







Caribbean Utilities Company, Ltd.

**2008/2009 Second Quarter Report** October 31, 2008







# **About the Company**

Caribbean Utilities Company, Ltd., known locally as "CUC", commenced operations as the only electric utility in Grand Cayman on May 10, 1966. The Company currently has an installed generating capacity of 136.6 megaWatts (MW), and a new record peak load of 93.8 MW was experienced in September 2008. CUC is committed to providing a safe and reliable supply of electricity to over 24,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's rapid development for over 40 years.

## **About the Cayman Islands**

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 52,000, are comprised of three islands: Grand Cayman, Cayman Brac and Little Cayman. Located about 150 miles south of Cuba, 460 miles south of Miami and 167 miles northwest of Jamaica, the largest island is Grand Cayman with an area of 76 square miles. A Governor, presently His Excellency Mr. Stuart Jack, is appointed by her Majesty the Queen. A democratic society, the Cayman Islands have a Legislative Assembly comprised of representatives elected from each of Grand Cayman's five districts as well as two representatives from the Sister Islands of Cayman Brac and Little Cayman.

All dollar amounts in this Quarterly Report are stated in United States dollars unless otherwise indicated.

Readers should review the note, further in this Quarterly Report, in the Management's Discussion and Analysis section, concerning the use of forward-looking statements, which applies to the entirety of this Quarterly Report.

# Caribbean Utilities Company, Ltd.

# **Table of Contents:**

To Our Shareholders	4
Management's Discussion and Analysis	6
Financial Statements: Balance Sheets Statements of Earnings and Comprehensive Income Statements of Retained Earnings Statements of Cash Flows	25 26 27 28
Notes to Financial Statements	29
Shareholder Information	41

#### To Our Shareholders

Dear Shareholder,

During the quarter ended October 31, 2008, Caribbean Utilities Company, Ltd. ("CUC" or the "Company"), continued to experience sales growth with kiloWatt-hour (kWh) sales at 145.8 million kWh, up 4% from 139.7 million kWh during the same period in 2007. Sales growth for the six months ended October 31, 2008 was up 5% at 294.9 million kWh.

The sales growth reflects the completion of various construction projects on the Island. Similarly, total customers were up 4% at the end of the period at 24,430, compared to the same period in 2007. A new peak load of 93.8 megaWatts (MW) was reached in September 2008.

Net earnings for the quarter were down 14% at \$5.4 million from \$6.3 million for the second quarter of fiscal 2008, as expected due to the 3.25% base consumer rate reduction and removal of the Hurricane Ivan Cost Recovery Surcharge ("CRS"). Net earnings for the six month period ended October 31, 2008 were down 24% at \$10.7 million compared to \$14.1 million for the same period in fiscal 2008.

While we are encouraged by the continued growth in sales and customer base, we are cautious that Grand Cayman (the "island") may be affected in the coming months by the impact of the global economic downturn as the financial services industry and the tourism industry respond to negative influences in their respective markets. The Company expects a lower growth rate for calendar year 2009.

In August 2008, CUC completed a Class A Ordinary Share rights offering resulting in a capital injection of \$28.2 million. This improved the Company's balance sheet leading to a more favourable debt to equity ratio.

Despite the reduced rates and the early removal of the CRS, CUC benefited from the growth in customer base and associated sales. A base rate increase is scheduled for June 2009 in accordance with our licence terms which will equate to 80% of a modified consumer price index for the twelve months ended December 31, 2008. This will be the first rate increase for the Company since 2001.

For the six months ended October 31, 2008, generation expenses were up 62%. A 54% increase in fuel costs constituted the majority of the generation expense increase. Fuel costs are passed through to customers without mark-up as a per kWh charge.

The fuel cost escalation during the period raised concern among many customers and underscored the impact of fossil fuel dependency in Grand Cayman where diesel generation is the only viable firm source of electricity currently available. CUC purchases fuel under long-term contracts from the two suppliers on-island and uses its volume purchasing leverage to the benefit of consumers. With the customers' fuel factor peaking at CI\$0.27 per kWh in September, a renewed emphasis on customer conservation was undertaken.

Although we expect to see much lower fuel prices in the coming months, we recognise that alternative generation is essential to the sustained economic viability of the Island. With the new licence terms now including a basis for renewable energy integration, CUC recognises its long-term responsibility and as a partner in the growth of Grand Cayman, has renewed its search for alternative energy sources, which might help mitigate the island's dependency on fossil fuels.

We continue to seek interest in a wind project development of up to 10 MW which was initiated in July of 2008. We also continue to investigate a broad range of alternative technologies, both firm and non-firm, including solar (photovoltaic), Ocean Thermal Energy Conversion and nuclear. CUC will continue to provide the technical and business leadership necessary to realise the benefits of alternative technologies for all electricity consumers in Grand Cayman.

During the quarter, discussions continued in respect of our proposal regarding Customer Owned Renewable Energy rates which was submitted to the Electricity Regulatory Authority ("ERA") in July of 2008. The outcome of these discussions will establish the basis for the purchase of customer generated power by CUC. CUC recognises the potential benefits of this source of energy which will be generated primarily by photovoltaic panels and has recommended a fair compensation scheme for those producing energy from this source, which does not burden other non-producing customers through cross-subsidization.

CUC also submitted its Capital Investment Plan and its operational standards recommendations for ERA consideration. These submissions reflect our continued commitment to forecast and manage electricity supply growth and reliability in step with economic growth on the island.

During the period, the island was subjected to the threat of Hurricanes Gustav and Paloma but sustained only minimal damage when the storms passed nearby. I am very proud of all of our staff, over 90% of whom are Caymanian, who were effective in preparing for and managing services at a high level throughout the storms. Power was returned to the island quickly and efficiently by capable line crews and other personnel. Many of those staff also participated in responding to extensive damage to our sister Islands, Cayman Brac and Little Cayman, from the two storms as we were contracted to assist the provider, Cayman Brac Power & Light, with that effort. They also provided support to repair efforts in Turks and Caicos following Hurricane Ike, where a Fortis Inc. affiliated entity, PPC Ltd., provides electricity services.

Finally, we sadly mark the passing of Mr. W. Warren Conolly, OBE, JP, Director Emeritus of CUC who passed away in late October. Mr. Conolly was a founding member of CUC and served as a Director on our board from 1966 to 2000. As a legislator and businessman, Mr. Conolly and his contemporaries exemplified the visionary leadership which established the industry base Grand Cayman enjoys today and recognised the integral role that reliable electricity service plays in our modern society.

The Management's Discussion and Analysis section of this report contains a detailed discussion of our unaudited second quarter financial results, the Cayman Islands economy, our liquidity and capital resources, capital expenditures and the business risks facing the Company.

J.F. Richard Hew President & Chief Executive Officer

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November 27, 2008

# **Management's Discussion and Analysis**

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or the "Company") unaudited financial statements for the three and six months ended October 31, 2008 and audited financial statements for the year ended April 30, 2008. The material has been prepared with reference to National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") relating to Management's Discussion and Analysis.

Additional information in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices, and their impact, which are disclosed in the notes to the Company's fiscal 2008 annual financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation, these transactions would result in alternate timing of the recognition of revenues and expenses.

CUC includes forward-looking statements in this material. Forward looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "plan", "believes", "estimates", "intends", "targets", "projects", "forecasts", "schedule", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward looking statements are based on underlying assumptions and management's beliefs, estimates and opinions, and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and estimates. Some of the important risks and uncertainties that could affect forward looking statements are described in the MD&A in the section labelled "Business Risks" and include but are not limited to general economic, market and business conditions, regulatory developments and weather, CUC cautions readers that actual results may vary significantly from those expected should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect. Forwardlooking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

Financial information is presented in United States dollars unless otherwise specified. The financial statements and MD&A in this interim report were approved by the Audit Committee.

The principal activity of the Company is to generate, transmit and distribute electricity in its licence area of Grand Cayman, Cayman Islands pursuant to a 20-year exclusive Transmission & Distribution ("T&D") Licence and a 21.5 year non-exclusive Generation Licence ("the Licences") granted by the Cayman Islands Government ("Government") in 2008.

#### **Financial and Operational Highlights**

(\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)	Three months ended October 31, 2008	Three months ended October 31, 2007	Six months ended October 31, 2008	Six months ended October 31, 2007	Change for the six months	% Change for the six months
Electricity Sales						
	18,026	26,312	36,364	53,145	(16,781)	-32%
Fuel Factor Revenues	45,167	18,071	80,999	33,349	47,650	143%
Hurricane Ivan Cost Recovery Surcharge	_	1,242	_	2,502	(2,502)	-100%
Operating Revenues	63,193	45,625	117,363	88,996	28,367	32%
Total Operating Expenses	57,040	37,411	104,359	71,090	33,269	47%
Earnings for the Period	21,010	2,,		, 2,000		,
	5,424	6,251	10,734	14,085	(3,351)	-24%
Basic Earnings per Class A Ordinary Share	0.180	0.242	0.370	0.528	(0.158)	-30%
Dividends paid per Class A Ordinary Share	0.165	0.165	0.330	0.330	0.00	0%
Peak Load Gross (MW)	93.8	92.7	93.8	92.7	1.1	1%
Net Generation (millions of kWh)	154.5	148.6	313.2	301.3	11.9	4%
Kilowatt-Hour Sales (millions of kWh)	145.8	139.7	294.9	281.5	13.4	5%
Total Customers	24,430	23,428	24,430	23,428	1,002	4%

# **Corporate and Regulatory Overview**

CUC, a vertically integrated utility, operates the only electric utility on Grand Cayman, Cayman Islands, pursuant to a 20-year exclusive T&D Licence and a 21.5 year non-exclusive Generation Licence granted by the Government, which expire in April 2028 and September 2029 respectively. The Licences contain the provision for a rate cap and adjustment mechanism ("RCAM") based on published consumer price indices. CUC's rate-of-return-on-rate base ("RORB") is targeted in the 9% to 11% range.

