

The Manitoba Hydro-Electric Board

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

for the nine months ended December 31, 2010



Comments by
THE CHAIRMAN OF THE BOARD

and by
THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

FINANCIAL OVERVIEW

Manitoba Hydro's consolidated net income from electricity and natural gas operations was \$47 million for the first nine months of the 2010-11 fiscal year. This represented an increase of \$13 million compared to the net income of \$34 million for the same period last year. The increase in net income was largely attributable to higher revenues from domestic electricity sales and lower costs of financing.

Consolidated net income was comprised of a \$62 million profit in the electricity sector and a \$15 million loss in the natural gas sector. The loss in the natural gas sector is the result of seasonal variations in the demand for natural gas and will be recouped over the winter heating season.

Manitoba Hydro is forecasting that net income will improve over the balance of the fiscal year and should reach approximately \$140 million by March 31, 2011.

Electricity Operations

Revenues from electricity sales within Manitoba totaled \$844 million for the nine-month period, an increase of \$23 million or 2.8% higher than the same nine-month period last year. The increase in domestic revenue was mainly attributable to an electricity rate increase of 2.8% implemented on April 1, 2010. Extraprovincial revenues of \$329 million were \$1 million higher than the same period last year. Energy sold in the export market was 8.6 billion kilowatt-hours compared to the 9.1 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations totaled \$1 111 million for the nine-month period, an increase of \$12 million or 1.1% over the previous year. The increase was the net result of an \$11 million increase in depreciation and amortization expense, a \$9 million increase in power purchased costs and a \$4 million increase in operating and

administrative expense partially offset by a \$14 million decrease in finance expense. Depreciation and amortization increased as a result of additions to capital assets over the past year. Power purchased costs increased largely due to low water flows in the early spring of 2010 requiring Manitoba Hydro to conserve water in storage. Operating and administrative expense increased over the previous year as a result of \$15 million in IFRS-related accounting changes. In the absence of these accounting changes, operating and administrative expense would have declined by \$11 million primarily as a result of lower maintenance activities and ongoing cost constraint initiatives. The decrease in finance expense was primarily the result of lower interest rates on debt and a stronger Canadian dollar partially offset by higher volumes of long-term debt.

Capital expenditures for the nine-month period amounted to \$838 million compared to \$801 million for the same period last year. Expenditures during the current fiscal year included \$276 million for Wuskwatim generation and transmission, \$63 million related to future Conawapa and Keeyask generation, \$39 million for the Riel Station, \$37 million for Bipole III projects, \$26 million for upgrades to the Kelsey Generating Station, \$24 million for Pointe du Bois projects, and \$20 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 \$15 million was incurred for the nine-month period compared to a \$16 million net loss for the same period last year. Revenue, net of cost of gas sold, was \$87 million which was \$1 million lower than the same period last year. The decrease in revenues was primarily attributable to reduced weather-related demand over the nine-month period. Delivered gas volumes were 1 147 million cubic metres compared to 1 260 million cubic metres for the same period last year.

Expenses attributable to natural gas operations amounted to \$102 million which was \$2 million lower than the expenses incurred in the prior year. The decrease was mainly attributable to lower property taxes applicable to the current year.

Capital expenditures in the natural gas sector were \$26 million for the current nine-month period which was the same as last year. Capital expenditures included \$19 million related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province, and \$7 million for demand-side management programs.

Rate Changes – Natural Gas

Natural gas rates for residential customers decreased on November 1, 2010 by approximately 5.3% or \$51 per year. Rate decreases for larger volume customers ranged from 5.8% to 8.9%, depending on customer class and consumption levels. The rate decreases are the net result of reductions in the price that Manitoba Hydro pays for natural gas from Alberta.

Manitoba Hydro Recognized as a Top 100 Employer

Manitoba Hydro is one of Canada's top 100 employers according to a nation-wide competition. Canada's Top Employers Competition attracted over 2 750 entries from a wide diversity of employers across Canada. Employers were evaluated in a number of areas including: physical environment; work atmosphere; health, financial and family benefits; vacation; employee communications; performance management; training and skills development; and community involvement. This is the eleventh year of the competition and the first time Manitoba Hydro chose to participate.

St. Joseph Wind Farm

The St. Joseph wind farm is located about 100 kilometres south of Winnipeg and consists of 60 turbines covering about 125 square kilometres of privately-owned agricultural land. Expected to be fully operational by the end of February, 2011, the 138-megawatt facility will be the province's largest wind farm.

The wind project was made possible with the March 2010 signing of a power purchase agreement between Manitoba Hydro and Pattern Energy Ltd. Under the terms of the agreement, Manitoba Hydro will purchase all of the output of the wind farm for the next 27 years.

Lower Income Energy Efficiency Program Assists 3 000 Customers

In December 2007, Manitoba Hydro launched its Lower Income Energy Efficiency Program to help lower income families reduce their utility bills. Through this program, qualifying customers receive a free in-home energy review, basic energy efficiency measures (e.g. faucet aerators, compact fluorescent lights, etc.) and insulation upgrades to basements, attics, and walls. In addition, qualifying homeowners can upgrade their standard efficiency natural gas furnace to a high efficiency natural gas furnace for \$19 per month for a fixed term.

Over the past three years Manitoba Hydro's Lower Income Energy Efficiency Program has installed basic energy efficiency measures in close to 3 000 homes throughout the province.



