STANDARD & POOR'S

CORPORATE RATINGS

Corporate Credit Rating

None

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Manitoba Hydro-Electric Board

Major Rating Factors

Strengths:

- Low-cost hydroelectric generation
- Government ownership and support
- Vertically integrated electricity monopoly
- Diversified customer base
- Supportive regulation

Weaknesses:

- Significant hydrology risk exposure and lack of fuel diversification
- Aggressive financial policy
- Merchant risk to uncontracted electricity exports and trading activities

Rationale

The 'A-1+' rating on Manitoba Hydro-Electric Board's short-term debt reflects the debt service guarantee of its owner, the Province of Manitoba (AA/Stable/A-1+). Standard & Poor's Ratings Services has not assigned a long-term debt or issuer credit rating to Manitoba Hydro.

In our opinion, the ratings on Manitoba reflect the province's gradually falling tax-supported debt burden and strong financial and economic performances. Offsetting these strengths are Manitoba's direct and tax-supported debt burdens, which are average compared with those of its Canadian and international peers; and ongoing increases in the self-supported debt of Manitoba Hydro. (For more information, please see our full analysis on the province, published Dec. 17, 2007, on RatingsDirect.) The ratings on Manitoba capture the company's contribution to the province's business risk and cash flow. This report focuses on the utility's business risk and financial risk profiles.

We believe Manitoba Hydro's monopoly, gas and electric franchises, and related regulatory frameworks provide satisfactory cash flow stability. Furthermore, the utility's owner, the province, strongly supports its creditworthiness. In our opinion, exposure to significant hydrology risk and its highly leveraged financial risk profile offset these strengths.

Manitoba Hydro is a vertically integrated electric utility serving about 522,000 customers. The company's monopoly electricity network business serves the entire province. There is no effective competition in electricity generation. Generation facilities include 14 hydroelectric generating stations (5,003 megawatts [MW]), two thermal generating stations (462 MW), and four diesel sites (10 MW), for total capacity of 5,475 MW. The company also owns and operates a monopoly natural gas distribution business serving about 261,000 customers across southern Manitoba. Total debt outstanding as of March 31, 2008, was about C$7.6 billion, of which about C$7.1 billion is in the form of advances from Manitoba. Total debt, net of sinking fund assets of C$700 million, was C$6.9 billion. Also as of March 31, Manitoba guaranteed C$352 million of long-term debt issued in the utility's name. The province, however, does not guarantee Manitoba Hydro-Electric Board bonds, totaling C$104 million and issued for mitigation settlements.

The regulatory framework governing the company's gas operations is shifting to a cost-of-service basis for the distribution business, and continues to provide timely protection from exposure to gas commodity costs. Manitoba Hydro passes the price it pays for gas supply directly to the customer without any markup. It is protected from price risk, as gas rates are adjusted quarterly, subject to regulatory approval. There is no defined regulatory mechanism to mitigate the risk associated with the utility's much larger obligation to supply electricity to the province and the resulting significant exposure to volume risk and volatile costs of electricity imports and fossil fuels. Instead, Manitoba Hydro makes periodic applications to its regulator for rate increases for noncommodity-related gas and all electricity-related costs. The regulator approved a 5% rate increase effective July 1.

We expect a continuing close relationship between Manitoba Hydro and the province, based on the company's strategic nature, the provincial government's energy policy, the government's provision for debt guarantees, and the governance structures in place.

The combined impact on the utility's cash flows of poor hydrology and resulting exposure to fossil fuel and replacement power costs can be quite severe. Hydroelectric generation contributes more than 90% of the utility's typical annual production. Despite benefiting from large and diverse drainage basins (which include most of Saskatchewan, Manitoba, northwestern Ontario, and parts of Alberta and North Dakota), Manitoba Hydro can expect drought conditions on average about once every 10 years. Under these conditions, diminished profits from hydroelectric-based export sales, and the high cost of replacement fossil fuel-based generation and imports required to meet domestic needs, lead to lower and sometimes negative funds from operations (FFO). As of March 31, the utility expected water storage levels and water inflows to be above average for fiscal 2008.

