourable export markets.** Manitoba Hydro's interconnections (approximately 43% of installed capacity), with firm export transfer capability of 2,100 MW to the United States, 150 MW to Saskatchewan and 200 MW to Ontario, along with additional non-firm transfer capability, provide the Utility with access to favourable export markets. The interconnections also provide a secure supply of electricity for domestic customers during times of poor hydrology.

Challenges

(1) **Hydrology risk.** Given that approximately 92% of Manitoba Hydro's installed generating capacity is hydroelectricity-based, earnings and cash flows are highly sensitive to hydrological conditions. The Utility is also exposed to significant price and volume risk because of its export commitments under the fixed price-to-volume contract, which may require the Utility to procure power supply from import markets if hydrological conditions are unfavourable.

(2) **High leverage.** Manitoba Hydro's leverage (79.4% as at March 31, 2014) remains one of the highest among government-owned integrated utilities in Canada, limiting its financial flexibility going forward. The Utility's leverage is also expected to increase modestly for the medium term because of the significant amount of planned capex.

(3) **High level of planned capex.** The need to refurbish aging infrastructure, combined with the aggressive development of new hydro generation and transmission facilities, will require Manitoba Hydro to deploy significant capital into its electricity infrastructure over the medium term. The Utility has forecast that capex over the medium term should average approximately $2 billion per year, which will pressure the already-high debt levels.

The Manitoba Hydro-Electric Board

Report Date:
October 23, 2014

Major Projects (Under Construction and Planned)

Project	Estimated Cost ($ millions)	Planned Construction Start Date	In-Service Target Date
Bipole III Transmission Reliability Project	4,600	2013/2014	2018
Keeyask Infrastructure and Generating Station Projects	6,500	2014	2019/2020
Manitoba-Minnesota Transmission Project	350	2015/2016	mid-2020

- **Bipole III:** This project involves the construction of a 500 kilovolt (kV) high voltage direct current transmission line, along with new converter stations. Construction began over winter 2013/2014 and the transmission line is expected to be in service for 2018.
- **Keeyask Project:** This project includes the development of a 695 MW generation station on the Nelson River. Construction began in July 2014 with the first generator expected to be in service for 2019 and the remaining units to be in service by 2020.
- **Manitoba-Minnesota Transmission Project:** This proposed project involves the construction of a 500 kV alternating current transmission line from Winnipeg to the Manitoba-Minnesota border, where it will connect to the Great Northern Transmission Line to be built by Minnesota Power. The Province authorized Manitoba Hydro to proceed with the project in July 2014 and the Utility will file an environmental impact statement in 2015. This project is subject to regulatory approval by federal and provincial environmental processes.
- **Conawapa Generating Station:** This project is a 1,485 MW generating station to be built on the Lower Nelson River. The Province announced in July 2014 that study and planning on this project have been suspended at this time following the release of the PUB's NFAT report. The Province noted that this project may be brought back for independent review in the future if an improved business case with more confirmed export sales can be made.

The Manitoba Hydro-Electric Board

Report Date:
October 23, 2014

Earnings and Outlook

(CA$ millions where applicable)	2014	2013	2012	2011	2010
	For the year ended March 31				
Total electricity revenues	1,878	1,733	1,573	1,616	1,583
Net gas revenues	163	147	132	143	138
Total revenues	2,041	1,880	1,705	1,759	1,721
EBITDA	1,065	991	865	968	957
EBIT	623	568	484	575	573
Gross interest expense	654	636	603	573	569
Earning before taxes	156	79	61	150	163
Net income before non-recurring items	178	92	61	150	163
Reported net income	174	92	61	150	163
Return on equity (1)	6.6%	3.5%	2.4%	6.3%	7.4%

(1) Adjusted for other comprehensive income.

F2014 Summary

- Manitoba Hydro’s earnings increased in F2014 because of increased domestic consumption due to colder temperature and increases in electric rates.
- Extra-provincial revenues also increased as a result of favourable water conditions and higher prices.
- The higher earnings were slightly offset by an increase in fuel and purchased power costs.

F2015 Outlook

- The Utility has forecast lower earnings for F2015 because of a return to more normal winter conditions (compared to F2014) and higher depreciation and interest expenses as a result of the continuing high level of investment in infrastructure. This is expected to be slightly offset by the above-average water storage levels heading into F2015.

DBRS

The Manitoba Hydro-Electric Board

Report Date:
October 23, 2014

Financial Profile

(CA$ millions where applicable)	2014	2013	2012	2011	2010
	For the year ended March 31				
Cash Receipts from Customers	2,198	2,015	1,998	2,029	2,110
Cash Paid to Suppliers and Employees	(1,070)	(981)	(1,048)	(1,043)	(1,080)
Interest Paid	(510)	(489)	(418)	(422)	(475)
Interest Received	72	44	35	31	34
Cash flow from operations	690	589	567	595	589
Dividends paid	0	0	0	0	0
Capital expenditures	(1,383)	(1,037)	(1,124)	(1,166)	(1,068)
Free cash flow	(693)	(448)	(557)	(571)	(479)
Acquisitions & investments	(89)	(98)	(90)	(88)	(93)
Net sinking fund withdrawals/(payments)	206	22	(75)	527	(274)
Net debt change	707	565	673	192	873
Other	(21)	(59)	29	(164)	(12)
Change in cash	110	(18)	(20)	(104)	15
Total debt (net sinking fund investments)	10,757	9,633	9,010	8,365	7,716
Cash and equivalents	142	32	50	70	174
Total debt in capital structure (1)	79.4%	78.5%	77.9%	77.2%	77.0%
Cash flow/Total debt	6.4%	6.1%	6.3%	7.1%	7.6%
EBIT gross interest coverage (times)	0.95	0.89	0.80	1.00	1.01
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%

(1) Adjusted for other comprehensive income.