CUC's base rates are designed to recover all non-fuel and regulatory costs and include per kiloWatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel cost charges and regulatory fees are billed as separate line items. The last base rate change occurred in January 2008 whereby CUC and Government reached an Agreement In Principle ("AIP") which, among other things, called for a 3.25% rate reduction prior to the signing of the Licences in April 2008, and a rate freeze through May 31, 2009. Thereafter base rates will be subject to an annual review and adjustment each June through the RCAM. All fuel and lubricating oil costs are passed through to customers without mark-up as a per kWh charge. Under the prior licence agreement, a base fuel cost of \$0.94 per Imperial Gallon ("IG") (approximately \$0.06 per kWh) was included in the base rate.

Rate Base is the value of capital upon which the Company is permitted an opportunity to earn a return. The value of this capital is the average of the beginning and ending values for the applicable financial year of: Fixed Assets less accumulated depreciation, plus the allowance for working capital, plus regulatory assets less regulatory liabilities.

The Electricity Regulatory Authority ("ERA") has the overall responsibility of regulating the electricity industry in the Cayman Islands in accordance with the ERA Law as amended in January 2008. The ERA oversees all licencees, establishes and enforces licence standards, enforces applicable environmental and performance standards, reviews the proposed RCAM and sets the rate adjustment factors as appropriate.

The ERA also annually reviews and approves CUC's capital investment plan ("CIP"). In July 2008, CUC submitted its initial CIP for the 2009-2013 period totalling \$255 million, including \$80 million related to new generation that is expected to be solicited externally. A decision by the ERA on the plan is expected before the end of the year.

The ERA has issued a Request For Proposal ("RFP") to solicit proposals for the development and operation of 16 megaWatts ("MW") of power generation on Grand Cayman, to begin providing regular service no later than May 1, 2011 and another 16 MW no later than May 1, 2012 each for up to a period not exceeding 25 years. Four qualified bidders have been identified by the ERA, including CUC. The deadline for proposal submissions is December 17, 2008.

A licence fee of 1% of electricity revenues, payable to the Government, is applied to customer billings for consumption over 1,000 kWh per month as a pass-through charge on a per kWh basis. In addition to the licence fee, a regulatory fee of 1% of electricity revenues is payable to the Government and is allocated to customer billings for consumption over 1,000 kWh per month as a pass through charge on a per KWh basis.

# **Earnings**

Net earnings for the three months ended October 31, 2008 were \$5.4 million, representing a 14% decrease from net earnings of \$6.3 million in the same period last year. The reasons for this decrease are the base rate reductions, Hurricane Ivan Cost Recovery Surcharge ("CRS") removal and increased maintenance costs of \$0.8 million, partially offset by lower finance charges of \$1.2 million and 4% kWh sales growth.

Net earnings for the six months ended October 31, 2008 were \$10.7 million, representing a 24% decrease from net earnings of \$14.1 million in the same period last year. The primary reasons for the decline in earnings for the six months ended October 31 are the removal of the CRS and base rate reductions in January 2008 under the terms of the AIP, and increased maintenance expenses.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the three months ended October 31, 2008 were \$5.3 million, or \$0.18 per Class A Ordinary Share, as compared to \$6.1 million, or \$0.24 per Class A Ordinary Share for the three months ended October 31, 2007. Earnings on Class A Ordinary Shares for the six months ended October 31, 2008 were \$10.0 million, or \$0.37 per Class A Ordinary Share, as compared to \$13.4 million, or \$0.53 per Class A Ordinary Share for the six months ended October 31, 2007.

## Sales

KiloWatt-hour sales for the three months ended October 31, 2008 totalled 145.8 million in comparison to 139.7 million for the same period last year; an increase of 4%. Sales were positively impacted by new construction, below average rainfall and higher than average temperatures in August and September which increased air conditioning load, effectively offsetting the above average rainfall and below average temperatures in the month of October.

KiloWatt-hour sales for the six months ended October 31, 2008 totalled 294.9 million in comparison to 281.5 million for the same period last year; a growth rate of 5%.

Total customers as at October 31, 2008 were 24,430, an increase of 4% compared to 23,428 customers at the same time in the previous year. The Company connected over 260 customers for the three month period ended October 31, 2008. The majority of new customers were in the residential category. Year-to-date, 389 customers have been activated; 369 new customers in the residential category and 20 new customers in the commercial category.

The Company's forecasted sales growth for the 12 months ending April 30, 2009 was 5%. Despite a weakening United States ("US") economy that may negatively affect the tourism market, the Company anticipates that the forecast will remain on target for the remaining two months of the 2008 calendar year. The Cayman Islands economy, in particular the tourism sector, is influenced by the US economy as the majority of visitors originate from North America. It is expected that the effects of the downturn in the US economy will affect the Cayman Islands tourism sector to a larger degree in calendar 2009 and for this reason the Company anticipates growth at a lower rate for periods falling after December 31, 2008 (see "The Economy" section for further details).

#### **Operating Revenues**

Operating revenues showed a 39% increase to \$63.2 million from \$45.6 million for the second quarter of fiscal 2009 and 2008 respectively. The percentage allocation of total operating revenues between electricity sales and fuel factor revenues was significantly impacted by the removal of all fuel and lube costs from the base tariffs as part of the January 2008 rate restructuring.

Electricity sales revenue saw a decrease of \$8.3 million in the three months ended October 31, 2008 to \$18.0 million when compared to electricity sales revenues of \$26.3 million for the same period in the previous year. Fuel factor revenues in the second quarter of fiscal 2009 totalled \$45.2 million, a \$27.1 million increase over the \$18.1 million in fuel factor revenues for the three months ended October 31, 2007

Electricity sales revenue saw a decrease of \$16.8 million in the six months ended October 31, 2008 to \$36.4 million when compared to electricity sales revenues of \$53.1 million for the six months ended October 31, 2007. Fuel factor revenues for the six months ended October 31 totalled \$81.0 million in fiscal 2009, a \$47.7 million increase over the \$33.3 million in fiscal 2008.

Electricity sales revenues for the three and six months ended October 31, 2008 saw a decrease as compared to the same periods in the prior fiscal year due to the removal of all fuel costs from base rates and 3.25% average base rate reductions. Fuel factor revenues increased for the three and six months ended October 31, 2008 as compared to the same periods in the prior fiscal year as a result of the rate restructuring and rising fuel costs. These increased fuel factor revenues were offset by increased power generation costs (see "Power Generation" section).

CRS revenues were nil for the second quarter of fiscal 2009 compared to \$1.2 million earned in the second quarter of fiscal 2008 and nil for the six months ended October 31, 2008 compared to \$2.5 million earned in the six months ended October 31, 2007.

## **Operating Expenses**

Total operating expenses for the quarter ended October 31, 2008 increased 52% from \$37.4 million in fiscal 2008 to \$57.0 million in fiscal 2009. Operating expenses for the six months ended October 31, 2008 saw a 47% increase to \$104.4 million from \$71.1 million for the

same period in the prior year. The major contributing factor to the increase in operating expenses is higher power generation expenses which are comprised predominantly of fuel costs.

Operating expenses for the period ended October 31 were as follows:

(\$ thousands)	Three months ended October 31, 2008	Three months ended October 31, 2007	Six months ended October 31, 2008	Six months ended October 31, 2007	Change for the six months	% Change for the six months
Power generation expenses	46,238	27,777	83,154	51,375	31,779	62%
General and administration	2,403	2,698	4,984	5,818	(834)	-14%
Consumer Service and promotion	429	424	833	754	79	10%
Transmission and distribution	711	761	1,405	1,396	9	1%
Depreciation and amortisation	4,749	4,072	9,112	8,016	1,096	14%
Maintenance	2,510	1,679	4,871	3,731	1,140	31%
Total operating expenses	57,040	37,411	104,359	71,090	33,269	47%

#### **Power Generation**

Power generation costs increased 66% for the three months ended October 31, 2008 and 62% for the six months ended October 31, 2008 when compared to the same periods for the prior year. The increase for the six months is a reflection of the steadily increasing fuel prices being experienced globally and higher production levels. A new peak load of 93.8 MW was achieved in September 2008, a 1% increase over the previous fiscal year's peak of 92.7 MW achieved in August 2007.

Power generation expenses for the period ended October 31 were as follows:

(\$ thousands)	Three months ended October 31, 2008	Three months ended October 31, 2007	Six months ended October 31, 2008	Six months ended October 31, 2007	Change for the six months	% Change for the six months
Fuel costs	37,183	26,831	81,115	52,635	28,480	54%
Lube costs	618	469	1,059	846	213	25%
Deferred fuel charges	7,783	(264)	(448)	(3,831)	3,383	-88%
Deferred lube charges	(100)	_	(116)	-	(116)	100%
<b>Total Fuel Costs</b>	45,484	27,036	81,610	49,650	31,960	55%
Other generation expenses	754	741	1,544	1,725	(181)	-10%
Total power generation expenses	46,238	27,777	83,154	51,375	31,779	62%

During the second quarter of fiscal 2009 the Company's average price per IG increased to \$4.44, compared to \$3.35 for the same period last year. Power generation expenses comprised 81% of CUC's total operating expenses in the second guarter of fiscal 2009.

The average price per IG of fuel for the six months ending October 31, 2008 was \$4.89 compared to \$3.44 for the same period in the prior year. Power generation expenses comprised 80% of the Company's total operating expenses for the six months ended October 31, 2008. Fuel costs began to decline in September 2008 leading to a reduction in deferred fuel expense.

Total fuel costs are now recovered completely from consumers within the line items of fuel factor revenues and electricity sales. Dusk to dawn light rates include a fuel cost adjustment mechanism and revenues from this rate class are included in electricity sales, the fuel portion of these sales for the three months ended October 31, 2008 totalled to \$0.3 million and for the six months ended October 31, 2008 totalled to \$0.6 million.

The Fuel Tracker Account (see Note 4 of the financial statements) is comprised of total diesel fuel and lube oil costs. Prior to January 2008 only the portion of diesel fuel costs which exceeded the \$0.94 per IG included in base rates were deferred (see "Corporate and Regulatory Overview" section).

## General and Administration ("G&A")

G&A expenses decreased \$0.3 million, down to \$2.4 million for the three months ended October 31, 2008 from \$2.7 million for the three months ended October 31, 2007. Contributing to this decrease was the capitalisation of general expenses, a provision of the newly signed licence agreements. General expenses capitalised ("GEC") in the second quarter of fiscal 2009 totalled \$0.2 million (refer to Note 1 of these Interim Financial Statements for further detail regarding GEC).

