

# The Manitoba Hydro-Electric Board

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*for the nine months ended December 31, 2011*



## FINANCIAL OVERVIEW

Manitoba Hydro's consolidated net income from electricity and natural gas operations was \$23 million for the first nine months of the 2011-12 fiscal year. This represented a decrease of \$24 million from the \$47 million net income for the same period last year. The decrease was attributable to lower extraprovincial revenues and higher operating expenses partially offset by increased revenues from domestic electricity sales.

Consolidated net income was comprised of a \$42 million profit in the electricity sector and a \$19 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 is expected to be recouped over the winter heating season. Based on current water flow and export market conditions, Manitoba Hydro is forecasting that net income will improve over the balance of the fiscal year and should reach approximately \$100 million by March 31, 2012.

### *Electricity Operations*

Revenues from electricity sales within Manitoba totalled \$870 million for the nine-month period, an increase of \$41 million or 5% higher than the same nine-month period last year. The increase in domestic revenue was mainly attributable to a 2% general rate increase implemented on April 1, 2011 and increased weather-related usage primarily through the spring and summer months. Extraprovincial revenues of \$302 million were \$27 million or 8% lower than the same period last year reflecting decreased prices in export

markets. Energy sold in the export market was 8.8 billion kilowatt-hours compared to the 8.6 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations totalled \$1 130 million for the nine-month period, an increase of \$34 million or 3% higher than the previous year. The increase was the net result of a \$32 million increase in power purchases, a \$20 million increase in operating and administrative expenses, and a \$2 million increase in water rentals partially offset by a \$14 million decrease in depreciation and amortization and a \$6 million decrease in finance expense. Power purchases increased primarily as a result of new energy purchases from the St. Joseph wind farm. The increase in operating and administrative expenses was largely due to higher costs of system maintenance. Water rentals and assessments increased due to higher hydraulic generation. Depreciation and amortization decreased as a result of revised depreciation rates partially offset by additions to capital assets over the past year. The decrease in finance expense was primarily the result of a stronger Canadian dollar compared to the previous year.

Capital expenditures for the nine-month period amounted to \$738 million compared to \$838 million for the same period last year. Expenditures during the current fiscal year included \$160 million for Wuskwatim generation and transmission, \$76 million related to future Conawapa and Keeyask generation, \$41 million for Bipole III projects, \$37 million for the Riel Station, \$29 million for Pointe du Bois projects, \$23 million for upgrades to the Kelsey Generating Station, 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 \$19 million was incurred for the nine-month period compared to a \$15 million net loss for the same period last year. Revenue, net of cost of gas sold, was \$84 million, which was \$3 million lower than the same period last year. The decrease in revenues was primarily attributable to lower weather-related demand over the nine-month period. Gas sales volumes were 595 million cubic metres compared to 620 million cubic metres in the prior period.

Expenses attributable to natural gas operations amounted to \$103 million compared to \$102 million for the same period last year. The \$1 million increase was largely attributable to higher maintenance and customer service costs.

Capital expenditures in the natural gas sector were \$26 million for the current nine-month period compared to \$25 million for the same period 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 Increase Roll-back*

On January 17, 2012, The Public Utilities Board (PUB) issued Order 5/12 which directed that the 2.9% electricity rate increase previously approved on an interim basis effective April 1, 2010, be rolled-back to 1.9%. Manitoba Hydro disagrees with the PUB rate roll-back directive and intends to file a Review and Vary Application. Pending a decision on the Review and Vary Application or other measures which may be pursued by the Corporation, the financial statements have not been adjusted to reflect the revenue impacts of the rate roll-back. Should Manitoba Hydro's Review and Vary Application be rejected and the rate roll-back confirmed, the revenue reduction to December 31, 2011 would amount to approximately \$20 million.

## *Transitions*

On a personal note, after the endorsement of close to 50 quarterly reports on behalf of The Manitoba Hydro-Electric Board, the December 2011 quarterly marks the final report for the Schroeder/Brennan team. We both leave Manitoba Hydro with a profound sense of pride but, more importantly, with the absolute confidence that Manitoba Hydro will continue to be the "crown jewel" that contributes in so many ways to the well-being and prosperity of Manitobans.

We want to extend sincere thanks to the dedicated and talented employees of Manitoba Hydro for their unwavering commitment to providing exceptional service to the energy consumers of Manitoba. Manitoba Hydro's employees have always been the key to the Corporation's success and we have no doubt that this will continue to be the case in the future.