F2014 Summary

- Credit metrics have declined moderately over the past few years as the substantial amount of capex has led to an increase in debt levels. This trend is expected to continue in the medium term.
- Cash flow from operations increased largely because of higher earnings for the year.
- Capex remained elevated as the Utility spent $904 million in F2014 on new generation and transmission projects.
- The high level of capex resulted in a free cash flow deficit that was mostly funded through advances from the Province.

F2015 Outlook

- Capex is expected to remain elevated over the medium term as construction continues on the Bipole III and the Keeyask Projects.
- This high level of capex is expected to result in a negative free cash flow, which will likely be funded through advances from the Province. The increasing debt load may lead to further declines in Manitoba Hydro’s key financial metrics.
- However, with no mandatory dividend payment requirements, this should provide the Utility with some financial flexibility.

DBRS

The Manitoba Hydro-Electric Board

Report Date:
October 23, 2014

Long-Term Debt Maturities and Bank Lines

Debt Profile (CAD millions)	%	2014	2013	2012
	For the year ended March 31,			
Advances from the Province	97.0%	10,683	9,775	9,095
Manitoba Hydro Bonds	1.6%	169	55	136
Manitoba Hydro-Electric Board Bonds*	1.4%	158	182	194
	100.0%	**11,010**	**10,012**	**9,425**
Adjustments to carrying value of dual currency bonds		(12)	(20)	(24)
Debt discounts and premiums		(96)	22	9
Transaction costs		(34)	(29)	(28)
Total		**10,868**	**9,985**	**9,382**

*Includes $65 million of unguaranteed bonds at March 31, 2014.

Debt Maturities

Year	2015	2016	2017	2018	2019	Thereafter	Total
(CAD millions)	408	313	311	331	1,347	8,300	**11,010**
%	4%	3%	3%	3%	12%	75%	**100%**

Summary

- The Province supports Manitoba Hydro by advancing funds or guaranteeing the Utility's long-term debt issues. Long-term debt at March 31, 2014, consisted of the following:
  - $10,683 million in advances from the Province (all of which have annual sinking fund requirements).
  - $169 million Manitoba Hydro Bonds.
  - $158 million Manitoba Hydro-Electric Board Bonds.
- Only $65 million of Manitoba Hydro-Electric Board Bonds do not carry the provincial guarantee.
- Manitoba Hydro maintains a relatively smooth maturity profile with potential volatility from foreign currency debt mostly mitigated through natural and cash flow hedges, and a moderate level of floating-rate debt (19% of floating-rate debt and 7% of long-term debt to be refinanced within a year), 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 of up to $500 million denominated in Canadian and/or U.S. dollars. At March 31, 2014, there were no amounts outstanding. Manitoba Hydro issues short-term promissory notes in its own name for its short-term cash requirements and does not receive short-term funding from the Province. These short-term notes are guaranteed by the Province.

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 the Utility deems a rate adjustment is necessary to continue progress towards attainment of 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. The PUB does not have the mandate to pre-approve capex. The capex planning responsibility resides with Manitoba Hydro and the government of Manitoba.
- In June 2012, Manitoba Hydro filed its 2012–13 and 2013–14 General Rate Application (GRA). In the GRA, the Utility requested an average 2.5% rate increase for all classes, effective September 1, 2012, and an additional 3.5% increase in overall revenues effective April 1, 2013.
- In order 43/13 dated April 26, 2013, the PUB provided final approval of a 3.5% rate increase across the board for all customer classes effective May 1, 2013. The order also provided final approval to the Utility's application to reinstate the 1.0% rate deferral as revenue in the 2012–2013 fiscal year. In addition, the 2.0% interim rate increase granted for April 1, 2012, and the 2.4% interim rate increase granted for September 1, 2012, were also approved.
- The Utility submitted an application for interim rates effective April 1, 2014, in March 2014. On May 6, 2014, the PUB approved a 2.75% increase in interim rates effective May 1, 2014.
- While Manitoba Hydro is the sole retail electricity supplier in Manitoba, under *The Manitoba Hydro Amendment Act* (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 as a result of Manitoba Hydro's predominantly hydroelectric generation and efficient resource management.

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 as well as operating and general expenses related to the natural gas business are also passed on.
- 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.
- On July 26, 2013, the PUB issued order 85/13, which approved an approximate 1% general revenue increase for gas operations, effective August 1, 2013.

Watershed Storage Capacity

Manitoba Hydro draws water from five distinct watersheds: Nelson River, Winnipeg River, Saskatchewan River, Churchill River (including the Laurie River) and Burntwood 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 74% of power generated in F2014.