For the six months ended October 31, 2008 G&A expenses decreased \$0.8 million to \$5.0 in fiscal 2009 from \$5.8 in fiscal 2008, of this amount \$0.4 million is attributable to GEC.

## Consumer Services and Promotion ("C&P")

C&P expenses for the quarter ended October 31, 2008 were in line with C&P expenses for the quarter ended October 31, 2007. C&P expenses increased \$0.1 million or 10% for the six months ended October 31, 2008 when compared to the six months ended October 31, 2007. This increase primarily was attributable to fees associated with additional payment options provided to consumers.

# Transmission and Distribution ("T&D")

T&D expenses for the quarters ended October 31, 2008 decreased to \$0.7 million from \$0.8 million for the quarter ended October 31, 2007. This 7% decrease was due to decreased labour costs as the T&D division focused on capital related projects.

T&D expenses for the six months ended October 31, 2008 were at the same level as for the six months ended October 31, 2007.

## Depreciation and Amortisation ("D&A")

D&A expenses for the three months ended October 31 increased from \$4.1 million in fiscal 2008 to \$4.8 million in fiscal 2009.

D&A expenses increased from \$8.0 million for the six months ended October 31, 2007 to \$9.1 million for the six months ended October 31, 2008. The increase in D&A expenses for the three and six months ended October 31, 2008 arises from growth related capital expenditures. Two large projects completed during fiscal 2008, the 16 MW generation expansion, totalling \$8.0 million and a further \$8.0 million of distribution system upgrades and additions are now being depreciated over their expected useful life. The Company's current capital expenditure projections will result in future increases in D&A expenses.

#### Maintenance

Maintenance expenses for the three months ended October 31, 2008 of \$2.5 million were 49% higher than the same period in the prior year of \$1.7 million. This increase is due to scheduled maintenance on the Company's generating units.

Maintenance expenses for the six months ended October 31, 2008 of \$4.9 million were 31% higher than those incurred for the six months ended October 31, 2008 of \$3.7 million. This increase is due to lower than normal maintenance expenses experienced in the first six months of fiscal year 2008. Maintenance expenses for the three and six months ended October 31, 2008 were in line with the Company's expectations.

## **Finance Charges**

Finance charges decreased \$1.1 million to \$1.6 million for the three months ended October 31, 2008 compared to \$2.8 million for the three months ended October 31, 2007. For the six months ended October 31, 2008 finance charges decreased \$1.3 million to \$4.0 million from \$5.3 million for the six months ended October 31, 2007.

(\$ thousands)	Three months ended October 31, 2008	Three months ended October 31, 2007	Six months ended October 31, 2008	Six months ended October 31, 2007	Change for the six months	% Change for the six months
Total interest costs	(2,777)	(2,918)	(5,939)	(5,715)	(224)	4%
Capitalized interest	-	(168)	-	(416)	416	-100%
AFUDC	1,149	-	1,912	-	1,912	100%
Total finance charges	(1,628)	(2,750)	(4,027)	(5,299)	1,272	-24%
Foreign exchange gain	578	404	1,059	735	324	44%
Other income	320	383	698	743	(45)	-6%
Total net other expenses	(730)	(1,963)	(2,270)	(3,821)	1,551	-41%

The Company's policy prior to the licence signing was to capitalise interest on all significant construction projects, which is included as a cost in the appropriate capital assets account until the asset is available for service. Interest expense capitalised for the quarter ended October 31, 2007 was \$0.2 million. This methodology was ceased in April 2008 as under the new T&D Licence there is a provision for an Allowance for Funds Used during Construction ("AFUDC"). This capitalisation of the 'Financing Cost' is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for fiscal 2009 is 10% as agreed with the ERA in accordance with the T&D Licences and will be reviewed annually. The AFUDC amount for the six months ended October 31, 2008 totalled \$1.9 million.

Foreign exchange gains increased 43% in the second quarter from \$0.4 million in fiscal 2008 to \$0.6 million for fiscal 2009. Foreign exchange gains for the six months ended October 31 increased 44% in fiscal 2009 to \$1.1 million when compared to \$0.7 million in fiscal 2008. The increases seen in the three and six months ended October 31, are attributable to increased private currency exchanges at favourable rates in fiscal 2009.

Other income in the second quarter of fiscal 2009 decreased 16% from \$0.4 million in fiscal 2008 to \$0.3 million in fiscal 2009. For the six months ended October 31, other income decreased 6% in fiscal 2009 from fiscal 2008. This reduction is attributable to a decrease in interest income in fiscal 2009.

#### The Economy

According to the quarterly economic report issued by the economics and statistics office of the Government on September 17, 2008, the Cayman Islands as at March 2008 were poised to achieve the projected annual real GDP growth of 1.5% in 2008.

Visitor air arrivals increased by 9.0% while cruise arrivals fell by 14.3%. Air arrivals have a direct impact on the Company's sales growth as these visitors are stay-over visitors who occupy the hotels. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

The Company expects that the current uncertainties in the US economy will have some impact on tourist arrivals to the Cayman Islands, on the basis that in the three months ended March 2008 visitors from the US accounted for 79.8% of total arrivals. However, the Company believes that such uncertainties in the US economy will not have a significant effect on tourism in the Cayman Islands prior to January 2009 as many travellers make their travel arrangements months in advance. This belief is also based on the current arrival figures as at October 31, 2008 (www.caymanislands.ky) whereby visitor arrivals remain in line with prior years. The Company believes that visitors to the Cayman Islands, especially stay-over tourists, typically are of a high income bracket and are less affected by a recessionary environment although declines in calendar 2009 are still anticipated.

US Airways launched a new route to the Boston region in January 2008. Effective December 2008 Cayman Airways, the national carrier of the Cayman Islands, begins direct flights to Washington DC on a seasonal basis. The Government expects that these additions will enhance visitor arrivals.

The following table presents statistics for tourist arrivals in the Cayman Islands for the twelve months ending June 30:

Arrivals	2008	2007	2006	2005	2004
By Air	178,321	163,086	150,486	83,105	181,254
By Sea	901,474	1,043,064	1,052,831	1,028,760	1,068,626
Total	1,079,795	1,206,150	1,203,317	1,111,865	1,249,880

Building permits granted, which according to the quarterly economic report issued by Government is a leading indicator of construction activity, dropped by 10.3% for the three month period ending March 2008 when compared to the same period in the previous year. This decline is attributable to the slowing in the apartment/condominium segment of the residential property market. Project approvals, an indicator of future construction, saw a decline in the residential segments but an increase in commercial and government segments.

As at June 2008, the Cayman Islands Consumer Price Index ("CPI") stood at 155.9, a 3.3% increase from the results as at March 2008. Increases were seen in the price indices of all categories.

All data is sourced from the Cayman Islands Economics & Statistics Office and Cayman Islands Department of Tourism websites; www.ESO.ky and www.caymanislands.ky.

## **Liquidity and Capital Resources**

The following table outlines the summary of cash flow:

(\$ thousands)	Three months ended October 31, 2008	Three months ended October 31, 2007	Six months ended October 31, 2008	Six months ended October 31, 2007	Change for the six months	% Change for the six months
Beginning cash	1,562	1,937	1,268	6,891	(5,623)	-82%
Cash provided by/(used in):						
Operating activities	9,076	9,116	15,600	11,781	3,819	32%
Investing activities	(6,394)	(9,075)	(20,982)	(26,620)	5,638	-21%
Financing activities	(3,535)	(752)	4,823	9,174	(4,351)	-47%
Ending cash	709	1,226	709	1,226	(517)	-42%

#### Operating Activities:

Cash flow from operations, after working capital adjustments, for the three months ended October 31, 2008, was \$9.1 million, no change from the \$9.1 million for the same period last year.

Cash flow from operations, after working capital adjustments, for the six months ended October 31, 2008, was \$15.6 million, a 32% increase compared to the \$11.8 million for the same period last year. This increase is partially due to the reclassification to capital of expenditure previously categorised as inventory, coupled with the movement in inventory which together, totalled to \$11.4 million, reduced by a decrease in accounts payable of \$2.2 million.

## Investing Activities:

Cash used in investing activities decreased 30% to \$6.4 million in the second quarter of fiscal 2009 from \$9.1 million in the same period in fiscal 2008; this decrease is attributable to decreased capital related expenditure. Cash used in investing activities for the six months ended October 31, 2008 decreased \$5.6 million to \$20.9 million, from \$26.6 million for the same period in the previous year as a result of lower capital expenditures.

# Financing Activities:

Cash used in financing activities increased 370% to \$3.5 million for the second quarter of fiscal 2009 from \$0.8 million in the same period in fiscal 2008, this change is mainly attributed to the receipt of the remaining \$13.0 million of funds related to the rights offering offset by the repayment of debt in the amount of \$9.0 million.

Cash received from financing activities decreased 47% to \$4.8 million for the second quarter of fiscal 2009 from \$9.2 million in the same period in fiscal 2008.

In the first six months of fiscal 2009 \$16.5 million in debt proceeds were received as opposed to \$38.0 million in the same period of the previous year. This \$16.5 million of borrowings was short term in nature and utilised to fund capital projects in progress. Of the debt proceeds, \$7.5 million was repaid within the same quarter; an additional \$9.0 million was repaid in the second quarter. As at October 31, 2008 \$8.0 million of the capital expenditure line of credit of \$17.0 million was utilised. Share proceeds for the six months ended October 31, 2008 totalled \$28.6 million compared to \$0.3 million for the same period of the prior year.

On June 23, the Company filed a rights offering circular with the Canadian Securities Administrators. The rights became exercisable on July 15, 2008 and expired on August 15, 2008. Share purchases under the rights offering totalled \$28.2 million.

