Rating Report

Report Date:
February 12, 2009

Previous Report:
November 29, 2007

Insight beyond the rating.

The Manitoba Hydro-Electric Board

Analysts

Robert Filippazzo
+1 416 597 7340
rfilippazzo@dbrs.com

Michael Caranci
+1 416 597 7304
mcaranci@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 522,000 customers throughout Manitoba and natural gas service to approximately 261,000 customers via its subsidiary, Centra Gas Manitoba Inc. The Utility also exports electricity to more than 30 electric utilities through its participation in four wholesale markets in Canada and the mid-western United States.

Authorized Commercial Paper Limit

$500 million

Rating

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

Note: These Obligations are based on the implicit support of the Province 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

The ratings of The Manitoba Hydro-Electric Board (Manitoba Hydro or the Utility) reflect the short- and long-term ratings of the Province of Manitoba (the Province; see the DBRS report published December 15, 2008). Manitoba Hydro's Long-Term Obligations and Short-Term Obligations ratings are a flow-through of the Province's ratings based on (1) the implicit support of the Province as Manitoba Hydro is for all purposes an agent of the Province (see Rating Sovereign Governments for further detail) and (2) the unconditional guarantee provided by the Province on the majority of the Utility's outstanding third-party obligations. The Province's Short-Term Debt and Long-Term Debt ratings were confirmed by DBRS on December 15, 2008, at R-1 (middle) and A (high), respectively. The trends on both ratings are Stable.

The Province supports Manitoba Hydro by both advancing funds and guaranteeing its new issues. As at March 31, 2008, the Province has provided approximately 94% of the Utility's long-term debt in the form of provincial advances, with the same terms and conditions as the Province's external debt. Manitoba Hydro has issued $456 million of long-term debt in its own name, with an unconditional guarantee provided by the Province, except $104 million of Manitoba Hydro-Electric Board Bonds, which do not benefit from an explicit provincial guarantee. (Continued on page 2.)

Rating Considerations

Strengths

(1) Agent of the Crown with debt securities held or guaranteed by the Province
(2) Low-cost hydro-based generation with substantial storage capacity
(3) Reasonable regulatory framework
(4) Interconnections with the United States, Saskatchewan and Ontario provide access to favourable export markets

Challenges

(1) Hydrology risk
(2) High debt levels
(3) Heightened capital expenditure profile
(4) Export revenues sensitive to fluctuations in exchange rates
(5) One Northern Flood Agreement (NFA) First Nations claim not yet settled

Financial Information

	For the year ended March 31				
Manitoba Hydro-Electric Board	2008	2007	2006	2005	2004
EBITDA interest coverage (times) (2)	2.47	1.83	2.41	1.85	0.65
% debt in capital structure (1)	79.0%	82.7%	83.7%	88.5%	90.2%
Cash flow/total debt	10.1%	6.7%	11.1%	6.7%	(2.1%)
Cash flow/capital expenditures (times)	0.84	0.70	1.48	0.89	(0.28)
Reported net income ($ millions)	346	122	415	136	(436)
Operating cash flow ($ millions)	695	454	737	447	(140)

(1) Net of sinking fund assets. (2) Before capitalized interest, AFUDC.

Rating Update (Continued from page 1.)

The Utility's credit profile is further supported by the low-cost hydro-based generation, a constructive regulatory environment and its vast interconnections (56% of installed capacity), which provide access to favourable export markets. Hydrology continues to be the primary risk factor affecting credit metrics, but the risk is somewhat mitigated by the geographic diversification of the watersheds, reservoir storage capacity and import capabilities.

Manitoba Hydro benefited from robust hydrological conditions during the past year, resulting in a measurable improvement in its operating and financial performance indicators. Interim increases in domestic electricity rates and favourable export market conditions also contributed positively to operating results. While operating cash flow increased markedly, the Utility continued to incur cash flow deficits as a result of substantial capital expenditures. In recent years, cash flow deficits have been funded with debt and, in previous years, with sinking fund withdrawals or a combination of both debt and withdrawals. Despite improvement across key credit metrics, Manitoba Hydro's leverage remains one of the highest among government-owned integrated utilities in Canada.