Victor H. Schroeder, QC
Chairman of the Board

A handwritten signature in black ink, appearing to read "Victor H. Schroeder".



R. B. Brennan, FCA
President and
Chief Executive Officer
February 10, 2011

A handwritten signature in black ink, appearing to read "Bob Brennan".

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	<i>Nine Months Ended</i>		<i>Three Months Ended</i>	
	<i>December 31</i>		<i>December 31</i>	
	2010	2009	2010	2009
Revenues				
Electric - Manitoba	844	821	303	290
- Extraprovincial	329	328	93	105
Gas - Commodity	137	186	84	109
- Distribution	87	88	43	41
	<u>1 397</u>	<u>1 423</u>	<u>523</u>	<u>545</u>
Cost of gas sold	137	186	84	109
	<u>1 260</u>	<u>1 237</u>	<u>439</u>	<u>436</u>
Expenses				
Operating and administrative	343	338	113	116
Finance expense	322	336	103	110
Depreciation and amortization	300	289	100	96
Water rentals and assessments	88	90	32	32
Fuel and power purchased	84	75	26	32
Capital and other taxes	76	75	28	24
	<u>1 213</u>	<u>1 203</u>	<u>402</u>	<u>410</u>
Net Income	<u>47</u>	<u>34</u>	<u>37</u>	<u>26</u>

Consolidated Balance Sheet

In Millions of Dollars (Unaudited)

	<i>As at</i>	<i>As at</i>
	<i>December 31</i>	<i>December 31</i>
	2010	2009
Assets		
Capital assets	10 721	9 929
Current assets	552	805
Other assets	1 037	847
	<u>12 310</u>	<u>11 581</u>
Liabilities and Equity		
Long-term debt (net)	7 903	7 357
Current liabilities	796	928
Other liabilities	700	665
Contributions in aid of construction	294	297
Retained earnings	2 287	2 111
Accumulated other comprehensive income	330	223
	<u>12 310</u>	<u>11 581</u>

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	<i>Nine Months Ended</i>		<i>Three Months Ended</i>	
	<i>December 31</i>		<i>December 31</i>	
	2010	2009	2010	2009
Operating Activities				
Cash receipts from customers	1 259	1 465	362	420
Cash paid to suppliers and employees	(753)	(806)	(242)	(291)
Net interest	(303)	(308)	(36)	(25)
	<u>203</u>	<u>351</u>	<u>84</u>	<u>104</u>
Financing Activities	654	697	144	338
Investing Activities	<u>(948)</u>	<u>(892)</u>	<u>(316)</u>	<u>(241)</u>
Net increase (decrease) in cash	(91)	156	(88)	201
Cash at beginning of period	<u>174</u>	<u>159</u>	<u>171</u>	<u>114</u>
Cash at end of period	<u><u>83</u></u>	<u><u>315</u></u>	<u><u>83</u></u>	<u><u>315</u></u>

Consolidated Statement of Comprehensive Income

In Millions of Dollars (Unaudited)

	<i>Nine Months Ended</i>		<i>Three Months Ended</i>	
	<i>December 31</i>		<i>December 31</i>	
	2010	2009	2010	2009
Net Income	<u>47</u>	<u>34</u>	<u>37</u>	<u>26</u>
Other Comprehensive Income				
Unrealized foreign exchange gains on debt in cash flow hedges	38	392	65	47
Realized foreign exchange losses on debt in cash flow hedges reclassified to income	1	6	-	1
Unrealized fair value gains (losses) on available-for-sale U.S. sinking fund investments	6	(6)	(18)	(6)
	<u>45</u>	<u>392</u>	<u>47</u>	<u>42</u>
Comprehensive Income	<u><u>92</u></u>	<u><u>426</u></u>	<u><u>84</u></u>	<u><u>68</u></u>

Segmented Information

In Millions of Dollars (Unaudited)

<i>Nine Months Ended</i> <i>December 31</i>	Electricity		Gas		Total	
	2010	2009	2010	2009	2010	2009
Revenue (net of cost of gas sold)	1 173	1 149	87	88	1 260	1 237
Expenses	1 111	1 099	102	104	1 213	1 203
Net Income (Loss)	<u>62</u>	<u>50</u>	<u>(15)</u>	<u>(16)</u>	<u>47</u>	<u>34</u>

Three Months Ended
December 31

Revenue (net of cost of gas sold)	396	395	43	41	439	436
Expenses	368	378	34	32	402	410
Net Income	<u>28</u>	<u>17</u>	<u>9</u>	<u>9</u>	<u>37</u>	<u>26</u>
Total Assets	11 703	10 965	607	616	12 310	11 581

Generation and Delivery Statistics

	<i>Nine Months Ended</i> <i>December 31</i>		<i>Three Months Ended</i> <i>December 31</i>	
	2010	2009	2010	2009
Electricity in gigawatt-hours				
Hydraulic generation	25 020	25 469	9 182	8 866
Thermal generation	44	117	14	74
Power purchased	445	449	110	230
Total system supply	<u>25 509</u>	<u>26 035</u>	<u>9 306</u>	<u>9 170</u>
Gas in millions of cubic metres				
Gas sales	620	659	400	408
Gas transportation	527	601	232	247
	<u>1 147</u>	<u>1 260</u>	<u>632</u>	<u>655</u>

For further information contact:

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Cover: A crane lifts a three blade rotor assembly toward one of the generators at the St. Joseph Wind Farm under construction south of Winnipeg.