#### **Transactions with Related Parties**

In July and August 2008, Fortis Energy (Bermuda) Ltd., the Company's majority shareholder, provided funds for the purchase of shares related to the rights offering filed in June 2008. Under the rights offering, each shareholder received one right per Class A Ordinary Share held as at July 14, 2008. A total of 10 rights enabled shareholders to acquire one Class A Ordinary Share of the Company at a subscription price of \$11.09 per share. Funds received from Fortis Inc. amounted to \$23.9 million and funds received from other subscribers amounted to \$4.3 million bringing the total amount of funds received at October 31 to \$28.2 million. The funds were applied to share capital and share premium. The basic subscription by Fortis Energy (Bermuda) Ltd. totalled 2,156,148 shares, Fortis Energy (Bermuda) Ltd. now holds 15,989,328 shares; approximately 56% of the outstanding Class A Ordinary Shares of CUC.

# **Contractual Obligations**

The contractual obligations of the Company over the next five years and periods thereafter, as at October 31, 2008, are outlined in the following table:

(\$ millions)	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	174.6	22.1	29.2	15.4	107.9
MAN Diesel SE generation					
expansion contract	19.4	19.4	-	-	-
Total	194.0	41.5	29.2	15.4	107.9

The Company has a primary fuel supply contract with Esso Standard Oil S.A. ("Esso") and is committed to purchase 80% of the Company's diesel fuel requirements for its generating plant from Esso. The contract is for three years terminating in April 2010. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2009 - 26.40, 2010 - 27.84.

#### **Financial Position**

The following table is a summary of significant changes to the Company's balance sheet from April 30, 2008 to October 31, 2008.

Significant changes in Balance Sheets between April 30 2008 and October 31, 2008	Increase (Decrease)	Explanation
(\$ millions)		
Cash	(0.6)	Decrease due to cash used in investing activities of \$27.2 million partially offset by cash provided by operating activities of \$21.8 million and cash provided by financing activities of \$4.8 million.
Accounts receivable - Trade	6.7	Increase due to higher consumption and higher fuel factor billings as a result of rising fuel prices.
Regulatory Assets	(1.5)	In accordance with the regulatory environment the fuel tracker account is classified as a regulatory asset. This amount represents fuel costs incurred by the Company that are recoverable from the customer; a decrease is reflective of decreasing fuel prices at October 31, 2008.
Inventories	(5.1)	Decrease due to compliance with CICA 3031, inventory relating to Capital Assets should be included in Property Plant and Equipment.
Property, Plant and Equipment	12.1	Net increase is comprised of capital expenditures of (1) \$21.0 million inclusive of CICA 3031 reclass and (2) depreciation expense of \$9.1 million.
Bank Overdraft	(4.0)	Reduction in bank overdraft through application of funds received via rights offering.
Accounts Payable & Accrued Expenses	(2.2)	Change mainly attributable to reduction in accrued expenses from \$5.7 million in April 2008 to \$2.5 million at Oct 2008
Current Portion of Long Term Debt	3.7	Increase due to portions of long term debt classified as current in June 2008.
Long-Term Debt	(13.9)	Decrease due to semi-annual principal payments made in June and portions allocated to current debt. No new debt incurred.
Share premium	28.4	Increase due to rights offering shares issued.
Retained Earnings	1.2	Increase due to net earnings for the period of \$10.7 million offset by Class A dividends of \$8.8 million and Class B dividends of \$0.7 million.

# **Capital Resources**

The Company's principal activity of generation, transmission and distribution of electricity in Grand Cayman, a major financial and tourism centre, requires CUC to have ongoing access to capital to build and maintain the electrical system for the community it serves.

The Company's objectives when managing capital are to maintain and acquire the assets necessary to provide electricity to the growing Grand Cayman community efficiently and as needed with new developments. The Company also aims to manage capital in order to continue providing returns for shareholders and benefits for other stakeholders.

The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methodologies such as the recent rights offering.

The Company's capital structure is shown on page 17:

Capital structure	October 31, 2008 (\$ millions)	%	October 31, 2007 (\$ millions)	%
Total debt	174.6	50	177.0	56
Shareholder's equity	<u>172.3</u>	<u>50</u>	<u>140.7</u>	44
Total	346.9	100	317.7	100

The change in the Company's capital structure between October 31, 2007 and October 31, 2008 was driven by an increase in equity resulting from the rights offering and net earnings for the period.

The Company's credit ratings are as follows:

S&P A/Stable DBRS A (low)

The S&P rating is in relation to long-term corporate credit and unsecured debt, the DBRS rating relates to senior unsecured debt.

#### **Credit Facilities**

The Company has \$33.2 million of unsecured credit financing facilities with the Royal Bank of Canada ("RBC") comprised of:

Credit Facilities	(\$ millions)
Corporate Credit Card Line	\$0.3
Letters of Credit	\$0.9
Operating, Revolving Line of Credit	\$7.5
Catastrophe Standby Loan	\$7.5
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>\$17.0</u>
Total	\$33.2

Of the total above, \$24 million was available at October 31, 2008.

#### **Capital Expenditures**

Capital expenditures for the six months ended October 31, 2008 were \$21.0 million, a \$5.5 million, or 21% decrease from \$26.5 million in capital expenditures for the same period of the previous year. The second quarter fiscal 2009 expenditures primarily relate to:

- Distribution system extension and upgrades \$3.8 million.
- Transmission system expansion and upgrades 69 kiloVolt ("kV") line extension to close the Frank Sound loop \$2.1 million.
- Generation system Removal and replacement of the existing pistons and liners of a 10.3 MW generating unit, MAN cooler upgrade and Unit 20 Engine Failure, totalling \$1.9 million.
- Inventory that has met the criteria of Property, Plant and Equipment ("PP&E") in accordance with CICA 3031 has been added to work in progress and is included in Capital Expenditure. For the six months ended October 31, 2008, \$5.0 million was allocated to Distribution and \$1.1 million was allocated to Transmission, totaling \$6.1 million reallocated from Inventories to capital work in progress.
- AFUDC of \$1.9 million was capitalized in the six months ended October 31, 2008

For the six months ended October 31, 2007; \$8.6 million of capital expenditure was related to the purchase of land for the purpose of expansion of the Power Plant compound, and \$8.6 million related to the purchase and installation of one 16 MW v48/60 medium-speed diesel generating unit.

Capital expenditures (\$ Millions)	Three months ended October 31, 2008	Three months ended October 31, 2007	Six months Ended October 31, 2008	Six months Ended October 31, 2007	Year Ended April 30, 2008
Transmission	1.4	0.7	4.6	0.9	2.2
Distribution	2.4	2.6	9.8	5.2	10.8
Generation	2.1	1.8	6.0	10.5	19.3
Other	<u>0.4</u>	<u>3.9</u>	<u>0.6</u>	<u>9.9</u>	<u>12.3</u>
Total	6.3	9.0	21.0	26.5	44.6

# **Off Balance-Sheet Arrangements**

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially effect liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at October 31, 2008.

## **Business Risks**

The following is a summary of the Company's significant business risks:

#### **Economic Conditions**

The general economic condition of CUC's service area, Grand Cayman, influences electricity sales as with most utility companies. Changes in consumer income, employment and housing are all factors in the amount of sales generated. As the Company supplies electricity to all hotels and large properties, its sales are therefore partially based on tourism and related industry fluctuations.

#### Weather

CUC's facilities are subject to the effects of severe weather conditions principally during the hurricane season months of June through November. Despite preparations for disasters such as hurricanes, adverse conditions will always remain a risk. In order to mitigate some of this risk, the Company maintains insurance coverage which Management believes is proper and consistent with insurance policies obtained by similar companies.

#### **Environmental Matters**

CUC's operations are subject to local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters, land use activities, and the handling, storage, processing, use, emission and disposal of materials and waste products.

CUC was initially registered to the ISO 14001 standard in 2004 and continuously maintains an Environmental Management System ("EMS"). In March 2007 the Kyoto Protocol was signed by the Cayman Islands; this framework aims to reduce GHG emissions produced by certain industries. Specific details on the regulations have yet to be released by the Government and are required to assess the financial impact of compliance by the Company with the framework.

Through the EMS, CUC has determined that its exposure to environmental risks is not significant and does not have an impact on CUC's financial reporting including the recording of any Asset Retirement Obligations ("ARO's").

#### Regulation

The Company operates within a regulated environment; as such the operations of the Company are subject to the normal uncertainties faced by regulated companies. Such uncertainties include approval by the ERA of billing rates that allow a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on rate base assets. The cost of expansion to existing generating facilities requires regulatory approval; there is no assurance that capital projects perceived as required by the management of the Company will be approved.

## Insurance - Terms and Coverage

The Company renewed its insurance policy for fiscal 2009 as at July 1, 2008 under the same terms and coverage as in prior years. Insurance terms and coverage include \$100 million in property and machinery breakdown insurance; \$70 million in Business Interruption ("BI") insurance per annum with a 24-month indemnity period and a 45-day deductible. All T&D assets outside of 1,000 feet from the boundaries of the main plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each "loss occurrence" is subject to a deductible of \$0.5 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1 million and maximum deductible of \$4 million for all interests combined.

In addition to this coverage, the Company has also purchased an excess layer of an additional \$100.0 million limit on property and BI (excluding windstorm, earth movement and flood)

The Company's insurance policy includes BI which covers losses resulting from the necessary interruption of business caused by direct physical loss or damage to CUC's covered property and loss of revenues resulting from damage to customers' property.

# **Year End Change**

Effective December 31, 2008 CUC will be reporting on a calendar year basis as opposed to the fiscal year of May to April currently in place. The current financial period previously identified as "Fiscal year 2009" will be eight months in duration, spanning from May 1, 2008 to December 31, 2008. Going forward, this 8 month period will be referred to as transition year 2008. The following financial year will begin January 1, 2009 and end December 31, 2009.

#### **Changes in Accounting Policies**

#### Inventories

Effective May 1, 2008, the Company adopted the following Handbook Sections recently introduced by the Canadian Institute of Chartered Accountants. Section 3031, Inventories, replaces the existing standard, Inventories, Section 3030. The new standard requires inventories to be measured at the lower of cost or net realisable value and disallows the use of a last-in-first-out inventory costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write down is to be reversed. As at October 31, 2008, inventories of \$6.1 million (net of provision for obsolescence) were reclassified to property, plant and equipment from inventory on the balance sheet as they are held for the development, construction, maintenance and repair of other property, plant and equipment.