Continued efforts to forge stronger connections within the U.S. market resulted in the signing of two 15-year term sheets with Minnesota Power (MP) and Wisconsin Public Service (WPS), totalling 750 megawatts (MW) in aggregate. The MP term sheet is for 250 MW starting in 2020, with the sale of surplus energy in 2008, while the WPS term sheet is for 500 MW in 2018. DBRS believes the growing demand for clean, renewable sources of energy, such as water power, will continue to economically benefit Manitoba Hydro over the longer term. These term sheets will require the development of both new major hydro generation and transmission facilities, which the Utility is currently undertaking.

Looking forward, DBRS believes that Manitoba Hydro will continue to generate reasonable levels of EBIT and operating cash flows, with the potential for significant volatility resulting from hydrological and export market conditions. The ongoing heightened capital expenditure program is expected to continue to pressure balance sheet and credit metrics. In addition, completing the large hydro generation and transmission projects on time and within budget is key to maintaining a stable financial profile.

Rating Considerations Details

Strengths

(1) Manitoba Hydro is an agent of the Crown and its debt securities are almost entirely held or guaranteed by the Province. Therefore, the ratings assigned to Manitoba Hydro's obligations are a flow-through of the ratings of the Province.

(2) Low-cost hydroelectric-based generating capacity accounts for approximately 91% of installed capacity and results in one of the lowest variable cost structures in North America. The low-cost power generation 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 future capital expenditure requirements to replace aging infrastructure and develop new generation facilities. Furthermore, given the water storage capacity of its hydroelectric-based generating facilities, Manitoba Hydro has the ability to trade power, buying low-cost power during off-peak hours and selling its own power during peak periods at higher rates. Some geographic diversification of drainage basins somewhat reduces fluctuations in water flows and water levels.

(3) The regulatory environment in Manitoba is constructive. Manitoba's Public Utilities Board (PUB) has been supportive of Manitoba Hydro's rate applications and its financial targets. While Manitoba Hydro does not benefit from an automatic pass-through of costs, this is mitigated by its low-cost hydroelectric-based generating capacity and the PUB's demonstrated track record of approving rate increases during drought conditions.

(4) Manitoba Hydro's interconnections (approximately 56% of installed capacity), with 2,250 MW to the United States, 525 MW to Saskatchewan and 300 MW to Ontario, provide the Utility with access to favourable export markets. The interconnections also provide a secure supply of electricity for its domestic customers during times of poor hydrology.

Challenges

(1) Given that approximately 91% of Manitoba Hydro's installed generating capacity is hydroelectricity-based, earnings and cash flows are highly sensitive to hydrological conditions. The hydrology risk is somewhat mitigated by the geographic diversification of the watersheds, reservoir storage and import capacity. The two thermal generating stations, with a total capacity of 462 MW (Brandon and Selkirk), and the new 99 MW St. Leon wind farm provide a small amount of diversity to the generation mix. Given that 40% of Manitoba Hydro's exports are under a long-term fixed price-to-volume basis, during times of poor hydrological conditions such as in F2004, Manitoba Hydro may find itself procuring power supply from import markets to honour its export commitments under the fixed price-to-volume contract. This exposes Manitoba Hydro to significant price and volume risk. However, Manitoba Hydro employs the following strategies to mitigate these impacts:

- Manitoba Hydro sells long-term forward contracts into the export markets based on its historically lowest water flow conditions. Any excess power, after accounting for the long-term forward contract sales, are sold into the spot market.
- The three primary advantages of long-term forward contracts are (1) forward prices tend to be higher than spot market prices; (2) long-term large volume power contracts with other utilities provide an incentive for these utilities to build and/or expand transmission infrastructure in their respective jurisdictions to be able to import export power, thus providing Manitoba Hydro with an expanded access to export and import markets; and (3) large long-term forward contracts also provide incentive to Manitoba Hydro to expedite the construction of new generating facilities, thus mitigating the price and volume risk.
- Growing its generation base both through upgrades at existing plants (estimated at 122 MW) and new greenfield developments (more than 2,200 MW), the Utility is currently constructing a 200 MW plant and is in the pre-project planning phase for two major hydro generation facilities. Over the longer term, once these projects are completed, Manitoba Hydro will be significantly long on power, thus mitigating long-term price and volume risk even further.
- Manitoba Hydro can file for a rate increase through a rate application to the PUB.

(2) Despite improvement across key credit metrics, Manitoba Hydro's leverage remains one of the highest among government-owned integrated utilities in Canada, limiting its financial flexibility.

(3) The need to refurbish its aging infrastructure, combined with the aggressive development of both new hydro generation and transmission facilities, will require Manitoba Hydro to deploy significant capital into its electricity infrastructure over the next several years. DBRS expects the heightened future capital expenditures to pressure the already high debt levels. The extent of this pressure is largely contingent on hydrology and export market conditions, which, if robust, would limit funding needs.

(4) The Utility's income statement and balance sheet are sensitive to changes in the U.S.-Canadian dollar exchange rate, since approximately 36% of its outstanding debt and 30% of electricity revenues (at March 31, 2008) are denominated in U.S. dollars. While U.S. dollar-denominated debt is fully hedged by export revenues, the net U.S. dollar surplus is sensitive to changes in the exchange rate. As such, a higher Canadian dollar restricts the rise in export revenue expressed in Canadian dollars.

(5) Four out of five First Nations claims related to the NFA have been settled; however, one NFA First Nations claim (Cross Lake) has not. The NFA provided for compensation and remedial measures necessary to ameliorate the impact of the Churchill River diversion and Lake Winnipeg regulation projects. Manitoba Hydro continues to address the adverse effects of its northern hydroelectric developments on five First Nations communities. Expenditures to mitigate the Churchill River diversion and the Lake Winnipeg regulation projects amounted to $37 million in F2008, with $653 million having been spent since 1977. In recognition of future anticipated mitigation payments, the Utility has recorded a liability of $127 million.

The Manitoba Hydro-Electric Board

Report Date:
February 12, 2009

Rating Methodology Update

Manitoba Hydro is, for all purposes, an agent of the provincial government and its powers may be exercised only as an agent of the government. When rating the financial obligations of agents of the federal or provincial governments, DBRS generally flows through the rating of the parent government if (1) the status of the agent is explicitly provided to the organization through legislation or regulation; (2) the agent is empowered to borrow in its constituting act; and (3) there is no provision in the constituting act or the terms of the debt precluding the applicability of the agent status to borrowing activities. As these three criteria apply to Manitoba Hydro, the Province of Manitoba's ratings will flow through to the Utility.

In addition, provincial support for the Utility is reflected in the fact that it advanced approximately 94% of the Utility's long-term debt ($7,114 million) and has provided unconditional guarantee for the rest of the long-term debt ($352 million), the exception being the $104 million Manitoba Hydro-Electric Board Bonds issued for mitigation projects (as part of the NFA), which do not benefit from the provincial guarantee.

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 achieving a debt-to-equity target capital structure of 75%-to-25% by 2012. If it deems a rate adjustment is needed to meet 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 of 75%-to-25%. The PUB does not have the mandate to pre-approve capital expenditures. The capital expenditure planning responsibility resides with Manitoba Hydro and the government of Manitoba.

In July 2008, Manitoba Hydro was granted a 5.0% rate increase across all customer classes. The additional rate relief was required to meet financial targets and to reduce external funding needs for capital projects. The PUB continues to demonstrate support of Manitoba Hydro's rate applications and its long-term debt-to-equity target of 75%-to-25%.