SOURCE OF ELECTRICAL ENERGY GENERATED AND IMPORTED

For the year ended March 31, 2014

Nelson River	**73.63%**	**Saskatchewan River**	**6.69%**
Billion kWh generated	**27.1**	**Billion kWh generated**	**2.5**
Limestone	23.89%	Grand Rapids	6.69%
Kettle	23.03%		
Long Spruce	19.23%	**Laurie River**	**0.08%**
Kelsey	5.82%	**Billion kWh generated**	**0.0**
Jenpeg	1.66%	Laurie River #1	0.04%
		Laurie River #2	0.04%
Winnipeg River	**10.95%**		
Billion kWh generated	**4.0**	**Burntwood River**	**4.03%**
Seven Sisters	3.15%	**Billion kWh generated**	**1.5**
Great Falls	2.76%	Wuskwatim	4.03%
Pine Falls	1.59%		
Pointe du Bois	1.01%		
Slave Falls	1.23%		
McArthur	1.21%		
Thermal	**0.35%**	**Purchases (excl. wind)**	**1.74%**
Billion kWh generated	**0.1**	**Billion kWh imported**	**0.6**
Brandon	0.32%		
Selkirk	0.04%	**Wind**	**2.52%**
		Billion kWh imported	**0.9**

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 consists of rock, which has lower seepage rates and higher runoff than predominantly soil-covered watersheds.
- Lake Winnipeg, Cedar Lake and Southern 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).

In addition to its own generating stations in Manitoba, Manitoba Hydro purchases all electricity from two wind farms in southern Manitoba in St. Joseph and St. Leon. The installed capacity of these facilities is 258.5 MW. The Wuskwatim generation station is owned by the Wuskwatim Power Limited Partnership, in which Manitoba Hydro is the majority owner. Manitoba Hydro purchases all the electricity generated from the Wuskwatim generating station.

The Manitoba Hydro-Electric Board

Report Date:
October 23, 2014

Generating Capacity

Manitoba Hydro owns and operates an aggregate generating capacity of 5,725 MW.

Manitoba Hydro's Generating Stations and Capabilities

For the year ended March 31, 2014			**Net Capacity**
Power Station	**Location**	**# of units**	**(MW)**
Hydroelectric			
Great Falls	Winnipeg River	6	129
Seven Sisters	Winnipeg River	6	165
Pine Falls	Winnipeg River	6	87
McArthur Falls	Winnipeg River	8	55
Pointe du Bois	Winnipeg River	16	75
Slave Falls	Winnipeg River	8	67
Grand Rapids	Saskatchewan River	4	479
Kelsey	Nelson River	7	292
Kettle	Nelson River	12	1,220
Jenpeg	Nelson River	6	125
Long Spruce	Nelson River	10	980
Limestone	Nelson River	10	1,350
Laurie River (2)	Laurie River	3	10
Wuskwatim	Burntwood River	3	214
Total Hydroelectric Generation		**105**	**5,248**
Thermal			
Brandon (coal: 98 MW, gas: 244 MW)		3	342
Selkirk (gas)		2	125
Total Thermal Generation		**5**	**467**
Isolated Diesel Capabilities			
Brochet			3
Lac Brochet			2
Shamattawa			3
Tadoule Lake			2
Total Isolated Diesel Generation			**10**
Total Generation Capacity			**5,725**

Source: Manitoba Hydro.

The Manitoba Hydro-Electric Board

Report Date:
October 23, 2014

The Manitoba Hydro-Electric Board

(CA$ millions)	Mar. 31 2014	Mar. 31 2013	Mar. 31 2012		Mar. 31 2014	Mar. 31 2013	Mar. 31 2012
Assets				**Liabilities & Equity**			
Cash & equivalents	142	32	50	S.T. borrowings	0	0	0
Accounts receivable	520	421	328	Accounts payable	561	397	308
Inventories	81	93	106	Current portion L.T.D.	408	656	281
Prepaid expenses & other	0	4	4	Other current liab.	100	103	157
Total Current Assets	743	550	488	**Total Current Liab.**	1,069	1,156	746
Net fixed assets	13,627	12,508	11,797	Long-term debt (net sinking fund investments)	10,349	8,977	8,729
Goodwill & intangibles	281	276	268	Sinking fund investments	111	352	372
Investments & others	988	1,208	1,238	Other L.T. liab.	1,225	1,121	1,067
				Shareholders' equity	2,885	2,936	2,877
Total Assets	15,639	14,542	13,791	**Total Liab. & SE**	15,639	14,542	13,791

Balance Sheet & Liquidity & Capital Ratios	**For the year ended March 31** 2014	2013	2012	2011	2010
Current ratio	0.70	0.48	0.65	1.22	0.88
Total debt in capital structure	78.9%	76.6%	75.8%	74.6%	74.9%
Total debt in capital structure (1)	79.4%	78.5%	77.9%	77.2%	77.0%
Cash flow/Total debt	6.4%	6.1%	6.3%	7.1%	7.6%
(Cash flow-dividends)/Capex	0.50	0.57	0.50	0.51	0.55
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Coverage Ratios (times)					
EBIT gross interest coverage	0.95	0.89	0.80	1.00	1.01
EBITDA gross interest coverage	1.63	1.56	1.43	1.69	1.68
Fixed-charge coverage	0.95	0.89	0.80	1.00	1.01
Profitability Ratios					
Purchased power/Electricty revenues	9.4%	7.7%	9.3%	6.6%	6.6%
Operating margin	30.5%	30.2%	28.4%	32.7%	33.3%
Net margin	8.7%	4.9%	3.6%	8.5%	9.5%
Return on equity (1)	6.6%	3.5%	2.4%	6.3%	7.4%

(1) Adjusted for other comprehensive income.