#### Capital Disclosures

Effective May 1, 2008, the Company adopted the new CICA Handbook section 1535 – Capital Disclosures. It requires CUC to include additional information in the notes to the financial statements about its capital and the manner in which it is managed. The additional disclosure includes quantitative and qualitative information regarding objectives, policies and processes for managing capital. This new standard did not have any impact on the Company's interim financial results.

#### Disclosure and Presentation of Financial Instruments

Sections 3862 and 3863 of the CICA Handbook set out new accounting recommendations for disclosure and presentation of financial instruments, which became effective for the Company on May 1, 2008. The new recommendations require disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks from financial instruments to which the Company is exposed. These recommendations did not have any impact on the Company's interim financial results.

## **Future Accounting Pronouncements**

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for Canadian publicly accountable enterprises. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended April 30, 2011, and of the opening balance sheet as at May 1, 2010.

The AcSB proposes that CICA Handbook Section – Accounting changes, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to this exposure draft. CUC is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable.

The Company commenced its IFRS conversion project in 2007. Regular progress reports are provided to the Audit Committee of the Company's Board of Directors.

The IFRS conversion project consists of three phases: scoping & diagnostic, analysis and development and implementation and review. Phase one, completed, involved project planning

and resource analysis, and identification of high level differences between Canadian GAAP and IFRS. Phase two, in progress, involves completion of detailed diagnostics and evaluation of the financial impacts of various methodologies provided for under IFRS and Phase three will be implementation.

CUC will continue to review all proposed and continuing projects of the International Accounting Standards Board and closely monitor any International Financial Reporting Interpretations Committee initiatives with the potential to impact rate regulated accounting under IFRS.

# Rate Regulated Operations

In consideration of the plan to adopt IFRS the AcSB revisited the scope of its project on accounting for rate-regulated operations in recognition of the fact that IFRS do not currently provide any special guidance with respect to accounting practices that are unique to rate-regulated entities. As a result, it has removed the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation. The Company will monitor developments and their implications related to the issue of accounting for rate regulated operations.

# **Critical Accounting Estimates**

The preparation of the Company's financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from the current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known. The Company's critical accounting estimates relate to:

#### Revenue Recognition

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at October 31, 2008, the amount of unbilled revenue recorded in Accounts Receivable - Trade was \$0.6 million (October 31, 2007: \$1.2 million).

# Employee Future Benefits

The Company's defined benefit pension plan is subject to judgments utilised in the actuarial determination of the expense and related obligation. There are currently two participants in the Company's defined benefit pension plan. The main assumptions utilized by Management in determining pension expense and obligations were the discount rate for the accrued benefit obligation, pension commencement date, inflation and the expected rate of return on plan

assets. As at October 31, 2008, the Company had an accrued benefit liability of \$0.1 (October 31, 2007: \$0 million).

#### Property, Plant and Equipment Depreciation

Depreciation, by its very nature is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at October 31, 2008, the net book value of the Company's PP&E was \$326.8 million compared to \$305.8 million as at October 31, 2007, increasing as a result of the company's generation and T&D capital expenditures. Depreciation expense for the six months ended October 31, 2008 was \$9.1 million and \$8.0 million for the six months ended October 31, 2007. Due to the value of the Company's property, plant and equipment, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

# **Quarterly Results**

The table "Quarterly Results" summarises unaudited quarterly information for each of the eight quarters ended January 31, 2007 through October 31, 2008. This information has been obtained from CUC's unaudited interim Financial Statements, which in the opinion of Management, have been prepared in accordance with GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarterly results (\$ thousands, except basic and diluted earnings per ordinary share)	Operating Revenue	Net earnings/ (losses)	Income/ (loss) applicable to ordinary shares	Earnings/ (losses) per ordinary share	Diluted earnings/(losses) per ordinary share
October 31, 2008	63,193	5,424	5,311	0.18	0.18
July 31, 2008	54,170	5,310	4,717	0.19	0.19
April 30, 2008	44,219	4,413	4,300	0.17	0.17
January 31, 2008	42,768	5,262	5,149	0.20	0.20
October 31, 2007	45,625	6,251	6,138	0.24	0.24
July 31, 2007	43,371	7,834	7,241	0.29	0.29
April 30, 2007	36,709	4,115	4,002	0.16	0.16
January 31, 2007	37,982	(587)	(700)	(0.03)	(0.03)

#### October 2008/October 2007

Net earnings for the three months ended October 31, 2008 were \$5.4 million, representing a 14% decrease from net earnings of \$6.3 million in the same period last year. The reasons for this decrease are the base rate reductions, CRS removal and increased maintenance costs of \$0.8 million, partially offset by lower finance charges of \$1.2 million and 4% kWh sales growth.

Net earnings for the six months ended October 31, 2008 were \$10.7 million, representing a 24% decrease from net earnings of \$14.0 million in the same period last year. The primary reasons for the difference in earnings for the six months ended October 31 when compared to the same period for the prior year are the removal of the CRS and base rate reductions in January 2008 under the terms of the AIP, and increased maintenance expenses.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the three months ended October 31, 2008 were \$5.3 million, or

\$0.18 per Class A Ordinary Share, as compared to \$6.1 million, or \$0.24 per Class A Ordinary Share for the three months ended October 31, 2007. Earnings on Class A Ordinary Shares for the six months ended October 31, 2008 were \$10.0 million, or \$0.37 per Class A Ordinary Share, as compared to \$13.3 million, or \$0.53 per Class A Ordinary Share for the six months ended October 31, 2007.

## July 2008/July 2007

Net earnings for the six months ended July 31 showed a 32% decrease quarter over quarter from \$7.8 million in fiscal 2008 to \$5.3 million in fiscal 2009. The main reasons for this difference are the removal of the CRS and the base rate reductions. In the first quarter of fiscal 2008 the CRS yielded \$1.3 million in revenues. The CRS, implemented in August 2005, ceased in January 2008 as opposed to the original anticipated date of August 2008. This cessation and the base rate reductions were the result of the licence negotiations. Other contributing factors to the decrease in net earnings were an increase in maintenance expense of \$0.3 million and a \$0.4 million increase in depreciation expense quarter-over-quarter.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the six months ended July 31, 2008 were \$4.7 million, or \$0.190 per Class A Ordinary Share, as compared to \$7.2 million, or \$0.290 per Class A Ordinary Share for the six months ended July 31, 2007.

#### April 2008/April 2007

Net earnings for the six months ended April 30, 2008 showed a 7% increase quarter over quarter from \$4.1 million in the same period 2007 to \$4.4 million in 2008 due to a reduction in G&A expenses and the impact on fourth quarter 2008 from the movement in deferred fuel costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the six months ended April 30, 2008 were \$4.3 million, or \$0.17 per Class A Ordinary Share, as compared to \$4.0 million, or \$0.16 per Class A Ordinary Share for the six months ended April 30, 2007.

#### January 2008/January 2007

Net earnings for the six months ended January 31, 2008 increased \$5.9 million to \$5.3 million, from net losses of \$0.6 million for the same period in the previous year. Earnings on Class A Ordinary Shares for the period were \$5.1 million, or \$0.20 per Class A Ordinary Share, as compared to losses on Class A Ordinary Shares of \$0.7 million, or \$0.03 losses per Class A Ordinary Share for third quarter fiscal 2007. This quarter-over-quarter increase in earnings per share was primarily the result of 6% sales growth for the period, a \$3.7 million charge in third quarter 2007 for the disposal of a steam system as part of an overall Power Plant Restructuring, lower maintenance costs and the movement in deferred fuel costs.

#### **Disclosure Controls and Procedures**

CUC maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators rules and forms. Disclosure process included quality review performed by CUC's Disclosure Committee and Audit Committee.

The President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have evaluated the Company's disclosure controls and procedures for the quarter ended October 31, 2008 and concluded that the Company's current disclosure controls and procedures are adequately designed.

# Internal Controls over Financial Reporting ("ICFR")

The CEO and CFO of the Company, together with Management, have evaluated the design of the Company's ICFR, as defined under the rules adopted by the Canadian Securities Administrators, and based on this evaluation the CEO and CFO have concluded that for the quarter ended October 31, 2008, CUC's ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements in accordance with Canadian GAAP.

There has been no change in the Company's ICFR during the second quarter of fiscal 2009 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

#### **Outlook**

The Company has submitted a Capital Investment Plan to the ERA outlining \$255.0 million in capital expenditures between 2009 and 2013. A decision on the plan is expected by year end. The Cayman Islands economy is currently stable in the main sectors of tourism and financial services. Tourism and financial services, along with the construction industry, are the pillars of the Cayman Islands economy and impact CUC's sales growth. Growth is currently positive; however slowing in these sectors is expected given the status of the United States' economy.

The Company's forecasted sales growth for the 12 months ending April 30, 2009 was 5%. Despite a weakening United States economy that may negatively affect the tourism market, the Company anticipates that the forecast will remain on target for the remaining two months of the 2008 calendar year but is expected to be lower in calendar 2009..

## **Outstanding Share Data**

At November 27, 2008, the Company had issued and outstanding 28,021,640 Class A Ordinary Shares and 250,000 9% cumulative Participating Class B Preference Shares.

Additional information, including CUC's Annual Information Form, is available on SEDAR at www.sedar.com and on the Company's website at www.cuc-cayman.com.