While Manitoba Hydro is the sole retail electricity supplier in Manitoba, under the *Manitoba Hydro Amendment Act of 1997* (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 because of Manitoba Hydro's predominantly hydroelectric generation, generally profitable exports and efficient resource management. More than 80% of Manitoba Hydro's export sales are through the Midwest Independent Transmission System Operator (MISO), which is a centrally operated electricity market in the U.S. Midwest region (from parts of North Dakota down through Minnesota, Wisconsin and Illinois through to Kentucky). This market operates much like a typical power pool, with utilities transacting directly with the exchange rather than with one another. The energy saved under the Utility's Power Smart program is sold into these higher-margin markets.

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 and operating and general expenses related to the natural gas business, are passed on as well. 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. In addition, the PUB allows Manitoba Hydro to collect $12 million per year through rates to meet its debt servicing and acquisition costs related to its 1999 purchase of Centra Gas from Westcoast Energy Inc.

Licensed natural gas retailers offer consumers a fixed-price alternative to Centra Gas's quarterly cost-based commodity billings. The PUB licenses all retailers, but their prices are unregulated and market driven. In accordance with a recent decision of the PUB, Centra Gas plans to enter the fixed-rate market in February 2009.

Earnings and Outlook

	For the year ended March 31				
(CAD millions)	2008	2007	2006	2005	2004
Net electricity revenues (1)	1,565	1,413	1,702	1,374	753
Net gas revenues	142	129	120	125	119
Total revenues	1,730	1,558	1,839	1,514	890
EBITDA	1,095	921	1,205	907	320
EBIT	746	589	883	596	24
Gross interest expense (2)	444	504	501	491	495
Net interest expense (3)	367	435	435	432	417
Reported net income	346	122	415	136	(436)
Return on average equity	21.4%	9.1%	38.5%	17.0%	(45.8%)

(1) Net electricity revenues are gross revenues less cost of purchased power. Net gas revenues are gross revenues less cost of gas.

(2) Incudes $32 MM F/X gain on U.S. denominated debt. (3) Adjusted for investment income and interest allocated to construction.

Summary

Earnings as measured by EBIT improved measurably in 2008, largely due to stronger hydrological conditions. The increases in domestic electricity rates, lower fuel and power-purchased costs, as well as favourable export market conditions, also contributed positively to the operating results during this period. Despite a stronger Canadian dollar, U.S. extraprovincial revenues increased to $515 million from $507 million in F2007.

With the adoption of new accounting standards in 2007, net income increased by $32 million because financing charges decreased as result of the recognition of foreign exchange gains on U.S. dollar-denominated debt. Earnings volatility has primarily been due to varying levels of hydrology. While hydrology conditions have been reasonable since F2004, Manitoba Hydro expects drought conditions to typically occur every ten years or so and retains sufficient earnings to accommodate the financial impact.

Outlook

Earnings are expected to remain relatively strong over the next fiscal year, primarily due to above-average energy in reservoir storage, increases in domestic electricity rates and favourable prevailing exchange rates. Manitoba Hydro has projected net income to be greater than $314 million for F2009. Factors that will continue to affect EBIT stability over the longer term include the following:

- Hydrological levels at the Utility's watersheds.
- Demand for power in Manitoba Hydro's export markets and the prevailing exchange rates.
- Domestic rate increases.
- Domestic load growth.