The Manitoba Hydro-Electric Board

Report Date:
October 23, 2014

Ratings

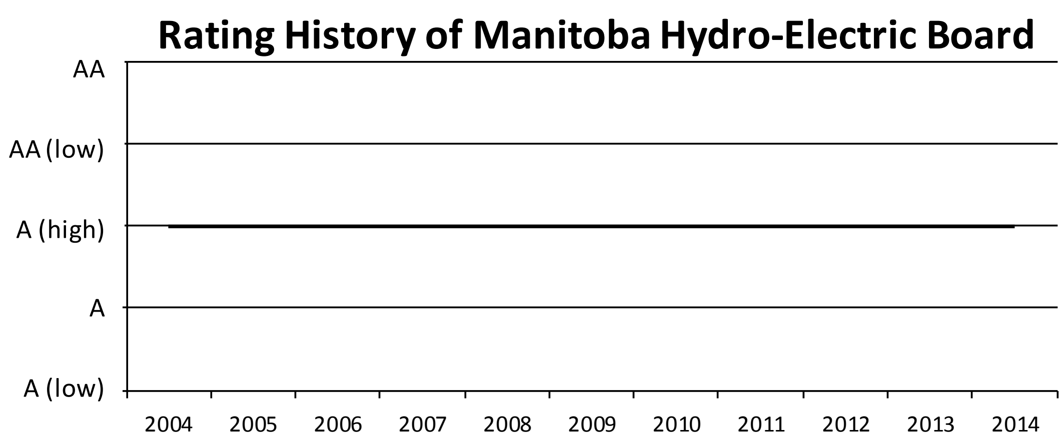
Debt	Rating	Rating Action	Trend
Long-Term Obligations	A (high)	Confirmed	Stable
Short-Term Obligations	R-1 (middle)	Confirmed	Stable

Note: These Obligations are based on the status of Manitoba Hydro as a Crown agent of the Province 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	2013	2012	2011	2010	2009
Long-Term Obligations	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Short-Term Obligations	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)

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



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

MOODY'S
INVESTORS SERVICE

CREDIT ANALYSIS

Rate this Research

Table of Contents:

Analyst Contacts:

TORONTO +1.416.214.1635

Kathrin Heitmann +1.416.214.3636
Assistant Vice President - Analyst
kathrin.heitmann@moodys.com

Michael Yake +1.416.214.3865
Vice President - Senior Analyst
michael.yake@moodys.com

LONDON +44.20.7772.5454

David Rubinoff +44.20.7772.1398
Managing Director - Sub Sovereigns
david.rubinoff@moodys.com

» contacts continued on the last page

This Credit Analysis provides an in-depth discussion of credit rating(s) for Manitoba, Province of and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Manitoba, Province of

Canada

Ratings

Manitoba, Province of

Category	Moody's Rating
Outlook	Negative
Senior unsecured bonds	Aa1

Overview and Outlook

Manitoba's Aa1 senior unsecured debt ratings benefit from (1) the diversity and stability of its economy; (2) the province's high degree of financial flexibility as evidenced by access to a broad and stable tax base; (3) manageable refinancing needs and exceptional access to capital markets; (4) high debt affordability as well as (5) adequate, though declining level of liquidity.

The rating is constrained by the province's high debt burden, which we expect to reach about 150% of revenues in 2016-17, versus 144% in 2013-14. Manitoba's deficits are small relative to other provinces and Manitoba enjoys financial flexibility. However, its plan to return to a small surplus by 2016-17 relies to a substantial degree on the province's ability to contain expenditure growth, which we view as challenging.

The negative rating outlook reflects our assessment of the execution risk surrounding Manitoba's plan to achieve a balanced budget by fiscal year 2016-17 and the risk of a continued increase in debt beyond 2016-17.

The outlook could be stabilized if Manitoba's debt burden as a percentage of revenues stabilizes and the province is on track to achieve a return to balanced budgets by 2016-17.

A loss of fiscal discipline leading to a continued and sustained increase in debt and debt service ratios beyond projections could exert downward pressure on the rating. This would be evidenced by reduced likelihood that Manitoba can return to balanced budgets by 2016-17 and reduced commitment to stabilize its debt burden in the medium term.

This Credit Analysis elaborates on Manitoba's profile in terms of the main analytic factors in Moody's Regional and Local Government Methodology.

Baseline Credit Assessment

Financial Performance and Debt Profile

Deficits are small but maintaining a tight grip on expenditures will be challenging

Manitoba's deficits are small and the province budgets for a deficit of 2.4% of total revenues (C$357 million) in 2014-15, which follows a deficit of 3.7% (C$522 million) in 2013-14. The province confirmed its deficit target for 2014-15 with the release of Q1 2014-15. However, we caution that the net financial impact of the recent flooding in summer has not yet been determined which might require some additional unbudgeted expenditures.

Manitoba seeks to return to balanced budgets by 2016-17. We view the province's target as challenging given continued pressures on healthcare (39% of total expenditures, 4.6% annual growth in 2013-14)) and education (24% of total expenditures, 6.7% annual growth in 2013-14) , similar to other provinces, and modest GDP growth. From 2014-15 to 2017-18 revenues are forecasted to grow on average by 3.3% per year including the impact of stable federal transfers while expenditures are expected to grow by only 1.9% during the same period. Manitoba has a solid track record of realizing efficiency gains and controlling departmental expenses providing some comfort that Manitoba can achieve its spending targets. However, we also note that the 2013-14 deficit of C$522 million was C$90 million higher than preliminary figures published as part of the 2014-15 budget earlier this year, after including a settlement provision for costs associated with effects of long standing flooding issues in four First Nations communities. In addition, total expenditures grew by 4.0% in 2013-14 after a year of tight expenditure control in 2012-13.

The province has substantial financial flexibility to raise taxes; however, willingness to raise taxes or constrain growth in provincial services may be limited by a modest economic growth environment and competition for skilled labour force from lower tax jurisdiction such as Alberta.

