

The Manitoba Hydro-Electric Board

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

for the three months ended June 30, 2011



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 \$6 million for the first three months of the 2011-12 fiscal year compared to a net loss of \$15 million for the same period last year. The improved financial performance was largely attributable to increased revenues from electricity sales within the province.

Consolidated net income was comprised of a \$16 million profit in the electricity sector and a \$10 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 entered the 2011-12 fiscal year with record high water storage levels. With normal precipitation over the coming months, hydraulic generation should exceed the historical average and financial results should continue to be strong. Based on current conditions, Manitoba Hydro is forecasting that net income will exceed \$130 million by March 31, 2012.

Electricity Operations

Revenues from electricity sales within Manitoba totalled \$291 million for the three-month period, an increase of \$24 million or 9% higher than the same period last year. The increase in domestic revenue was mainly attributable to increased weather-related usage in the residential sector compared to the previous year. In addition, a 2% general rate increase implemented April 1, 2011 contributed approximately \$6 million to the revenue increase over the three-month period. Extraprovincial revenues of

\$101 million were \$9 million or 10% higher than the same three-month period last year reflecting increased sales volumes in the export markets. Energy sold in the export market was 3.2 billion kilowatt-hours compared to the 2.1 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations totalled \$376 million for the three-month period, an increase of \$13 million or 4% higher than the same period last year. The increase was the net result of a \$9 million increase in power purchases, a \$4 million increase in water rentals, a \$3 million increase in depreciation and amortization, and a \$3 million increase in capital and other taxes, partially offset by a \$6 million decrease in finance expense. Power purchases increased primarily as a result of new energy purchases from the St. Joseph wind farm. Water rentals and assessments increased due to higher hydraulic generation. Depreciation and amortization increased as a result of additions to capital assets over the past year. The decrease in finance expense was primarily the result of a stronger Canadian dollar and higher interest income partially offset by higher volumes of long-term debt and higher interest rates on floating rate debt.

Capital expenditures for the three-month period amounted to \$228 million compared to \$276 million for the same period last year. Expenditures during the current fiscal year included \$55 million for Wuskwatim generation and transmission, \$27 million related to future Conawapa and Keeyask generation, \$15 million for Bipole 3 projects, \$7 million for upgrades to the Kelsey Generating Station, \$11 million for the Riel Station and \$5 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 \$10 million was incurred for the three-month period compared to an \$11 million net loss for the same period last year. Revenue, net of cost of gas sold, was \$26 million which was \$2 million higher than

the same period last year. The increase in revenues was primarily attributable to increased weather-related demand over the three-month period. Delivered gas volumes were 347 million cubic metres compared to 291 million cubic metres in the prior period.

Expenses attributable to natural gas operations amounted to \$36 million compared to \$35 million for the same period last year.

Capital expenditures in the natural gas sector were \$7 million for the current three-month period compared to \$7 million for the same period last year. Capital expenditures included \$5 million related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province, and \$2 million for demand-side management programs.

Keeyask Generating Station

Manitoba Hydro has announced that, subject to obtaining the required regulatory and licensing approvals, Keeyask Generating Station will be built to meet a 2019 first unit in-service date. The \$5.6 billion 695-megawatt Keeyask Generating Station will be developed by Manitoba Hydro through a partnership with the Keeyask Cree Nations – Tataskweyak Cree Nation, War Lake First Nation, Fox Lake Cree Nation and York Factory First Nation.

The Keeyask Cree Nations collectively have the option to own up to 25% of the partnership, with the balance owned by Manitoba Hydro. Keeyask is located on the Nelson River within the Split Lake Resource Management Area, approximately 175 km northeast of Thompson.

Power Smart Refrigerator Retirement Program*

Manitoba Hydro's new Power Smart Refrigerator Retirement Program provides residential customers with the opportunity to save energy and money by getting rid of their old, working second refrigerators. The Power Smart Refrigerator Retirement Program pays Manitoba Hydro customers \$40 for a working refrigerator 15 years or older, including free in-home pickup.

*Manitoba Hydro is a licensee of the Trademark and Official Mark.