The Manitoba Hydro-Electric Board

Report Date:
February 12, 2009

Financial Profile

Statement of Cash Flow (CAD millions)	2008	2007	2006	2005	2004
	For the year ended March 31				
Reported net income	346	122	415	136	(436)
Depreciation & amortization	349	332	322	311	296
Other non-cash adjustments	-	-	-	-	-
Cash Flow From Operations	**695**	**454**	**737**	**447**	**(140)**
Capital expenditures (net of contrib.)	(827)	(645)	(498)	(505)	(498)
Dividends	-	-	-	-	(3)
Cash Flow Before W/C Changes	**(132)**	**(191)**	**239**	**(58)**	**(641)**
Changes in working capital	(65)	(11)	(27)	(14)	13
Net Free Cash Flow	**(197)**	**(202)**	**212**	**(72)**	**(628)**
Acq./divest./sinking fund pmt./other inv.	(158)	(143)	(179)	(161)	(152)
Cash Flow bef. Financing	**(355)**	**(345)**	**33**	**(233)**	**(780)**
Sinking fund withdrawals	0	-	84	236	269
Net change in long-term debt	522	240	11	20	487
Other financing	(35)	(13)	(18)	(20)	-
Net Change in Cash Flow	**132**	**(118)**	**110**	**3**	**(24)**

Key Financial Ratios	2008	2007	2006	2005	2004
EBITDA interest coverage (times) (2)	2.47	1.83	2.41	1.85	0.65
% debt in capital structure (1)	79.0%	82.7%	83.7%	88.5%	90.2%
Cash flow/total debt	10.1%	6.7%	11.1%	6.7%	(2.1%)

(1) Net of sinking fund assets. (2) Before capitalized interest, AFUDC.

Capital Structure	2008	2007	2006	2005	2004
Short-term debt	353	553	118	215	369
Long-term debt	7,217	6,822	7,051	7,048	7,114
LESS: sinking funds	700	630	555	562	715
Total Debt	**6,870**	**6,745**	**6,614**	**6,701**	**6,768**
Equity	1,822	1,407	1,285	870	734
Total Capital	**8,692**	**8,152**	**7,899**	**7,571**	**7,502**

Summary

Despite stronger operating cash flow, Manitoba Hydro continued to generate free cash flow deficits, largely as a result of substantial capital expenditures. Cash flow deficits are typically funded with debt and sinking fund withdrawls. Increased capital expenditures have been driven primarily by (1) generation system upgrades; (2) the development of new generation facilities, specifically Wuskwatim (200 MW), Conawapa (1,485 MW) and Keeyask (695 MW) generating stations; (3) upgrades and additions to improve the reliability of Manitoba Hydro's aging transmission and distribution infrastructure; and (4) the construction of a new head office.

Growth in retained earnings has more than offset higher debt levels, resulting in continued improvement in the debt-to-capital ratio. However, Manitoba Hydro's leverage still remains one of the highest among government-owned integrated utilities in Canada. With no mandatory dividend payment requirements, the Utility has been able to shore up its balance sheet through retained earnings.

Outlook

Capital expenditures are expected to remain higher over the medium term as Manitoba Hydro continues to upgrade and improve the reliability of its aging electric infrastructure, as well as invest in the development of new hydro generation facilities. The ongoing heightened capital program is expected to result in continued cash flow deficits. The extent of the Utility's funding requirements will largely be dependent on hydrology and export market conditions.

Although debt balances will increase over the medium term, leverage could improve modestly from current levels due to increased retained earnings. In addition, completing large hydro generation and transmission projects on time and within budget is key to maintaining a stable financial profile.

The Manitoba Hydro-Electric Board

Report Date:
February 12, 2009

Long-Term Debt Maturities and Bank Lines

Debt Profile (CAD millions)	%	For year ended March 31, 2008	2007
Advances from the Province	94%	7,114	6,640
Manitoba Hydro Bonds	3%	212	386
Manitoba Hydro-Electric Board Bonds*	3%	244	201
Total		7,570	7,227

* $104 million of unguaranteed bonds are part of the $244 million.

Debt Maturities Year	%	(CAD millions)
2009	5%	353
2010	6%	441
2011	4%	296
2012	0%	16
2013	1%	78
Thereafter	84%	6,386
Total		**7,570**

Summary

The Province supports Manitoba Hydro by advancing funds or guaranteeing the Utility's long-term debt issues. Long-term debt, net of sinking funds, at March 31, 2008, consisted of the following:

- $7,114 million in advances from the Province (all of which have annual sinking fund requirements).
- $212 million Manitoba Hydro Bonds.
- $244 Manitoba Hydro-Electric Board Bonds.
- $2,705 or 36% of all obligations are denominated in U.S. dollars.