Stabilization of high debt burden

Manitoba's current debt burden is high. We expect that debt accumulation will continue to slightly outpace annual revenue growth as a result of small budgeted deficits until 2016-17 and capital spending under its 5-year C$5.5 billion infrastructure plan. We anticipate net debt to revenues to stabilize at around 150% by 2016-17 which compares to 144% in 2013-14 and 101% in 2008-09. Net direct and indirect debt should remain stable as a percentage of GDP (around 30%).

Unfunded pension liabilities of around 18% of revenues at March 31, 2014 remain manageable. In 2007-08, the province debt-financed C$1.5 billion of the Teachers' Retirement Allowance Fund (TRAF) unfunded liability. Investments held for the TRAF and the Civil Service Superannuation Fund (CSSF), which totaled C$2.2 billion in 2007-08, were reclassified and irrevocably restricted for pension purposes in 2008-09.

Continued high debt affordability

Over the last few years, Manitoba has rolled over maturing debt into debt with longer maturities and at comparatively low interest rates. Despite higher absolute debt levels, interest costs have consumed approximately 6% of revenues over the last five years, half of the comparable level in 2001. We expect interest burden to remain at current levels over the next 2-3 years even if interest rates were to rise modestly and assuming a moderate increase in debt. Manitoba faces refinancing needs of approximately C$2.0-2.5 billion every year from 2015-16, which is manageable.

Adequate, though declining level of liquidity funds

Manitoba's liquidity cushion is adequate with about C$2.6 billion in cash and investments (excluding sinking funds). Cash and investments are relatively low compared to expenditures (17% in 2013-14) and to debt (13% in 2013-14), which is also a reflection of the exceptional capital market access of Canadian provinces.

Cash and investments include approximately C$275 million of liquid funds in its Fiscal Stabilization Account. The province will draw C$55 million from the Fiscal Stabilization Account in 2014-15 for debt repayment. The fund is now well below its peak of C$864 million in 2008-09 and has limited cushion to absorb future drawings.

Inherent risks related to increasing debt at self-supporting entity Manitoba Hydro

The province issues debt on behalf of its wholly-owned utility company Manitoba Hydro, which we view as a self-supporting entity and therefore, exclude the related net debt from the Province of Manitoba's debt metrics. Manitoba Hydro's total reported debt net of sinking funds was around C$11.0 billion at March 31, 2014.The anticipated increase in debt at Manitoba Hydro could increase the contingent liability for the province of Manitoba in the next few years.

In anticipation of demand increases by 2022-23, and in order to boost electricity exports, Manitoba Hydro is currently executing major generation and transmission projects. Manitoba's financial metrics will be strained by the associated capital expenditures and debt needs in the coming years. In 2014-15, C$1.5 billion of C$2.4 billion in new debt that Manitoba seeks to issue will be for Manitoba Hydro. In addition, the management of these lengthy and complex construction projects will require additional attention from management. We will monitor the increase in Manitoba Hydro's debt ratios and the progress of construction of these projects.

We note positively, that Manitoba Hydro has flexibility to increase utility rates given fairly low rates compared to other provinces and that it has already negotiated future long-term export contracts with customers in the US. Please see the Credit Opinion for Manitoba Hydro for further details.

Governance and Management Factors

Manitoba relies on multi-year fiscal planning and prudent economic and fiscal assumptions to maintain a strong financial profile. Overall, Manitoba displays strong governance and management factors. Fiscal management measures are supported by comprehensive and transparent financial reporting that is typical of governments in advanced industrial economies.

Economic Fundamentals

Manitoba's economy is characterized by a high degree of diversification which provides access to a broad and productive tax base and supports economic stability. Approximately 11 sectors represent more than 5% of provincial GDP and manufacturing remains the largest sector (10% of provincial GDP). Manitoba's economy tends to perform approximately in line with the Canadian average and real GDP grew by an average 1.8% over the period 2008-13 compared to a Canadian average of 1.4%.

For 2014, real GDP growth is expected to be around 2.1%, benefiting from a pick-up in manufacturing and mining, while the agricultural sector is expected to decline following an exceptionally strong 2013. Manitoba's unemployment rate is among the lowest in Canada (5.4% in Manitoba, 7.1% in Canada in 2013) and its population has low household debt relative to other Canadian provinces.

Manitoba's economy has been hit by an increased frequency of major flooding in recent years and the province is stepping up investments in flood protection infrastructure, financed partially by a 1% increase in the provincial sales tax (PST) to 8%.

Institutional Framework

The institutional framework governing relations, powers and responsibilities between the Canadian provinces and the federal government is well developed and stable. This framework provides provinces with unfettered access to a broad range of tax bases and wide discretion over expenditure decisions, allowing provinces substantial flexibility to address fiscal challenges. Compared to their counterparts in other countries, including the German Länder and the Australian states, Canadian provinces enjoy far greater autonomy in terms of both the expenditure and revenue sides of their budgets. As such, Canadian provinces benefit from a high degree of fiscal policy flexibility that is more akin to that of sovereign governments than to many of their international sub-sovereign peers. These positive institutional factors increase Canadian provinces' ability to manage through economic downturns and handle relatively high debt burdens.

Extraordinary Support Considerations

Moody's assigns a high likelihood of extraordinary support from the Government of Canada (Aaa, stable), reflecting Moody's assessment of the incentive provided to the federal government of minimizing the risk of potential disruptions to capital markets if Manitoba, or any province, were to default. It also indicates a moderately positive federal government policy stance as illustrated by the flexibility inherent in the system of federal-provincial transfers.