Letitia T. Lawrence

Vice-President Finance & Chief Financial Officer

November 27, 2008

# **Balance Sheets**

Unaudited	Note			
(expressed in thousands of United States Dollars)		As At 31-	As At 31-	As At 30-
		Oct-08	Oct-07	Apr-08
Assets				
Current Assets				
Cash and cash equivalent		709	1,226	1,268
Accounts Receivable		25,507	20,104	18,798
Regulatory Assets	4	20,623	_	22,077
Inventories	5	3,553	7,354	8,646
Prepayments		<u>2,524</u>	2,435	1,023
		52,916	31,119	51,812
Property, Plant and Equipment	6	326,837	305,801	314,743
Other Assets		<u>1,810</u>	14,454	<u>1,694</u>
Total Assets		381,563	351,374	368,249
Liabilities and Shareholders' Equity				
Current Liabilities				
Bank Overdraft	7	-	5,181	3,971
Accounts Payable and Accrued Expenses		30,899	25,002	33,138
Regulatory Liabilities	4	48		213
Short-Term Debt	7	8,000	10,000	8,000
Current Portion of Long-Term Debt	8	14,266	10,520	10,528
Consumer's Deposits and Advances for		3,742	<u>3,528</u>	3,665
Construction				
		<u>56,955</u>	54,231	<u>59,515</u>
Long-Term Debt	8	<u>152,348</u>	<u>156,431</u>	<u>166,262</u>
		209,303	210,662	225,777
Shareholders' Equity				
Share Capital	10	1,918	1,759	1,763
Share Premium	11	71,631	42,541	43,216
Subscriptions to be issued		-	-	-
Contributed Surplus		250	250	250
Retained Earnings		<u>98,461</u>	<u>96,162</u>	97,243
Total Shareholders' Equity		172,260	140,712	142,472
Total Liabilities and Shareholders' Equity		<u>381,563</u>	351,374	368,249

# **Statements of Earnings and Comprehensive Income**

Unaudited (\$ Thousands, except basic and diluted earnings per ordinary share)	Note	Three Months Ended Oct 31, 2008	Three Months Ended Oct 31, 2007	Six Months Ended Oct 31, 2008	Six Months Ended Oct 31, 2007
Operating Revenues					
Electricity Sales		18,026	26,312	36,364	53,145
Hurricane Ivan Cost Recovery Surcharge	17	-	1,242	-	2,502
Fuel Factor		45,167	18,071	80,999	33,349
Total Operating Revenues		63,193	45,625	117,363	88,996
Operating Expenses				,	Í
Power Generation		46,238	27,777	83,154	51,375
General and Administration		2,403	2,698	4,984	5,818
Consumer Service and Promotion		429	424	833	754
Transmission and Distribution		711	761	1,405	1,396
Depreciation and Amortisation		4,749	4,072	9,112	8,016
Maintenance		2,510	1,679	4,871	3,731
Total Operating Expenses		57,040	37,411	104,359	71,090
Operating Income		6,153	8,214	13,004	17,906
Other Income/(Expenses):					
Finance Charges	16	(1,628)	(2,750)	(4,027)	(5,299)
Foreign Exchange Gain	15	579	404	1,059	735
Other Income		320	383	698	743
Total Net Other (Expenses)/Income		(729)	(1,963)	(2,270)	(3,821)
Earnings and Comprehensive Income for the Period		5,424	6,251	10,734	14,085
Preference Dividends Paid- Class B		(113)	(113)	<u>(705)</u>	(705)
Earnings on Class A Ordinary Shares		5,311	6,138	10,029	13,380
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid	12	27,152,632	25,342,503	27,155,143	25,349,775
Earnings per Class A Ordinary Share	12	0.180	0.242	0.370	0.528
Diluted Earnings per Class A Ordinary Share	12	0.180	0.241	0.369	0.527
Dividends Declared per Class A Ordinary Share		0.165	0.165	0.330	0.330

# **Statements of Retained Earnings**

Unaudited (expressed in thousands of United States Dollars)	Three Months Ended Oct 31, 2008	Three Months Ended Oct 31, 2007	Six Months Ended Oct 31, 2008	Six Months Ended Oct 31, 2007
Balance at beginning of period	97,767	94,204	97,243	91,141
Earnings for the period	5,424	6,251	10,734	14,085
Dividends	(4,730)	(4,293)	(9,516)	(9,064)
Balance at end of period	98,461	96,162	98,461	96,162

# **Statements of Cash Flows**

Unaudited (expressed in thousands of United States Dollars)	Three Months Ended Oct 31, 2008	Three Months Ended Oct 31, 2007	Six Months Ended Oct 31, 2008	Six Months Ended Oct 31, 2007
Operating Activities				
Earnings for the period	5,424	6,251	10,734	14,085
Items not affecting cash:	- ,			9
Depreciation and amortisation	4,749	4,072	9,112	8,016
Stock-based compensation	_	10	_	26
Profit on disposal of property, plant and equipment	=	45	_	43
	10,173	10,378	19,846	22,170
Net change in non-cash working capital balances related to operations	(8,449)	(1,262)	(5,535)	(10,389)
Net Change in Regulatory Deferrals	7,352	_	1,289	_
Cash flow related to operating activities	9,076	9,116	15,600	11,781
Investing Activities				
Proceeds on sale of property, plant and equipment	0	_	8	<u>5</u>
Purchase of property, plant and equipment	(6,412)	(8,977)	(21,034)	(26,527)
Amortization of Deferred licence Renewal Costs	18	(98)	44	(98)
Cash flow related to investing activities	(6,394)	(9,075)	(20,982)	(26,620)
Financing Activities				
Proceeds from debt financing	_	2,000	16,500	38,000
Repayment of debt	(9,000)	-,000	(26,762)	(25,254)
Increase/(Decrease) in bank overdraft	(2,834)	1,267	(3,970)	5,181
Dividends paid	(4,730)	(4,293)	(9,516)	(9,064)
Subscriptions in advance	(15,162)	-	-	-
Net proceeds from share issues	28,191	274	28,571	311
Cash flow related to financing activities	(3,535)	(752)	4,823	9,174
(Decrease)/Increase in net cash	(853)	(711)	(559)	(5,665)
Cash and cash equivalent - Beginning of period	1,562	1,937	1,268	6,891
Cash and cash equivalent - End of period	709	1,226	709	1,226
Supplemental disclosure of cash flow information:	. 37	1,220	. 37	1,220
Interest received during the period	9	32	15	66
Interest paid during the period	1,628	2,750	4,027	5,299

#### **Notes to Interim Financial Statements**

Unaudited – October 31, 2008 (expressed in thousands of United States dollars unless otherwise stated)

## 1. Nature of Operations and Financial Statement Presentation

These unaudited financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for interim financial statements and reflect the decisions of the Electricity Regulatory Authority ("ERA"). These decisions affect the timing of the recognition of certain transactions in consolidated operations, resulting in the recognition of regulatory assets and liabilities, which Caribbean Utilities Company Ltd. ("CUC" or "the Company") considers it is likely to recover or settle subsequently through the rate-setting process. These interim financial statements do not include all of the disclosures normally found in the Company's annual financial statements and should be read in conjunction with the Company's financial statements for the year ended April 30, 2008.

The principal activity of the Company is to generate and distribute electricity in its licence area of Grand Cayman, Cayman Islands, pursuant to a 20-year exclusive Transmission & Distribution ("T&D") Licence and a 21.5 year Generation Licence with the Cayman Islands Government ("Government"), which expire in April 2028 and September 2029 respectively.

## Rate Regulated Operations

In December 2007, CUC and Government reached an Agreement in Principle ("AIP"). Under the terms of the AIP the Company will operate as a regulated electric utility under new licences which were formalised in April 2008. The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles including selected accounting treatments that differ from those used by entities not subject to rate regulation.

In addition to the structural changes, the AIP called for an overall reduction in base rates of 3.25%, the elimination of the CRS (Note 16) and the implementation of a Government rebate of \$0.24 per Imperial Gallon ("IG") of fuel used in generation to be applied to the first 1,500 kiloWatt-hours ("kWh") of monthly residential consumption. A new rate class for large commercial customers and a new fuel and lube factor to provide for full pass-through charges for 100% of fuel and lubricating oil were also implemented.

Fixed assets are the Property, Plant and Equipment ("PP&E") as reported in the Company's financial statements. PP&E will be increased by the original book value of lands, buildings, plant and equipment, including computer software acquired or constructed by the Company. The original book value of these fixed assets will include an Allowance for Funds Used During Construction ("AFUDC") (Note 6) and an allowance for General Expenses Capitalised ("GEC"). GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity.

## Year End Change

Effective December 31, 2008 CUC will be reporting on a calendar year basis as opposed to the fiscal year of May to April currently in place. The current financial year previously identified as "Fiscal year 2009" will be eight months in duration, spanning from May 1, 2008 to December 31, 2008, going forward, this eight month period will be referred to as transition year 2008. The following financial year will begin January 1, 2009 and end December 31, 2009.

#### 2. Summary of Significant Accounting Policies

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Except as disclosed in Note 1 and Note 3, these interim financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual financial statements.

# 3. Changes in Accounting Policies Adopted in Fiscal Year 2009

#### Inventories

Effective May 1, 2008, the Company adopted the new CICA Handbook Section 3031, Inventories, replacing the existing standard, Inventories, Section 3030. The new standard requires inventories to be measured at the lower of cost or net realisable value and disallows the use of a last-in-first-out inventory costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write down is to be reversed. As at May 1, 2008, inventories of \$6.1 million (net of provision for obsolescence) were reclassified to PP&E from inventory on the balance sheet as they are held for the development, construction, maintenance and repair of other PP&E.

## Capital Disclosures

Effective May 1, 2008, the Company adopted the new CICA Handbook Section 1535 – Capital Disclosures. It requires CUC to include additional information in the notes to the financial statements about its capital and the manner in which it is managed. The additional disclosure includes quantitative and qualitative information regarding objectives, policies and processes for managing capital. This new standard did not have any impact on the Company's interim financial results. The additional required disclosure is provided in Note 9 to these interim financial statements.

## Disclosure and Presentation of Financial Instruments

Sections 3861 and 3862 of the CICA Handbook set out new accounting recommendations for disclosure and presentation of financial instruments, which became effective for the Company on May 1, 2008. The new recommendations require disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks from financial instruments to which the Company is exposed. These recommendations did not have any impact on the Company's interim financial results. The additional required disclosure is in Note 13 to these interim financial statements.

#### **Future accounting changes**

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for Canadian publicly accountable enterprises. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended December 31, 2011, and of the opening balance sheet as at January 1, 2011. The AcSB proposes that CICA Handbook Section - Accounting changes, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to this exposure draft. CUC is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable.

## Rate Regulated Operations

In August 2007, the AcSB considered the comments received on its March 2007 Exposure Draft, "Rate Regulated Operations" and decided to remove the temporary exemption in Section 1100, Generally Accepted Accounting Principles, pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation. This is applicable January 1, 2009.