Manitoba Hydro's maturity schedule is relatively modest and expected to be refinanced. The Utility has bank credit facilities that provide for overdrafts and notes payable up to $500 million denominated in Canadian and/or U.S. dollars. At March 31, 2008, there were no amounts outstanding. Manitoba Hydro issues short-term debt in its own name for all its short-term cash requirements and does not receive short-term funding from the Province. These short-term notes are guaranteed by the Province of Manitoba. The $104 million of Manitoba Hydro-Electric Board Bonds do not carry the provincial guarantee.

The Watershed Storage Capacity

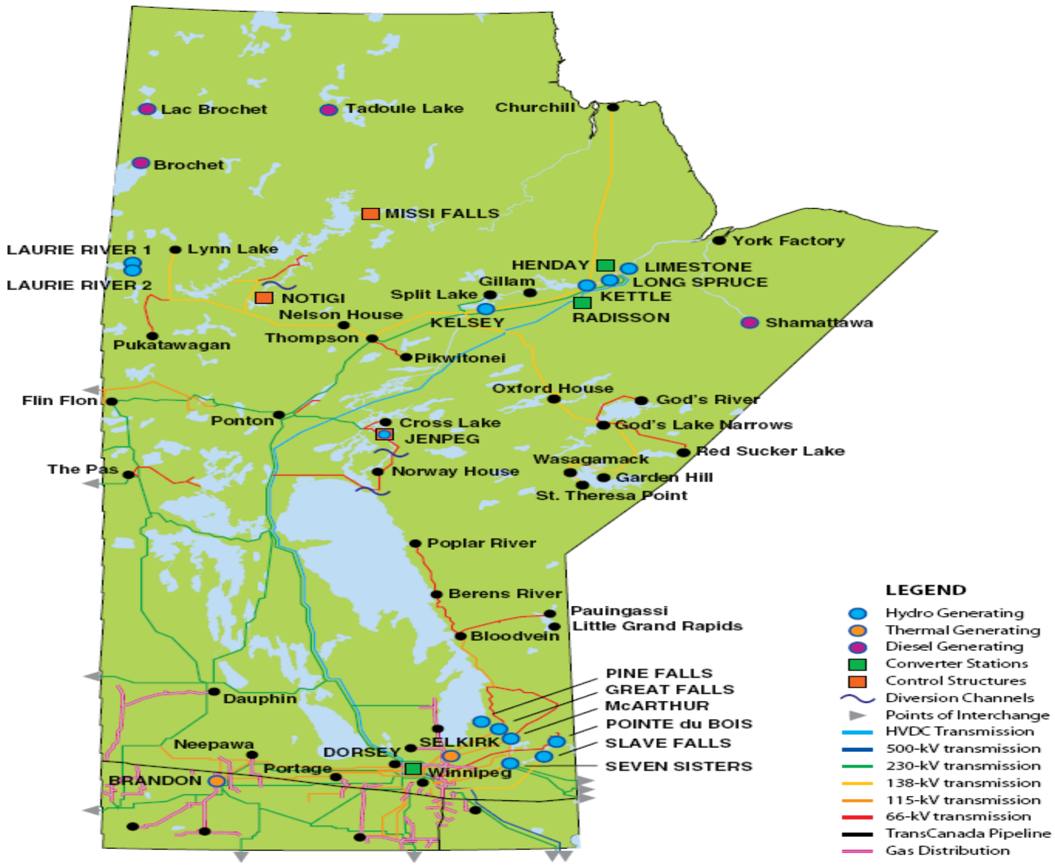
Manitoba Hydro draws water from four distinct watersheds: Nelson River, Winnipeg River, Saskatchewan River and Laurie River. This provides the Utility with some geographic diversification, especially during times of low hydrology. The main generation source is the Nelson River, which accounted for approximately 79% of power generated in F2008.

