

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, 2012



Comments by

THE CHAIRMAN OF THE BOARD

and by

THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

FINANCIAL OVERVIEW

Manitoba Hydro incurred a net loss on consolidated electricity and natural gas operations of \$43 million for the first six months of the 2012-13 fiscal year compared to net income of \$13 million for the same period last year. The net loss was comprised of an \$18 million loss in the electricity sector and a \$25 million loss in the natural gas sector. The loss in the electricity sector was attributable to decreased revenues from extraprovincial electricity spot market sales and higher operating expenses mainly due to accounting changes and pension-related cost increases. The reduced electricity sector revenues and higher expenses were consistent with expectations for the second quarter. The loss in the natural gas sector is the result of seasonal variations in the demand for natural gas and should be recouped over the winter heating season.

Manitoba Hydro continues to experience low export market prices as a result of low natural gas prices and lower demand for electricity due to economic conditions in the U.S. Low export prices are projected to result in continuing downward pressure on net income in 2012-13. Based on current water flows and export market conditions, Manitoba Hydro is forecasting that financial results will improve over the remaining six months of the fiscal year and net income should exceed \$30 million for 2012-13.

Electricity Operations

Revenues from electricity sales within Manitoba totaled \$575 million for the six-month period, an increase of \$1 million compared to the same six-month period last year. Extraprovincial revenues of \$207 million were \$19 million or

8% lower than the same period last year reflecting decreased sales volumes partially offset by marginally increased prices. Energy sold in the export market was 6.0 billion kilowatt-hours compared to 6.8 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations totaled \$800 million for the six-month period, an increase of \$37 million or 5% higher than the previous year. The increase was the net result of a \$24 million increase in operating and administrative expenses, a \$21 million increase in finance expense and a \$13 million increase in depreciation and amortization partially offset by a \$17 million decrease in power purchases and a \$4 million decrease in water rentals. The increase in operating and administrative expenses was mainly attributable to IFRS-related accounting changes and higher pension costs. Finance expense increased primarily due to higher volumes of long-term debt. Depreciation and amortization increased as a result of additions to capital assets, partially offset by the change in depreciation rates. Power purchases decreased primarily as a result of lower system merchant purchases due to lower arbitrage opportunities between markets. Water rentals decreased due to lower hydraulic generation.

Capital expenditures for the six-month period amounted to \$484 million which was consistent with the same period last year. Expenditures during the current period included \$75 million related to future Conawapa and Keeyask generation, \$70 million for Wuskwatim generation and transmission, \$49 million for Bipole III projects, \$44 million for the Riel Station, \$30 million for Pointe du Bois projects 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 \$25 million was incurred for the six-month period compared to a \$24 million net loss for the same period last year. Revenue, net of cost of

gas sold, was \$45 million which was \$1 million lower than the same period last year. The decrease in revenues was primarily attributable to lower weather-related demand over the current six-month period. Delivered gas volumes were 534 million cubic metres compared to 592 million cubic metres in the prior period.

Expenses attributable to natural gas operations amounted to \$70 million which was consistent with the same period last year.

Capital expenditures in the natural gas sector were \$18 million for the current six-month period compared to \$16 million for the same period last year. Capital expenditures included \$14 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 Clean Environment Commission Hearings

The Clean Environment Commission (CEC) began public hearings on Manitoba Hydro's proposed Bipole III Transmission Project on October 1, 2012. The hearings will provide participants with an opportunity to review and comment on the project and its environmental impacts. The hearings are expected to last two months. Following the hearings, the CEC will issue a report with advice and recommendations to the Manitoba Minister of Conservation.

Manitoba Hydro Named Top 100 Employer

For the third consecutive year, Manitoba Hydro was selected as one of Canada's top 100 employers. The selection was made by a panel drawn from universities across Canada and was sponsored by MediCorp Canada. The criteria for selecting the top 100 employers included the following key areas: physical workplace, work atmosphere, health and family benefits, communications, performance management and training and skills development.

Electricity Rate Increase

Electricity rates for all customer classes increased by approximately 2.5% effective September 1, 2012. The rate increase was necessary to partially offset the financial impacts of lower revenues due to economic conditions, lower prices in export markets and to provide sufficient revenues for the Corporation to meet its ongoing costs of operations and support the ongoing reliability of electricity services. Electricity customers in Manitoba continue to benefit from the lowest electricity rate structure in North America.

Natural Gas Rate Increase

In accordance with Manitoba Hydro's methodology to change natural gas rates every quarter depending on the price of gas purchased from Alberta, rates for residential customers increased on August 1, 2012 by 2.9% or approximately \$21 per year. Rate increases for larger volume customers ranged from 3.3% to 7.1% depending on the customer class and consumption levels. The August 1, 2012 rate change was the first quarterly gas rate increase since February 2011. Since that time, natural gas rates have decreased by approximately 24%.