## 4. Regulatory Assets and Liabilities

The 2008 T&D licence establishes a fuel tracker mechanism to ensure the Company and the consumers neither gain nor lose from the pass through of fuel costs. The purpose of the fuel tracker account is to accumulate actual fuel costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from or reimbursed to the consumer. The receivable or payable value represents a regulatory asset or liability. The net position of the fuel tracker accounts fluctuates monthly and is affected by fuel prices and electricity consumption. On a quarterly basis an adjustment is made to the fuel charge billed to consumers to reflect the net position of the receivable and payable accounts.

The below table shows the position of regulatory assets and liabilities:

Asset/Liability	Description	October 31, 2008	April 30, 2008
Regulatory Assets	Fuel Tracker Account (a)	20,623	22,077
	Government & Regulatory		
Regulatory Liabilities	Tracker Account (b)	(48)	(213)

a) Fuel Tracker Account – this account is actual fuel costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from the consumer when billed on a two-month delay basis and the amount by which the revenues received exceed the costs incurred or the opposite. For both scenarios the per kWh rate is adjusted quarterly in order to reduce the payable or receivable position. In the absence of rate regulation and governmental controls the balance in the fuel tracker account would have been expensed as opposed to deferred for two months to allow for regulatory review and earnings for the three months ended October 31, 2008 would have been \$7.6 million lower and \$20.6 million lower for the six months ended October 31, 2008.

b) Government and Regulatory Tracker Account - a licence fee of 1% of electricity revenues applies to customer billings for consumption over 1,000 kWh per month as a pass-through charge on a per kWh basis. Additionally, a regulatory fee of ½ of 1% of electricity revenues applies to customer billings for consumption over 1,000 kWh per month as a pass through charge on a per KWh basis. The tracker account is the actual fee incurred less the amount of funds received from consumers. The per kWh charge is then adjusted quarterly for the balance of this account. In the absence of rate regulation and governmental controls there would be no regulatory liability amount on the Balance Sheet as all funds received would be applicable to billed amounts. As such earnings for the three months ended October 31, 2008 would have been \$0.7 million higher and for the six months ended October 31, 2008 would have been \$1.6 million higher.

#### 5. Inventories

(\$ Thousands)	As at 31-Oct-08	As at 31-Oct-07	As at 30-Apr-08
Line spares	132	4,942	6,100
Fuel	2,998	2,201	2,336
Other	<u>423</u>	<u>211</u>	<u>210</u>
Total	3,553	7,354	8,646

In accordance with CICA Handbook Section 3031, Inventories, as at May 1, 2008, inventories of \$6.1 million were reclassified to PP&E from inventory on the balance sheet as they are held for the development, construction, maintenance and repair of other PP&E.

The inventory amounts expensed for the quarter totalled \$37.9 million which includes \$37.8 million in fuel and lube costs and 0.1 million in line inventory.

## 6. Property, Plant and Equipment ("PP&E")

(\$ Thousands) As at October 31, 2008	Cost	Accumulated Depreciation	Net Book Value
Transmission & Distribution (T&D)	210,344	53,549	156,795
Generation	207,563	69,904	137,659
Other:	,	,	,
Land			
	10,859	-	10,859
Buildings	18,520	7,482	11,038
Equipment, motor vehicles and			
computers	<u>21,741</u>	<u>11,255</u>	<u>10,486</u>
Total Other	51,120	18,737	32,383
Property, plant and equipment	469,027	142,190	326,837
(\$ Thousands) As at October 31, 2007	Cost	Accumulated Depreciation	Net Book Value
Transmission & Distribution (T&D)	187,601	46,668	140,933
Generation	195,949	61,959	133,990
Other:			
Land	9,715	-	9,715
Buildings	17,964	6,522	11,442
Equipment, motor vehicles and computers	19,740	10,019	<u>9,721</u>
Total Other	47,419	16,541	30,878
Property, plant and equipment	430,969	125,168	305,801
(\$ Thousands) As at April 30, 2008	Cost	Accumulated Depreciation	Net Book Value
Transmission & Distribution (T&D)	195,971	49,856	146,115
Generation	201,797	65,912	135,885
Other:			
Land	10,859	0	10,859
Buildings	18,520	6,941	11,579
Equipment, motor vehicles and			
computers	<u>20,896</u>	<u>10,591</u>	<u>10,305</u>
Total Other	50,275	17,532	32,743
Property, plant and equipment	448,043	133,300	314,743

Included in PP&E are a number of capital projects in progress with a total cost to date of \$30.6 million (April 30, 2008: \$16.2 million), \$6.1 million of which relates to inventory reclassified in accordance with Section 3031. These projects primarily relate to various improvements to the Distribution System and the 2009 generation expansion.

Also included in generation and T&D is freehold land with a cost of \$4.7 million (April 30, 2008:\$4.7 million). In addition, engine spares with a net book value of \$13.4 million (April 30, 2008: \$12.5 million) are included in generation.

During the three month period ended October 31, 2008, the Company capitalised interest of \$0 million (October 31, 2007: \$0.2 million). The Company's policy has been to capitalise interest on all significant construction projects, which is included as a cost in the appropriate capital assets account until the asset is available for service. This methodology was ceased in April 2008 as under the new T&D Licence is a provision for an Allowance for Funds Used during Construction ("AFUDC"). This capitalisation of the 'Financing Cost' is calculated by multiplying

the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for fiscal 2009 will be 10% and will be adjusted annually. The Company capitalised an amount of \$1.9 million for the six months ended October 31, 2008 under the provision for AFUDC. In the absence of rate regulation net income would have been \$1.5 million lower.

The company capitalized an amount of \$0.4 million for the six months ended October 31, 2008 under the provision for General expenses capitalised ("GEC"). (refer to Note 1 of these Interim Financial Statements for further detail regarding GEC). In the absence of rate regulation net income would have been \$0.4 million lower.

## 7. Short-Term Financing

At April 30, 2008, the Company had \$13.4 million outstanding against the Royal Bank of Canada's ("RBC") credit facilities agreement. During the first six months of fiscal 2009, the Company drew down an additional \$16.5 million and repaid \$21.9 million. As at 31 October 2008 the Capital Expenditures Line of Credit of \$17.0 million had an available total of \$9.0 million. The RBC credit facility agreement totals to \$33.2 million and the total available was \$24.0 million at the end of the second quarter.

Credit Facilities	Total Credit Financing Facilities (\$ thousands)	Total Utilised (\$ thousands) October 31, 2008	Total Available (\$ thousands) October 31, 2008
Corporate Credit Card Line	300	300	-
Letters of Credit	861	861	-
Operating, Revolving Line of Credit	7,500	-	7,500
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	17,000	8,000	9,000
Total	33,161	9,161	24,000

# 8. Long-Term Debt

The Company has a total of \$166.6 million outstanding as long-term debt. During the first six months of fiscal 2009 \$10.2 million was paid towards long-term debt.

## 9. Capital Management

The Company's principal activity of generation, transmission and distribution of electricity in Grand Cayman, a major financial and tourism centre, requires CUC to have ongoing access to capital to build and maintain the electrical system for the community it serves.

The Company requires ongoing access to capital as its business is capital intensive. Capital investment is required to ensure continued and enhanced performance, reliability and safety of its electricity systems and to meet customer growth.

The Company's objectives when managing capital are to acquire and maintain the assets necessary to provide electricity to the growing Grand Cayman community efficiently and as needed with new developments. The Company also aims to manage capital in order to continue providing returns for shareholders and benefits for other stakeholders.

The Company sets the amount of capital in proportion to risk. Debt to capital equity ratio is managed through various methodologies such as the recent rights offering discussed in more detail in Note 11. The capital managed by the Company is composed of debt (short-term debt, long term debt and bank indebtedness) and equity (including: capital stock, share premium, subscriptions to be issued, contributed surplus and retained earnings).

CUC endeavours to maintain a capital structure consistent with the Company's current investment grade credit ratings thereby ensuring continued access to capital at a reasonable cost.

The Company's capital structure is shown below:

Capital structure	October 31, 2008 (\$ thousands)	%	October 31, 2007 (\$ thousands)	%	<b>April 30, 2008</b> (\$ thousands)	%
Total debt	174,614	50	176,951	56	184,790	56
Shareholder's equity	<u>172,260</u>	<u>50</u>	<u>140,712</u>	<u>44</u>	<u>142,472</u>	<u>44</u>
Total	346,874	100	317,663	100	327,262	100

The change in the Company's capital structure between April 2008 and October 2008 was mainly driven by an increase in equity resulting from the rights offering and net earnings for the period.

## 10. Capital Stock

#### Authorised:

- a) 60,000,000 (April 30,2008: 60,000,000) Class A Ordinary Shares of CI\$0.05 each
- b) 250,000 (April 30, 2008: 250,000) 9% Cumulative, Participating Class B Preference Shares of \$1.00 each (non voting)
- c) 1 Cumulative, Participating, Class D Preference Share of CI\$0.56 (non voting)

Class A Ordinary Shares were issued during the period for cash as follows (shares below fully stated, not in thousands):

Class A Ordinary Share Issue	Quarter ended October 31, 2008 Number of shares	Quarter ended October 31, 2008 Amount (\$ Thousands)	Year-to- date October 31, 2008 Number of shares	Year-to-date October 31, 2008 Amount (\$ Thousands)
Balance, beginning of period	25,445,869	1,515	25,414,003	1,513
Consumer Share Purchase and Dividend Reinvestment Plans	31,253	2	59,944	3
Employee Share Purchase, Employee Long Service Bonus Plans and Employee Stock Options	_	_	3,175	1
Rights Offering	2,544,518	<u>151</u>	2,544,518	<u>151</u>
Class A Ordinary Shares issued & outstanding	28,021,640	1,668	28,021,640	1,668
9% Cumulative, Participating Class B				•
	<u>250,000</u>	<u>250</u>	<u>250,000</u>	<u>250</u>
Total	28,271,640	1,918	28,271,640	1,918

# 11. Rights Offering

In July and August 2008, Fortis Energy (Bermuda) Ltd., the Company's majority shareholder, provided funds for the purchase of shares related to the rights offering filed in June 2008. Under the rights offering, each shareholder received one right per Class A Ordinary Share held as at July 14, 2008. A total of 10 rights enabled shareholders to acquire one Class A Ordinary Share of the Company at a subscription price of \$11.09 per share. Funds received from Fortis Inc. amounted to \$23.9 million and funds received from other subscribers amounted to \$4.3 million bringing the total amount of funds received at October 31 to \$28.2 million. Net proceeds amounted to \$28.2 million, of which \$0.1 million was applied to share capital and \$28.1 million was applied to share premium. The basic subscription by Fortis Energy (Bermuda) Ltd. totalled 2,156,148 shares, Fortis Energy (Bermuda) Ltd. now holds 15,989,328 shares; approximately 56% of the outstanding Class A Ordinary Shares of CUC.