In our opinion, Manitoba Hydro has an aggressive financial risk profile, with adjusted FFO (AFFO) interest coverage typically less than 2.2x and AFFO-to-total debt of less than 10% as of March 31. We expect the utility's financial risk profile to remain under pressure in the long term due to largely debt-financed capital spending. Adjusted total debt-to-total capital was about 77% as of March 31, which was better than 83% and 84% at fiscals year-end 2007 and 2006, respectively, but could weaken without average or better water flows and favorable export prices. We expect Manitoba Hydro's total debt burden to increase about C$500 million per year in the next several years. We believe the utility will use the funds to finance the construction of Wuskwatim (200 MW) hydroelectric development, planning costs for Conawapa, and other hydroelectric developments.

Liquidity

Standard & Poor's considers Manitoba Hydro's liquidity to be sufficient, given its very supportive relationship with its owner. Manitoba Hydro has a commercial paper program, which the province guarantees, for C$500 million or US$500 million, of which C$165 million was outstanding as of Sept. 30. The program funds the utility's operating cash flow requirements, and is supported by bank credit facilities for up to C$500 million or US$500 million, which the province does not guarantee. As of Sept. 30, 2008, the company had access to C$335 million or US$335 million through its bank credit facility.

We expect the utility to generate positive FFO of about C$600 million in fiscal 2008-2009. Maintenance and growth-related capital expenditures will be about C$1 billion during the same period of which about C$500 million is related to new generation under construction. We do not expect the utility to pay out a dividend in fiscal 2008-2009.

Accounting

Manitoba Hydro prepares its audited annual financial statements (fiscal year end March 31) in accordance with Canadian generally accepted accounting principles and reports in Canadian dollars. In analyzing Manitoba Hydro's financial risk profile, Standard & Poor's considers long-term debt net of sinking funds (see table 1).

Table 1

Reconciliation Of Manitoba Hydro-Electric Board Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)*

	—Fiscal year ended March 31, 2008—								
Manitoba Hydro-Electric Board reported amounts (mil. C$)	**Debt**	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	6,870.0	2,127.0	1,135.0	1,135.0	786.0	473.0	630.0	630.0	827.0
Standard & Poor's adjustments									
Postretirement benefit obligations	N/A	(9.0)	10.0	10.0	10.0	N/A	7.0	7.0	N/A
Accrued interest not included in reported debt	106.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	44.0	(44.0)	(44.0)	(44.0)
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	N/A	33.0	N/A	N/A	N/A	N/A
Total adjustments	106.0	(9.0)	10.0	10.0	43.0	44.0	(37.0)	(37.0)	(44.0)
Standard & Poor's adjusted amounts	**Debt**	**Equity**	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Capital expenditures**
Adjusted	6,976.0	2,118.0	1,145.0	1,145.0	829.0	517.0	593.0	593.0	783.0

Table 1

Reconciliation Of Manitoba Hydro-Electric Board Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)* (cont.'d)

	—Fiscal year ended March 31, 2008—								
Manitoba Hydro-Electric Board reported amounts (mil. C$)	**Debt**	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**

*Manitoba Hydro-Electric Board reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A—Depreciation and amortization. N/A—Not applicable.

Outlook

The outlook on Manitoba Hydro's owner and debt guarantor, the Province of Manitoba, is stable. There is no outlook on the utility. An upward rating action on the province would not change the 'A-1+' short-term debt rating on the utility.