***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 1, 2012

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>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenues</b>				
Electric - Manitoba	870	829	302	298
- Extraprovincial	302	329	76	93
Gas - Commodity	119	137	69	84
- Distribution	84	87	38	43
	<u>1 375</u>	<u>1 382</u>	<u>485</u>	<u>518</u>
Cost of gas sold	119	137	69	84
	<u>1 256</u>	<u>1 245</u>	<u>416</u>	<u>434</u>
<b>Expenses</b>				
Operating and administrative	349	328	113	108
Finance expense	316	322	106	103
Depreciation and amortization	286	300	93	100
Water rentals and assessments	90	88	29	32
Fuel and power purchased	116	84	40	26
Capital and other taxes	76	76	25	28
	<u>1 233</u>	<u>1 198</u>	<u>406</u>	<u>397</u>
<b>Net Income</b>	<u>23</u>	<u>47</u>	<u>10</u>	<u>37</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>
	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Capital assets	11 494	10 721
Current assets	649	556
Other assets	1 129	1 040
	<u>13 272</u>	<u>12 317</u>
<b>Liabilities and Equity</b>		
Long-term debt (net)	8 774	7 903
Current liabilities	711	806
Other liabilities	668	615
Contributions in aid of construction	312	294
Non-controlling interest	98	82
Retained earnings	2 412	2 287
Accumulated other comprehensive income	297	330
	<u>13 272</u>	<u>12 317</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>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Operating Activities</b>				
Cash receipts from customers	1 483	1 434	483	458
Cash paid to suppliers and employees	(828)	(754)	(272)	(243)
Net interest	(270)	(283)	(32)	(35)
	<u>385</u>	<u>397</u>	<u>179</u>	<u>180</u>
<b>Financing Activities</b>	551	477	(190)	49
<b>Investing Activities</b>	<u>(809)</u>	<u>(965)</u>	<u>(287)</u>	<u>(317)</u>
<b>Net increase (decrease) in cash</b>	127	(91)	(298)	(88)
<b>Cash at beginning of period</b>	<u>69</u>	<u>174</u>	<u>494</u>	<u>171</u>
<b>Cash at end of period</b>	<u>196</u>	<u>83</u>	<u>196</u>	<u>83</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>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Net Income</b>	<u>23</u>	<u>47</u>	<u>10</u>	<u>37</u>
<b>Other Comprehensive Income</b>				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	(89)	38	42	65
Realized foreign exchange losses (gains) on debt in cash flow hedges reclassified to income	-	1	-	-
Unrealized fair value gains (losses) on available-for-sale U.S. sinking fund investments	<u>18</u>	<u>6</u>	<u>(1)</u>	<u>(18)</u>
	<u>(71)</u>	<u>45</u>	<u>41</u>	<u>47</u>
<b>Comprehensive Income (Loss)</b>	<u>(48)</u>	<u>92</u>	<u>51</u>	<u>84</u>

## Segmented Information

*In Millions of Dollars (Unaudited)*

<i>Nine Months Ended</i> <i>December 31</i>	<b>Electricity</b>		<b>Gas</b>		<b>Total</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenue (net of cost of gas sold)</b>	1 172	1 158	84	87	1 256	1 245
<b>Expenses</b>	1 130	1 096	103	102	1 233	1 198
<b>Net Income (Loss)</b>	<u>42</u>	<u>62</u>	<u>(19)</u>	<u>(15)</u>	<u>23</u>	<u>47</u>

*Three Months Ended*  
*December 31*

<b>Revenue (net of cost of gas sold)</b>	378	391	38	43	416	434
<b>Expenses</b>	373	363	33	34	406	397
<b>Net Income</b>	<u>5</u>	<u>28</u>	<u>5</u>	<u>9</u>	<u>10</u>	<u>37</u>
<b>Total Assets</b>	12 671	11 713	601	604	13 272	12 317

## Generation and Delivery Statistics

	<i>Nine Months Ended</i> <i>December 31</i>		<i>Three Months Ended</i> <i>December 31</i>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Electricity in gigawatt-hours</b>				
Hydraulic generation	25 292	25 020	8 213	9 182
Thermal generation	69	44	26	14
Scheduled energy imports	110	181	79	39
Wind purchases	655	264	271	97
Total system supply	<u>26 126</u>	<u>25 509</u>	<u>8 589</u>	<u>9 332</u>
<b>Gas in millions of cubic metres</b>				
Gas sales	595	620	358	400
Gas transportation	574	527	219	232
	<u>1 169</u>	<u>1 147</u>	<u>577</u>	<u>632</u>

For further information contact:

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*Cover: Northern lights as seen from Kilometer 85  
Quarry on PR 280 Highway between Thompson  
and Gillam.*