SOURCE OF ELECTRICAL ENERGY GENERATED AND IMPORTED

For the year ended March 31, 2008

Nelson River	**79%**	**Saskatchewan River**	**6.3%**
Billion kWh generated	**28.3**	**Billion kWh generated**	**2.3**
Limestone	26%	Grand Rapids	6.3%
Kettle	24%		
Long Spruce	20.7%	**Laurie River**	**0.02**
Kelsey	4.6%	**Billion kWh generated**	**0.1**
Jenpeg	3.0%	Laurie River #1	0.1%
		Laurie #2	0.1%
Winnipeg River	**11.8%**		
Billion kWh generated	**4.2**	**Thermal**	**1.3%**
Seven Sisters	3.3%	**Billion kWh Generated**	**0.5**
Great Falls	2.6%	Brandon	1.3%
Pine Falls	1.9%	Selkirk	0.0%
Pointe du Bois	1.5%		
Slave Falls	1.4%	**Imports**	**0.8%**
McArthur	1.2%	**Billion kWh imported**	**0.3**

Source: Manitoba Hydro.



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 predominately soil-covered watersheds.
- Lake Winnipeg, Cedar Lake and South 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).

The Manitoba Hydro-Electric Board

Report Date:
February 12, 2009

Manitoba Hydro's Generating Capacity

Manitoba Hydro owns and operates an aggregate generating capacity of 5,475 MW and is counterparty to an additional 99 MW of contracted wind capacity.

Manitoba Hydro's Generating Stations and Capabilities

Power Station	Location	# of units	Net Capacity (MW)
Hydroelectric			
Seven Sisters	Winnipeg River	6	165
Great Falls	Winnipeg River	6	132
Pine Falls	Winnipeg River	6	89
McArthur Falls	Winnipeg River	8	55
Pointe du Bois	Winnipeg River	16	74
Slave Falls	Winnipeg River	8	67
Grand Rapids	Saskatchewan River	4	479
Limestone	Nelson River	10	1,340
Kettle	Nelson River	12	1,220
Long Spruce	Nelson River	10	1,010
Kelsey	Nelson River	7	234
Jenpeg	Nelson River	6	128
Laurie River (2)	Laurie River	3	10
Total Hydroelectric Generation		**102**	**5,003**
Thermal			
Brandon (coal: 95 MW, gas: 241 MW)		3	336
Selkirk (gas)		**2**	**126**
Total Thermal Generation		**5**	**462**
Isolated Diesel Capabilities			
Brochet			3
Lac Brochet			2
Shamattawa			3
Tadoule Lake			2
Total Isolated Diesel Generation			**10**
Total Generation Capacity			**5,475**

Source: Manitoba Hydro.

The Province of Manitoba

(*Excerpt from DBRS rating report dated December 15, 2008*)

The Province of Manitoba (Manitoba or the Province) has made steady progress over the past five years at reducing its debt burden, generating consistent economic growth and improving financial transparency, although the current economic turmoil introduces a significant amount of uncertainty. DBRS notes that Manitoba is one of the best-positioned provinces within its current rating to weather a significant downturn, with considerable financial flexibility and a track record of above-average economic resilience in recessionary periods. Provided the Province remains fiscally responsible and makes further progress towards containing debt growth, DBRS would likely review its position on the rating once economic conditions stabilize.

Fiscal results were stronger than expected in 2007-08 as the Province posted a DBRS-adjusted deficit of $174 million (including capital expenditures, as incurred, rather than as amortized by the Province). Strong income tax revenues, solid results at Manitoba Hydro and lower-than-expected capital expenditures more than offset small spending increases in other program areas. For 2008-09, the budget points to a DBRS-adjusted deficit of $354 million as health and education spending will continue to offset modest revenue growth.