Table 2

Manitoba Hydro-Electric Board—Peer Comparison*

Industry Sector: Government-Owned Electric Utility

	—Average of past three fiscal years—				
(Mil. C$)	**Manitoba Hydro-Electric Board§**	**Newfoundland and Labrador Hydro****	**New Brunswick Electric Finance Corp.¶¶**	**Hydro-Quebec****	**British Columbia Hydro & Power Authority¶¶**
Rating as of Nov. 20, 2008¶	A-1+	A:A-1	NR	A+;A-1+	AAA
Revenues	2,263.0	551.3	1,500.0	11,460.3	4,454.3
Net income from continuing operations	294.3	74.5	42.0	2,621.3	347.3
Funds from operations (FFO)	570.7	124.2	228.2	4,213.4	799.7
Capital expenditures	618.7	59.9	260.4	3,083.3	746.3
Cash and short-term investments	84.3	16.5	18.3	2,231.3	17.7
Debt	6,861.0	1,428.0	3,292.6	35,921.5	7,910.7
Equity	1,601.0	569.8	52.5	18,189.7	1,543.7
Debt and equity	8,462.0	1,997.8	3,345.1	54,111.1	9,454.4
Adjusted ratios					
EBIT interest coverage (x)	1.5	1.5	1.2	2.0	1.6
FFO interest coverage (x)	2.0	1.8	2.0	2.4	2.2
FFO/debt (%)	8.3	8.7	6.9	11.7	10.1
Discretionary cash flow/debt (%)	(0.7)	6.2	(1.7)	(1.3)	(3.5)
Net cash flow/capex (%)	92.2	175.0	84.6	84.6	67.3
Total debt/debt plus equity (%)	81.1	71.5	98.4	66.4	83.7

Table 2

Manitoba Hydro-Electric Board—Peer Comparison* (cont.'d)					
Return on common equity (%)	18.4	12.5	19.3	12.8	18.4
Common dividend payout ratio (unadjusted; %)	0.0	26.1	21.4	70.7	80.8

*Fully adjusted (including postretirement obligations). ¶Guaranteed debt rating.§For the three years ended March 31, 2008. **For the three years ended Dec. 31, 2007. ¶¶For the three years ended March 31, 2007. NR—Not rated.

Table 3

Manitoba Hydro-Electric Board—Financial Summary*

Industry Sector: Government-Owned Electric Utility

	—Fiscal year ended March 31—				
(Mil. C$)	***2008***	***2007***	***2006***	***2005***	***2004***
Rating history¶	A-1+	A-1+	A-1+	A-1+	A-1+
Revenues	2,250.0	2,140.0	2,399.0	2,017.0	1,781.0
Net income from continuing operations	346.0	122.0	415.0	136.0	(436.0)
Funds from operations (FFO)	593.0	426.0	693.0	414.0	(167.0)
Capital expenditures	783.0	608.0	465.0	470.0	463.0
Cash and short-term investments	133.0	1.0	119.0	9.0	6.0
Debt	6,976.0	6,883.0	6,724.0	6,807.0	6,875.0
Equity	2,118.0	1,405.0	1,280.0	858.0	721.0
Debt and equity	9,094.0	8,288.0	8,004.0	7,665.0	7,596.0
Adjusted ratios					
EBIT interest coverage (x)	1.6	1.2	1.7	1.2	0.2
FFO interest coverage (x)	2.2	1.7	2.1	1.7	0.7
FFO/debt (%)	8.5	6.2	10.3	6.1	(2.4)
Discretionary cash flow/debt (%)	(2.7)	(2.6)	3.4	(0.8)	(9.2)
Net cash flow/capex (%)	75.7	70.1	149.0	88.1	(36.7)
Debt/debt and equity (%)	76.7	83.0	84.0	88.8	90.5
Return on common equity (%)	17.1	6.3	35.5	12.6	(49.5)
Common dividend payout ratio (unadjusted; %)	0.0	0.0	0.0	0.0	0.0

*Fully adjusted (including postretirement obligations). ¶Guaranteed debt rating.

Ratings Detail (As Of 20-Nov-2008)*	
Manitoba Hydro-Electric Board	
Related Entities	
Manitoba (Province of)	
Issuer Credit Rating	AA/Stable/A-1+
Commercial Paper	A-1+
Canadian National Scale Commercial Paper Rating	A-1(HIGH)
Senior Unsecured (71 Issues)	AA

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.