National Peer Comparison

The Province of Manitoba is rated in the mid-range of Canadian provinces, whose ratings remain in a narrow range of Aaa to Aa2. Manitoba's debt burden is higher than that of some of its Western Canadian peers, but remains around the Canadian median. The province's highly diversified economy and resulting economic stability positions the province adequately relative to lower rated Canadian peers.

Rating History

Manitoba, Province of

Date	Rating
November 2006	Aa1
January 2003	Aa2
September 1998	Aa3
May 1985	A1
September 1975	Aa
October 1968	A

Source: Moody's Investors Service.

Annual Statistics

Manitoba, Province of

	2010	2011	2012	2013	2014	2015F
Debt Statement (C$ millions, as at 3/31)						
Treasury Bills and Promissory Notes	1,500	1,250	1,435	1,925	1,675	1,625
Canada Pension Plan	480	492	492	492	492	492
Direct Debentures	22,336	23,751	26,558	27,840	30,058	32,580
Other	785	780	812	815	910	864
Total Direct Debt	**25,101**	**26,273**	**29,297**	**31,072**	**33,135**	**35,561**
Guaranteed Debt						
Manitoba HydroBonds and Promissory Notes	251	163	254	163	263	243
Other Guarantees	102	100	104	96	96	96
Total Direct and Indirect Debt	**25,454**	**26,536**	**29,655**	**31,331**	**33,494**	**35,900**
Less:						
Manitoba Hydro	8,288	8,467	9,095	9,775	10,683	12,267
Manitoba HydroBonds and Promissory Notes	251	163	254	163	263	243
Direct Debt Sinking Fund	2,592	2,458	2,335	2,159	2,059	2,095
Net Direct and Indirect Debt	**14,323**	**15,448**	**17,971**	**19,234**	**20,489**	**21,295**

Note: 2015F based on 2014-15 budget and Moody's estimates.

Debt Trends (as at 3/31)						
Net Direct and Indirect Debt (C$ millions)	**14,323**	**15,448**	**17,971**	**19,234**	**20,489**	**21,295**
As % GDP	28.3	29.2	32.6	33.0	33.9	34.1
Per Capita (C$)	11,851	12,653	14,566	15,381	16,192	16,610
As % Total Revenues	113.2	116.7	131.3	141.3	144.1	145.6
Total Direct and Indirect Debt	25,454	26,536	29,655	31,331	33,494	35,900
% Hydro Debt	32.6	31.9	30.7	31.2	31.9	34.2
Total Foreign Currency Debt (Before Hedges)	**6,194**	**6,172**	**6,887**	**8,443**	**8,034**	
As % Total Direct and Indirect Debt	24.3	23.3	23.2	26.9	24.0	
Foreign Currency Debt Net of Hedges (C$ Millions)	**2,426**	**1,884**	**2,037**	**2,071**	**1,888**	
As % Total Direct and Indirect Debt	9.5	7.1	6.9	6.6	5.6	
Short-Term Debt	**3,464**	**3,349**	**3,681**	**4,401**	**4,217**	**2,054**
As % of Total Direct and Indirect Debt	13.6	12.6	12.4	14.0	12.6	5.7
Actuarial Pension Liability (Surplus) (C$ millions)	**1,800**	**1,731**	**1,634**	**1,828**	**2,038**	**2,261**
As % of GDP	3.6	3.3	3.0	3.1	3.4	3.6
As % of Revenue	14.2	13.1	11.9	13.4	14.3	15.5
Total Employer Cash Contributions [1]	**510**	**358**	**425**	**207**	**239**	**-**
As % of Revenue	**4.0**	**2.7**	**3.1**	**1.5**	**1.7**	**-**

Note: 2015F based on 2014-15 budget and Moody's estimates.

Manitoba, Province of

	2010	2011	2012	2013	2014	2015F
Consolidated Revenues and Expenses (C$ millions, Year Ending 3/31)						
Revenues						
Personal Income Tax	2,402	2,592	2,697	2,846	2,978	3,102
Corporate Income Tax	257	330	441	456	468	530
Payroll Tax (Health and Education)	264	269	292	296	315	326
Retail Sales Tax	1,570	1,618	1,658	1,767	2,028	2,207
Other taxes	1,447	1,519	1,400	1,302	1,380	1,700
Net Income of Government Business Enterprises	772	807	713	739	783	692
Federal Transfers	3,924	4,047	4,332	3,953	3,842	3,793
Other	2,012	2,058	2,155	2,255	2,420	2,281
Total Revenues	**12,648**	**13,240**	**13,688**	**13,614**	**14,214**	**14,630**
Expenses						
Health	4,831	5,044	5,328	5,454	5,706	5,791
Family Services and Housing	1,295	978	1,013	1,035	1,074	1,115
Education	3,227	3,330	3,389	3,339	3,562	3,895
Community, Economic and Resource Development	1,813	2,400	2,734	2,423	2,415	2,477
Debt Service	756	773	815	839	821	872
Other	926	894	1,410	1,084	1,158	837
Total Expenses	**12,848**	**13,419**	**14,689**	**14,174**	**14,736**	**14,987**
Consolidated Surplus/(Deficit)	**(200)**	**(179)**	**(1001)**	**(560)**	**(522)**	**(357)**
Cash Financing Surplus/(Requirement)	**(1413)**	**(1192)**	**(1935)**	**(1323)**	**(963)**	**(1330)**

Note: 2015F based on 2014-15 budget and Moody's estimates.