Manitoba Hydro is offering this service to reduce energy consumed by old, inefficient and often nearly empty refrigerators and freezers. The program aims to remove 35 000 units from homes over 2.5 years. This will reduce energy consumption by approximately 30 gigawatt-hours – equivalent to the amount of electricity required to power a community of approximately 5 000 people for one year.

Rate Changes – Natural Gas

Natural gas rates for residential customers decreased on May 1, 2011 by approximately 3.1% or \$29 per year. Rate decreases for larger volume customers ranged from 3.4% to 23.7%, 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.



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
August 15, 2011

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

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	<i>Three Months Ended June 30</i>	
	2011	2010
Revenues		
Electric - Manitoba	291	267
- Extraprovincial	101	92
Gas - Commodity	34	33
- Distribution	26	24
	<u>452</u>	<u>416</u>
Cost of gas sold	34	33
	<u>418</u>	<u>383</u>
Expenses		
Operating and administrative	115	115
Finance expense	104	110
Depreciation and amortization	103	99
Water rentals and assessments	29	25
Fuel and power purchased	35	26
Capital and other taxes	26	23
	<u>412</u>	<u>398</u>
Net Income (Loss)	<u>6</u>	<u>(15)</u>

Consolidated Balance Sheet

In Millions of Dollars (Unaudited)

	<i>As at June 30</i>	<i>As at June 30</i>
	2011	2010
Assets		
Capital assets	11 101	10 315
Current assets	1 178	682
Other assets	1 124	858
	<u>13 403</u>	<u>11 855</u>
Liabilities and Equity		
Long-term debt (net)	9 016	7 623
Current liabilities	543	817
Other liabilities	764	679
Contributions in aid of construction	300	295
Retained earnings	2 396	2 224
Accumulated other comprehensive income	384	217
	<u>13 403</u>	<u>11 855</u>

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

*Three Months Ended
June 30*

	2011	2010
Operating Activities		
Cash receipts from customers	534	521
Cash paid to suppliers and employees	(305)	(260)
Net interest	(123)	(130)
	<u>106</u>	<u>131</u>
Financing Activities	745	242
Investing Activities	<u>(240)</u>	<u>(307)</u>
Net increase in cash	611	66
Cash at beginning of period	<u>69</u>	<u>174</u>
Cash at end of period	<u><u>680</u></u>	<u><u>240</u></u>

Consolidated Statement of Comprehensive Income

In Millions of Dollars (Unaudited)

*Three Months Ended
June 30*

	2011	2010
Net Income (Loss)	<u>6</u>	<u>(15)</u>
Other Comprehensive Income		
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	12	(84)
Unrealized fair value gains on available-for-sale U.S. sinking fund investments	5	16
	<u>17</u>	<u>(68)</u>
Comprehensive Income (Loss)	<u><u>23</u></u>	<u><u>(83)</u></u>

Segmented Information

In Millions of Dollars (Unaudited)

<i>Three Months Ended</i> <i>June 30</i>	Electricity		Gas		Total	
	2011	2010	2011	2010	2011	2010
Revenue (net of cost of gas sold)	392	359	26	24	418	383
Expenses	<u>376</u>	<u>363</u>	<u>36</u>	<u>35</u>	<u>412</u>	<u>398</u>
Net Income (Loss)	<u>16</u>	<u>(4)</u>	<u>(10)</u>	<u>(11)</u>	<u>6</u>	<u>(15)</u>
Total Assets	12 848	11 322	555	533	13 403	11 855

Generation and Delivery Statistics

Three Months Ended
June 30

	2011	2010
Electricity in gigawatt-hours		
Hydraulic generation	8 309	6 998
Thermal generation	19	18
Wind purchase (MB)	<u>221</u>	<u>218</u>
Total system supply	<u>8 549</u>	<u>7 234</u>
Gas in millions of cubic metres		
Gas sales	160	136
Gas transportation	<u>187</u>	<u>155</u>
	<u>347</u>	<u>291</u>

For further information contact:

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Cover: Manitoba Hydro worker repairs a transmission line in the Twin Beaches area that was damaged by flooding this past spring.