Manitoba's debt burden continued to steadily improve, down from 31.0% in 2006-07 to 29.3% in 2007-08. While capital spending plans will lead to debt growth in nominal terms, the Province's debt-to-GDP ratio is expected to remain relatively flat in 2008-09, but could face modest upward pressure next year if GDP growth stalls.

In light of rapidly deteriorating economic conditions, the recent private-sector consensus calls for real GDP growth of 2.3% in 2008 followed by 1.4% in 2009. This outlook is noticeably weaker than the 2.7% growth assumed in both years by the Province at the time of the budget, but compares favourably with provincial peers. Furthermore, DBRS notes that the forecast for growth in Manitoba has not been cut as drastically as in other provinces, and that speaks to the resilient and diversified nature of its economy.

The Manitoba Hydro-Electric Board

Report Date:
February 12, 2009

The Manitoba Hydro-Electric Board

Balance Sheet (CAD millions)	As at March 31				As at March 31		
Assets	2008	2007	2006	**Liabilities & Equity**	2008	2007	2006
Cash & equivalents	133	1	119	Short-term debt	0	148	0
Accounts receivable + accrued rev.	465	426	421	L.t. debt due one yr.	353	405	118
Interest receivable & materials	111	127	165	A/P & accrued liab.	443	443	423
Current Assets	**709**	**554**	**705**	**Current Liabilities**	**796**	**996**	**541**
Net fixed assets	8,912	8,378	8,010	Long-term debt	7,217	6,822	7,051
Deferred charges + Goodwill	665	560	493	Def'd & other liab.	613	736	702
Pension assets	781	800	719	Pension obligation	714	663	606
Sinking fund investments	700	630	555	Equity & Other	2,427	1,705	1,582
Total Assets	**11,767**	**10,922**	**10,482**	**Total Equity & Liabilities**	**11,767**	**10,922**	**10,482**

Ratio Analysis	For the year ended March 31				
Liquidity Ratios	2008	2007	2006	2005	2004
Current ratio	0.89	0.56	1.30	0.88	0.64
Total debt in the capital structure (1)	79.0%	82.7%	83.7%	88.5%	90.2%
Cash flow/total debt (1)	10.1%	6.7%	11.1%	6.7%	(2.1%)
Cash flow/capital expenditures (2)	0.84	0.70	1.48	0.89	(0.28)
Debt/EBITDA	6.3	7.3	5.5	7.4	21.2
Coverage Ratios (3)					
EBIT interest coverage	1.68	1.17	1.76	1.21	0.05
EBITDA interest coverage	2.47	1.83	2.41	1.85	0.65
Cash flow interest coverage	2.57	1.90	2.47	1.91	0.72
Earnings Quality/Operating Efficiency					
Puchased power/revenues	7.9%	12.6%	6.0%	8.0%	40.7%
Operating margin	38.3%	31.6%	43.6%	34.8%	(1.4%)
Net margin (before extras.)	18.6%	6.9%	21.3%	8.3%	(31.0%)
Return on avg. equity (before extras.)	21.4%	9.1%	38.5%	17.0%	(45.8%)
Customers/employee	90	93	92	92	93
Growth in electricity customer base	0.9%	1.4%	0.8%	0.8%	0.8%
GWh sold/employee	5.5	5.4	6.1	5.3	4.4

(1) Debt net of sinking fund assets.

(2) Capital expenditures net of customer contributions.

(3) Before capitalized interest, AFUDC

The Manitoba Hydro-Electric Board

Report Date:
February 12, 2009

Rating

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

Note: These Obligations are based on the implicit support of the Province 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 History

	Current	2008	2007	2006	2005	2004
Short-Term Obligations	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)	R-1 (low)
Long-Term Obligations	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)

Note: These Obligations are based on the implicit support of the Province 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.

Related Research

- DBRS Confirms the Province of Manitoba at A (high) and R-1 (middle), December 15, 2008.
- Province of Manitoba Rating Report, December 15, 2008.

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