Financial Trends (Year Ending 3/31)						
% Change in Revenue	(0.9)	4.7	3.4	(0.5)	4.4	2.9
As a % of Revenue						
Consolidated Surplus (Deficit)	(1.6)	(1.4)	(7.3)	(4.1)	(3.7)	(2.4)
Cash Financing Surplus (Requirement)	(11.2)	(9.0)	(14.1)	(9.7)	(6.8)	(9.1)
Interest Expense	6.0	5.8	6.0	6.2	5.8	6.0
Intergovernmental Transfers	31.0	30.6	31.6	29.0	27.0	25.9
% Change in Expenses	4.4	4.4	9.5	(3.5)	4.0	1.7
As a % of Expenses						
Health	37.6	37.6	36.3	38.5	38.7	38.6
Education	25.1	24.8	23.1	23.6	24.2	26.0
Interest Expense	5.9	5.8	5.5	5.9	5.6	5.8
As a % of GDP						
Revenues	25.0	25.0	24.8	23.4	23.5	23.4
Expenses	25.4	25.4	26.6	24.3	24.4	24.0
Consolidated Surplus (Deficit)	(0.4)	(0.3)	(1.8)	(1.0)	(0.9)	(0.6)
Cash Financing Surplus (Requirement)	(2.8)	(2.3)	(3.5)	(2.3)	(1.6)	(2.1)
Health Expenses	9.5	9.5	9.7	9.4	9.4	9.3
Expenses Per Capita (C$)	10,631	10,991	11,906	11,335	11,645	11,690

Note: 2015F based on 2014-15 budget and Moody's estimates.

Manitoba, Province of

	2009	2010	2011	2012	2013	2014F
Economic Trends (Year Ending 12/31)[1]						
Population in 1000s	1,209	1,221	1,234	1,250	1,265	1,282
Real GDP (2007 2002 C$ millions)	51,048	52,379	53,269	54,633	55,944	57,119
% Growth	-0.2	2.6	1.7	2.6	2.4	2.1
Nominal GDP (C$ millions)	50,636	52,896	55,169	58,245	60,400	62,514
% Growth	-2.5	4.5	4.3	5.6	3.7	3.5
Employment Growth	0.0	1.9	0.8	0.9	0.5	1.0
Participation Rate	69.1	69.6	69.3	69.1	68.7	
Unemployment Rate	5.2	5.4	5.4	5.3	5.4	5.2
Manufacturing Shipments (C$ millions)	14,669	14,367	15,229	15,398	15,428	-
Housing Starts (units)	4,174	5,888	6,083	7,242	7,465	-
Retail Sales (C$ millions	14,920	15,770	16,443	16,652	17,297	
Per Capita (C$)	12,345	12,917	13,328	13,317	13,669	
CPI, All Items	114.1	115.0	118.4	120.3	123.0	125.2
Inflation Based on CPI % Change	0.6	0.8	3.0	1.6	2.2	1.8

Note: 2014 F are forecasted figures and not based on audited financial accounts. Sources for historical years: Statistics Canada, Manitoba.

Moody's Related Research

Credit Opinion:

» Canada, Government of

Special Comment:

» Canadian Provinces: Challenges Continue as Seven Forecast Budget Deficits, May 2014 (170924)

» Resource-Rich Canadian Provinces: Strong Balance Sheets and Management Practices Mitigate Volatile Resource Revenues, May 2013 (152020)

Credit Focus:

» Canadian Provinces of Ontario and Québec: High Debt Does Not Preclude High Ratings, June 2013 (154994)

Statistical Handbook:

» Non-U.S. Regional and Local Governments, June 2014 (170794)

Rating Methodology:

» Regional and Local Governments, January 2013 (147779)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Rate this Research »

» contacts continued from page 1

Report Number: 176452

Analyst Contacts:

MEXICO CITY +52.55.1253.5700

Alejandro Olivo +52.55.1253.5742
Associate Managing Director
alejandro.olivo@moodys.com

Author
Kathrin Heitmann

Production Specialist
Kerstin Thoma

MOODY'S
INVESTORS SERVICE

MOODY'S
INVESTORS SERVICE

Credit Opinion: Manitoba Hydro Electric Board

Global Credit Research - 06 Nov 2014

Manitoba, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Bkd Commercial Paper	P-1
Parent: Manitoba, Province of	
Outlook	Negative
Senior Unsecured	Aa1

Contacts

Analyst	Phone
Gavin Macfarlane/Toronto	416.214.3864
William L. Hess/New York City	212.553.3837

Opinion

Rating Drivers

Manitoba Hydro-Electric Board's (Manitoba Hydro) commercial paper program is explicitly guaranteed by the Province of Manitoba (Province).

Corporate Profile

Manitoba Hydro is an integrated electric and gas utility that is wholly owned by the Province as a Crown corporation and is regulated by the Manitoba Public Utilities Board (MPUB). Manitoba Hydro's 5,725 MW installed generating capacity produces over 90% of its electricity via hydroelectric power, complemented by two thermal and four diesel facilities, as well as power purchased from two independent wind farms. More than 20% of Manitoba Hydro's FY2014 electric revenue comes from exports to three Midwest US wholesale markets and other Canadian provinces. The smaller natural gas distribution segment, which sources its gas from Alberta, accounts for 8% of FY2014's total revenue net of procurement cost. Manitoba Hydro serves 555,760 electric and 272,228 gas customers in the Province.

SUMMARY RATING RATIONALE

Manitoba Hydro's Prime-1 commercial paper rating is driven by the Province's senior unsecured rating (Aa1/NEG) as the Province explicitly guarantees its commercial paper program. The commentary provided in the detailed rating considerations evaluates Manitoba Hydro as an electric utility corporation without layering in the guarantee. The commentary is provided solely for the benefit of investors as a reference as Manitoba Hydro's Prime-1 rating is determined by the Province's credit rating.

