

The Manitoba Hydro-Electric Board

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

for the six months ended September 30, 2009



FINANCIAL OVERVIEW

Manitoba Hydro's consolidated net income from electricity and natural gas operations was \$8 million for the first six months of the 2009-10 fiscal year. This represented a decrease of \$143 million from the \$151 million net income for the same period last year. The decrease was attributable to lower prices on export markets mainly due to low prices for competing natural gas-fueled generation and reduced power demands due to economic conditions.

Consolidated net income was comprised of a \$33 million profit in the electricity sector and a \$25 million net 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 \$120 million by March 31, 2010.

Electricity Operations

Revenues from electricity sales within Manitoba totaled \$531 million for the six-month period, an increase of \$22 million or 4% higher than the same six-month period last year. The increase in domestic revenue was attributable to an electricity rate increase of 2.9% implemented on April 1, 2009 plus increased usage across most customer sectors. Extraprovincial revenues of \$223 million were \$162 million or 42% lower than the same period last year reflecting lower prices in the export markets. Energy sold in the export market was 6.3 billion kilowatt-hours which is comparable to the 6.5 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations totaled \$721 million for the six-month period. Compared to the same period last year, there was an \$11 million increase in depreciation and amortization expense, a \$10 million increase in operating and administrative expenses, a \$9 million increase in finance expense, and a \$5 million increase in capital and other taxes. These increases were offset by a \$33 million decrease in power purchases and a \$2 million reduction in water rentals and assessments. The increase in depreciation and amortization expense was the result of additions to capital assets over the past year. The increase in operating and administrative expenses was primarily due to higher maintenance requirements on the generation, transmission and distribution systems. The increase in finance expense was the result of higher U.S. exchange rates partially offset by lower short-term interest rates. The decrease in power purchases was primarily the result of lower purchases for resale into export markets.

Capital expenditures for the six-month period amounted to \$550 million compared to \$416 million for the same period last year. The increase was mainly the result of planning and construction activities related to new generation. Expenditures during the current fiscal year included \$214 million for Wuskwatim generation and transmission, \$50 million related to future Conawapa and Keeyask generation facilities, \$19 million for upgrades to the Kelsey Generating Station, \$15 million for Manitoba Hydro's new head office, and \$15 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.

Manitoba Hydro's net debt at September 30, 2009 was \$7 446 million, an increase of \$454 million over the previous year. The increase was entirely attributable to capital investments in new generation and transmission facilities. All operating expenses and routine capital expenditures (referred to as base capital) were funded entirely from internally generated funds.

Natural Gas Operations

In the natural gas sector, a net loss of \$25 million was incurred for the six-month period compared to a \$22 million net loss for the same period last year. Revenue, net of cost of gas sold, was \$47 million which was \$1 million higher than the same period last year. Delivered gas volumes were 605 million cubic metres compared to 607 million cubic metres in the prior period.

Expenses attributable to gas operations amounted to \$72 million compared to \$68 million in the first six months of the prior year. The current year increase was due to higher operating and maintenance requirements and increased amortization costs.

Capital expenditures in the natural gas sector were \$16 million for the current six-month period compared to \$21 million for the same period last year. Capital expenditures included \$11 million related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province, and \$5 million for demand side management programs.

Grand Opening of Manitoba Hydro Place

September 29, 2009 marked the official opening of the Corporation's new head office in downtown Winnipeg. The building is a showcase for Manitoba Hydro's commitment to sustainable development and urban renewal. The award-winning new building enhances downtown Winnipeg and also provides a healthy and vibrant work environment for employees. Many features that have contributed to its success include taking maximum advantage of southern sunlight and minimizing northern exposure; the use of geothermal heating and cooling; the selection of ultra-clear windows and a double-wall exterior; high-efficiency lighting; constant fresh-air; humidifying water features; and the building's striking but practical solar chimney on the north side.

Manitoba Hydro Place occupies an entire city block in downtown Winnipeg—bordered by Portage Avenue, Carlton Street, Graham Avenue, and Edmonton Street. It currently holds approximately 1700 employees from previous corporate locations—adding to improved efficiencies and synergies for both staff and customers.

Primary Gas Fixed Rate Service

Manitoba Hydro offers customers a Fixed Rate Service for primary natural gas supply which allows customers to fix their natural gas rates for terms of up to five years. The fixed rate service is offered to residential and commercial customers in addition to the quarterly rate service which is subject to change each quarter depending on the price that Manitoba Hydro pays for natural gas from Alberta.

Fixed Rate Service for primary natural gas supply is available during designated enrolment periods throughout the year. During an enrolment period, contracts are accepted on a first-come, first-served basis and availability is limited. The rates offered are based on the cost of the natural gas supply secured by Manitoba Hydro prior to the enrolment period. The current enrolment period is October 9, 2009 to December 10, 2009 or until the offering is fully subscribed.