William Fraser, FCA
Chairman of the Board

A handwritten signature in black ink, appearing to read "W. Fraser".



Scott Thomson, CA
President and
Chief Executive Officer

A handwritten signature in black ink, appearing to read "Scott Thomson".

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	<i>Six Months Ended</i> <i>September 30</i>		<i>Three Months Ended</i> <i>September 30</i>	
	2012	2011	2012	2011
Revenues				
Electric – Manitoba	575	574	282	281
– Extraprovincial	207	226	120	125
Gas – Commodity	34	50	12	16
– Distribution	45	46	20	20
	<u>861</u>	<u>896</u>	<u>434</u>	<u>442</u>
Cost of gas sold	34	50	12	16
	<u>827</u>	<u>846</u>	<u>422</u>	<u>426</u>
Expenses				
Operating and administrative	266	242	135	125
Finance expense	230	210	119	106
Depreciation and amortization	207	193	105	90
Water rentals and assessments	57	61	31	32
Fuel and power purchased	59	76	27	41
Capital and other taxes	53	51	26	25
	<u>872</u>	<u>833</u>	<u>443</u>	<u>419</u>
Net (Loss) Income before non-controlling interest	(45)	13	(21)	7
Net (Loss) Income attributable to non-controlling interest	(2)	-	(2)	-
Net (Loss) Income	<u>(43)</u>	<u>13</u>	<u>(19)</u>	<u>7</u>

Consolidated Balance Sheet

In Millions of Dollars (Unaudited)

	<i>As at</i> <i>September 30</i>	<i>As at</i> <i>September 30</i>
	2012	2011
Assets		
Capital assets	12 124	11 293
Current assets	772	956
Other assets	1 130	1 125
	<u>14 026</u>	<u>13 374</u>
Liabilities and Equity		
Long-term debt (net)	9 103	9 145
Current liabilities	983	509
Other liabilities	746	665
Non-controlling interest	103	94
Contributions in aid of construction	325	303
Retained earnings	2 407	2 402
Accumulated other comprehensive income	359	256
	<u>14 026</u>	<u>13 374</u>

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	<i>Six Months Ended September 30</i>		<i>Three Months Ended September 30</i>	
	2012	2011	2012	2011
Operating Activities				
Cash receipts from customers	925	1 006	429	475
Cash paid to suppliers and employees	(495)	(556)	(205)	(251)
Net interest	(251)	(244)	(115)	(120)
	<u>179</u>	<u>206</u>	<u>109</u>	<u>104</u>
Financing Activities	634	741	387	(4)
Investing Activities	<u>(536)</u>	<u>(522)</u>	<u>(292)</u>	<u>(286)</u>
Net increase (decrease) in cash	277	425	204	(186)
Cash at beginning of period	<u>50</u>	<u>69</u>	<u>123</u>	<u>680</u>
Cash at end of period	<u><u>327</u></u>	<u><u>494</u></u>	<u><u>327</u></u>	<u><u>494</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>	
	2012	2011	2012	2011
Net (Loss) Income	<u>(43)</u>	<u>13</u>	<u>(21)</u>	<u>7</u>
Other Comprehensive Income (Loss)				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	29	(131)	68	(143)
Unrealized fair value gains on available-for-sale U.S. sinking fund investments	3	19	(1)	14
	<u>32</u>	<u>(112)</u>	<u>67</u>	<u>(129)</u>
Comprehensive (Loss) Income	<u><u>(11)</u></u>	<u><u>(99)</u></u>	<u><u>48</u></u>	<u><u>(122)</u></u>

Segmented Information

In Millions of Dollars (Unaudited)

Six Months Ended September 30	Electricity		Gas		Total	
	2012	2011	2012	2011	2012	2011
Revenue (net of cost of gas sold)	782	800	45	46	827	846
Expenses	800	763	70	70	870	833
Net (Loss) Income	(18)	37	(25)	(24)	(43)	13

Three Months Ended
September 30

Revenue (net of cost of gas sold)	402	406	20	20	422	426
Expenses	406	385	35	34	441	419
Net (Loss) Income	(4)	21	(15)	(14)	(19)	7
Total Assets	13 446	12 807	579	567	14 025	13 374

Generation and Delivery Statistics

	Six Months Ended September 30		Three Months Ended September 30	
	2012	2011	2012	2011
Electricity in gigawatt-hours				
Hydraulic generation	16 286	17 079	9 029	8 770
Thermal generation	32	43	27	24
Scheduled energy imports	128	31	4	12
Wind purchases (MB)	400	384	182	182
Total system supply	16 846	17 537	9 242	8 988
Gas in millions of cubic metres				
Gas sales	231	237	82	77
Gas transportation	303	355	126	168
	534	592	208	245

For further information contact:

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Cover: Equipment in Manitoba Hydro's new high voltage test facility can create lightning impulses up to 2.2 million volts and direct voltage testing up to ± 1.2 million volts.