DETAILED RATING CONSIDERATIONS

OWNERSHIP BY THE PROVINCE OF MANITOBA

We view the Province's ownership of Manitoba Hydro as the anchor that links Manitoba Hydro's credit quality closely to that of the Province's. At FYE2014 , $10.7 billion of the $11 billion total debt consists of long term debt advances from the Province. Of debt obligations not owed to the Province, the Province guarantees Manitoba Hydro's short-term promissory note program (i.e. commercial paper program or CP) and its other long term debt (with the exception of Manitoba Hydro-Electric Board Bonds issued for mitigation purposes, which stood at $65 million at FYE2014). In turn, Manitoba Hydro is required to make sinking fund payments each year for no less than 1% of preceding fiscal year's principal debt outstanding and 4% of preceding fiscal year's sinking fund balance. In addition, the Provincial Debt Guarantee Fee is calculated as 1% of total guaranteed debt outstanding. Moody's continues to expect Manitoba Hydro to operate as a self-sufficient corporation to service its debt and afford payments to the Province such as water rentals and assessments.

LOW RATES IN A STABLE REGULATORY AND ECONOMIC ENVIRONMENT

Manitoba Hydro operates in a stable regulatory framework with steady yearly rate increases. It forecasts annual rate increases of 3.95% until FY2033 to contribute to replacing aging generation, transmission and distribution facilities. The rates are set on a cost-of-service basis. The MPUB independently oversees the rate setting process and has a supportive environment for cost recovery. Residents in Manitoba continue to pay rates that are among the lowest in North America. Revenues from exports to the US and other Canadian provinces accounts for over 20% of electric revenue, alleviating pressure of rate hikes and contributing to the current low rates in the Province.

NEW CAPACITY PLANNED TO MEET DEMAND AND BOOST EXPORT

To enhance reliability and in anticipation of demand growth and new generation needs in the next decade, major generation and transmission projects are underway. The 695 MW Keeyask Generating Station estimated at $6.5 billion is currently under construction with a projected in-service of 2019. Also under construction is the $4.6 billion Bipole III transmission line expansion with a projected in-service of 2018. As a result, capital expenditures are projected to increase and peak in FY2017.

The new capacity will be partially underpinned by fixed price long-term export contracts. Generation capacity from new hydro stations is developed in large "blocks" while demand grows incrementally. This creates an opportunity to sell surplus firm power under long-term contracts. Manitoba Hydro has already entered into long term contracts aggregating over 1,800 MW with Northern States Power, Minnesota Power, Wisconsin Public Service and Great River Energy. The contracts, which set electricity prices at a negotiated, fixed price remain subject to regulatory approval and are conditional upon the successful construction of the proposed plants.

In June 2014, the MPUB completed the Needs For and Alternatives To (NFAT) review of Manitoba Hydro's preferred development plan. In July 2014, the Keeyask project received its environmental license from the Province and construction started. The planning of the Conawapa Generating Station was suspended in August 2014 and whether it will be reactivated in the future is dependent upon further evaluation through the Integrated Resource Planning process and whether a strong investment case can be made.

FINANCIAL TARGETS TO BE CHALLENGED BY HIGHER CAPEX

As part of its debt management strategy, Manitoba Hydro targets certain financial metrics such as an interest coverage ratio greater than 1.2 and equity-to-capitalization greater than 25%. However, both targets are not expected to be met for an extended period of time due to large generation and transmission projects underway such as Keeyask and Bipole III. Total capital expenditures are forecasted to be $13 billion, or on average $2.6 billion per year from FY2015 to FY2019.

The weakening financial profile restricts financial flexibility and adds risk in case of unexpected events such as low water levels, cost overruns and construction delays given the nature of a hydroelectric plant's long construction cycle prior to the start of operations and cash flow. However, we view Manitoba Hydro as being capable of prudently managing debt and mitigating such risks by seeking rate increases and curtailing capital spending to continue as a self-supporting corporation.

Liquidity Profile

Manitoba Hydro's commercial paper is unconditionally guaranteed as to the principal and interest by the Province of Manitoba. Under the Manitoba Hydro Act, Manitoba Hydro can issue up to $500 million of commercial paper. While the Province does not maintain committed bank credit facilities in support of its short-term borrowing programs, Moody's believes that the probability that the Aa1-rated Province would be unable to obtain funding on a timely basis either from the capital markets or from its bankers is highly remote.

Rating Outlook

The outlook of Manitoba Hydro is stable, reflecting our expectation that the Province of Manitoba will continue to be the unconditional guarantor of Manitoba Hydro's commercial paper program. Manitoba Hydro is rated Prime-1 based on Moody's Global Short-Term Rating scale. The rating on the province would have to be downgraded 5 notches to A3 before we would downgrade Manitoba Hydro's Prime-1 rating to Prime-2.

What Could Change the Rating - Up

The Prime-1 rating is the highest short-term rating Moody's can assign and is indicative of a superior ability to repay short-term debt obligations. Therefore, Manitoba Hydro's Prime-1 rating cannot have any upward revision.

What Could Change the Rating - Down

Manitoba Hydro's Prime-1 rating is determined by the Province's long-term rating. Manitoba Hydro's Prime-1 rating could be revised downward to Prime-2 should the Province fail to maintain its long-term rating above A3.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

Moody's
INVESTORS SERVICE