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
November 15, 2009

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

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	<i>Six Months Ended September 30</i>		<i>Three Months Ended September 30</i>	
	2009	2008	2009	2008
Revenues				
Electric – Manitoba	531	509	249	257
– Extraprovincial	223	385	114	211
Gas – Commodity	77	89	24	31
– Distribution	47	46	20	19
	<u>878</u>	<u>1 029</u>	<u>407</u>	<u>518</u>
Cost of gas sold	77	89	24	31
	<u>801</u>	<u>940</u>	<u>383</u>	<u>487</u>
Expenses				
Operating and administrative	222	209	108	101
Finance expense	226	218	110	107
Depreciation and amortization	196	183	98	92
Water rentals and assessments	58	60	30	31
Fuel and power purchased	43	76	18	39
Capital and other taxes	48	43	24	21
	<u>793</u>	<u>789</u>	<u>388</u>	<u>391</u>
Net Income (loss)	<u>8</u>	<u>151</u>	<u>(5)</u>	<u>96</u>

Consolidated Balance Sheet

In Millions of Dollars (Unaudited)

	<i>As at September 30</i>	<i>As at September 30</i>
	2009	2008
Assets		
Capital assets	9 890	9 202
Current assets	592	657
Other assets	1 484	1 472
	<u>11 966</u>	<u>11 331</u>
Liabilities and Equity		
Long-term debt (net)	7 017	6 593
Current liabilities	933	895
Other liabilities	1 413	1 354
Contributions in aid of construction	294	298
Retained earnings	2 128	1 973
Accumulated other comprehensive income	181	218
	<u>11 966</u>	<u>11 331</u>

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	<i>Six Months Ended</i>		<i>Three Months Ended</i>	
	<i>September 30</i>		<i>September 30</i>	
	2009	2008	2009	2008
Operating Activities				
Cash receipts from customers	1 054	1 197	465	558
Cash paid to suppliers and employees	(527)	(621)	(217)	(255)
Net interest	(298)	(294)	(152)	(160)
	<u>229</u>	<u>282</u>	<u>96</u>	<u>143</u>
Financing Activities	359	219	116	227
Investing Activities	<u>(638)</u>	<u>(525)</u>	<u>(318)</u>	<u>(274)</u>
Net increase (decrease) in cash	(50)	(24)	(106)	96
Cash at beginning of period	<u>170</u>	<u>133</u>	<u>226</u>	<u>13</u>
Cash at end of period	<u><u>120</u></u>	<u><u>109</u></u>	<u><u>120</u></u>	<u><u>109</u></u>

Consolidated Statement of Comprehensive Income

In Millions of Dollars (Unaudited)

	<i>Six Months Ended</i>		<i>Three Months Ended</i>	
	<i>September 30</i>		<i>September 30</i>	
	2009	2008	2009	2008
Net Income (loss)	<u>8</u>	<u>151</u>	<u>(5)</u>	<u>96</u>
Other Comprehensive Income				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	345	(62)	168	(81)
Realized foreign exchange (gains) losses on debt in cash flow hedges reclassified to income	5	(11)	2	(5)
Unrealized fair value gains (losses) on available-for-sale U.S. sinking fund investments	<u>—</u>	<u>(14)</u>	<u>8</u>	<u>(3)</u>
	<u>350</u>	<u>(87)</u>	<u>178</u>	<u>(89)</u>
Comprehensive Income	<u><u>358</u></u>	<u><u>64</u></u>	<u><u>173</u></u>	<u><u>7</u></u>

Segmented Information

In Millions of Dollars (Unaudited)

Six Months Ended September 30	Electricity		Gas		Total	
	2009	2008	2009	2008	2009	2008
Revenue (net of cost of gas sold)	754	894	47	46	801	940
Expenses	721	721	72	68	793	789
Net Income (Loss)	33	173	(25)	(22)	8	151

Three Months Ended
September 30

Revenue (net of cost of gas sold)	363	468	20	19	383	487
Expenses	353	357	35	34	388	391
Net Income (Loss)	10	111	(15)	(15)	(5)	96
Total Assets	11 394	10 712	572	619	11 966	11 331

Generation and Delivery Statistics

	Six Months Ended September 30		Three Months Ended September 30	
	2009	2008	2009	2008
Electricity in gigawatt-hours				
Hydraulic generation	16 603	17 081	8 629	9 185
Thermal generation	43	139	18	93
Scheduled energy imports	54	22	17	7
Wind purchase (MB)	165	166	77	79
Total system supply	16 865	17 408	8 741	9 364
Gas in millions of cubic metres				
Gas sales	251	258	79	81
Gas transportation	354	349	159	145
	605	607	238	226

For further information contact:
Public Affairs
Manitoba Hydro
PO Box 815 STN Main
Winnipeg, Manitoba, Canada
R3C 2P4
Telephone: (204) 474-3233



Cover: Manitoba Hydro Place, Manitoba Hydro's new corporate headquarters, is located at 360 Portage Ave. in Winnipeg. The building was officially opened on September 29, 2009.