## 12. Earnings per Share

The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average Class A Ordinary Shares outstanding were 27,185,498 and 25,342,503 for the quarters ended October 31, 2008 and October 31, 2007 respectively. The year-to-date weighted-average shares outstanding were 27,155,143 and 25,349,775 respectively. The weighted average Ordinary Shares outstanding were 25,361,471 and 25,303,073 for the years ended April 30, 2008 and 2007 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

#### 13. Financial Instruments

The Company's financial instruments and their designations are (i) held for trading: cash and cash equivalent; (ii) loans and receivables: accounts receivable; and (iii) other financial liabilities: accounts payable and accrued expenses, bank overdraft, short-term debt and long-term debt including current portion.

Financial Instruments	October 31, 2008 Carrying Value	October 31, 2008 Estimated Fair Value	April 30, 2008 Carrying Value	April 30, 2008 Estimated Fair Value
Held for trading				
Cash and cash equivalents	709	709	1,268	1,268
Loans and receivables				
Trade and other accounts receivable	25,507	25,507	18,798	18,798
Other receivables due from customers	1,810	1,810	1,694	1,694
Other financial liabilities				
Short-term debt	8,000	8,000	8,000	8,000
Trade and other accounts payable	30,899	30,899	33,138	33,138
Customer deposits	3,742	3,742	3,665	3,665
Long term debt, including current portion	167,766	158,679	178,028	180,260

<sup>\*</sup> Carrying value of long term debt includes deferred debt

# Carrying values

Cash is carried at fair value. The carrying value of long-term debt, including current portion, is measured at amortised cost using the effective interest method and is net of unamortised debt issue costs. The carrying value of the remaining financial instruments is measured at amortised cost.

#### Fair Values

The fair value of long-term debt, including current portion, is calculated by discounting the future cash flows of each debt instrument at the estimated yield to maturity for the same or similar debt instruments at the balance sheet date. The fair value of long term debt as at October  $31^{\circ}$  2008 totalled \$173.5 million, (April 30, 2008: \$180.3 million). The fair value of the Company's remaining financial instruments approximates their carrying value, reflecting either their nature or short-term maturity.

#### Credit Risk

There is risk that CUC may not be able to collect all of its accounts receivable. This does not represent a significant concentration of risk. The requirements for security deposits for certain customers, which are advance cash collections from customers to guarantee payment of electricity billings; reduces the exposure to credit risk. CUC manages credit risk primarily by executing its credit collection policy, including the requirement for security deposits, through the resources of its customer service department.

Trade Receivables	October 31, 2008
Current	19,320
Past due 31-60 days	4,654
Past due 61-90 days	408
Past due over 90 days	<u>1,399</u>
<b>Total Accounts Receivables</b>	25,781
Less: Allowance for doubtful accounts	(274)
Less: Consumer Deposits	(3,742)
Net Exposure	21,765

## Liquidity Risk

The Company's financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factors are mitigated by the legal requirement per the Licences which requires rates be set to enable the Company to achieve and maintain a sound credit rating in the financial markets of the world.

# Market Risk

Market driven changes in the performance of the Company's defined benefit pension plan assets can cause fluctuations in pension costs. Additionally, actual experienced returns on pension plan assets, on an annual basis, can cause fluctuations in pension expense as these actuarial gains and losses are amortised to income.

#### Interest Rate Risk

Concerning interest rate sensitivity, all long term debt is at fixed rates.

# 14. Share Options

The shareholders of the Company approved an Executive Stock Option Plan on October 24, 1991, under which certain employees, officers and directors may be granted options to purchase Class A Ordinary Shares of the Company.

The exercise price per share in respect of options is equal to the fair market value of the Class A Ordinary Shares on the date of grant. Each option is for a term not exceeding ten years, and will become exercisable on a cumulative basis at the end of each year following the date of grant. The maximum number of Class A Ordinary Shares under option shall be fixed and approved by the shareholders of the Company from time to time and is currently set at 1,216,919. Options are forfeited if they are not exercised prior to their respective expiry date or upon termination of employment prior to the completion of the vesting period.

Share Options	Quarter ended October 31, 2008	Quarter ended October 31, 2007
Outstanding at beginning of period	779,603	619,119
Granted	-	-
Exercised	-	-
Forfeited	_	<u>-</u>
Outstanding at end of period	<u>779,603</u>	<u>619,119</u>
	_	_
Range of exercise prices:		
Outstanding at beginning of period	12.19	12.18
Exercised	N/A	N/A
Forfeited		
	N/A	N/A
Outstanding at end of period	11.46-13.78	11.46-13.78

The position with respect to outstanding unexercised options as at October 31, 2008 was as follows:

Share Options	Number of Class A Ordinary Shares under option	Exercise Price (\$)	Term of option
Date of grant:			
18-Jul-01	419,803	11.46	10 years
22-Sep-03	198,100	13.78	10 years
11-Apr-08	161,700	12.22	10 years
Outstanding at end of period & Weighted Avg.	779,603	12.19	

# 15. Foreign Exchange

The closing rate of exchange on October 31, 2008 as reported by the Bank of Canada for the conversion of US dollars into Canadian dollars was Cdn.\$1.2045 per US\$1.00. The official exchange rate for the conversion of Cayman Islands dollars into U.S. dollars as determined by the Cayman Islands Monetary Authority is fixed at CI\$1.00 per US\$1.20. Thus, the rate of exchange as of October 31, 2008 for conversion of Cayman Islands dollars into Canadian dollars was Cdn.\$1.4454 per CI\$1.00.

#### 16. Finance Charges

The composition of finance charges were as follows:

Finance Charges (\$ thousands)	Quarter ended October 31, 2008	Quarter ended October 31, 2007	Year-to-date October 31, 2008	Year-to-date October 31, 2007
Total interests costs	2,777	2,913	5,939	5,710
Capitalised interest		(163)		(411)
AFUDC	(1,149)	<u>-</u>	(1,912)	
Total	1,628	2,750	4,027	5,299

<sup>\*</sup>Refer to PP&E (Note 6) with regards to Capitalised Interest and AFUDC methodology

## 17. Cost Recovery Surcharge ("CRS")

On August 1, 2005, the Company implemented a CRS of \$0.0089 per kWh to recover approximately \$13.4 million of direct Hurricane Ivan losses. CRS revenues for the six months ended October 31, 2008 was \$0 (2007: \$1.3 million). As at December 31, 2007, a total of \$10.8 million had been collected since the implementation date leaving \$2.6 million to be recovered. In accordance with the AIP (Note 1), effective January 1, 2008, the CRS was removed from consumer bills and the Company has forfeited the additional \$2.6 million of CRS Revenues.

#### 18. Pension Plan

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. As at October 31, 2008, the Company had an accrued benefit liability of \$0.1 million (October 31, 2007: \$0). During the second quarter of 2008 the Company recorded net compensation expense in relation to its defined benefit plan of \$0.1 million (second quarter 2007: \$0.1 million) and for the six months ended October 31, 2008 the Company recorded net compensation expense of \$0.2 million (six months ended October 31, 2007: \$0.3 million).

During the second quarter of 2008 the Company recorded net compensation expense in relation to its defined contribution plan of \$0.2 million (second quarter 2007: \$0.2 million) and for the six months ended October 31, 2008 the Company recorded net compensation expense of \$0.4 million (six months ended October 31, 2007: \$0.3 million).

#### 19. Subsequent Events

On November 6, 2008, the Company's Board of Directors declared a regular quarterly dividend of \$0.165 per Class A Ordinary Share, or an annualised dividend of \$0.66 per Class A Ordinary Share. The dividend will be payable December 15, 2008 to shareholders on record on November 25, 2008.

## 20. Interim Results

Interim results will fluctuate due to the seasonal nature of electricity sales. In Grand Cayman, demand is highest in the summer months due to air conditioning load. Consequently, interim results are not necessarily indicative of annual results.

#### 21. Comparative Figures

Certain comparative figures have been reclassified to conform with current year disclosure.

## **Shareholder Information**

#### **Shareholder Plans**

CUC offers its Shareholders a Dividend Reinvestment Plan. Please contact one of CUC's Registrar and Transfer Agents or write to CUC's Corporate Secretary if you would like to receive information about the plan or obtain an enrolment form.

CUC also has a Customer Share Purchase Plan for customers resident in Grand Cayman. Please contact our Customer Service Department at (345) 949-5200 if you are interested in receiving details.

#### **Shareholder Information**

**Duplicate Quarterly Reports** 

While every effort is made to avoid duplications, some shareholders may receive extra reports as a result of multiple share registrations. Shareholders wishing to consolidate these accounts should contact the Registrar and Transfer Agents.

Our Registrar and Transfer Agents are as follows:

# **CIBC Mellon Trust Company**

P.O. Box 7010 Adelaide St. Postal Station Toronto, Ontario M5C 2W9, Canada

Tel: (416) 643-5500 Fax: (416) 643-5501

E-mail: inquiries@cibcmellon.ca

# Caribbean Utilities Company, Ltd.

Assistant to the Corporate Secretary P.O. Box 38 Grand Cayman KY1-1101 CAYMAN ISLANDS

Tel: (345) 949-5200 Fax: (345) 949-4621 E-mail: investor@cuc.ky

Website: www.cuc-cayman.com

This Quarterly Report highlights certain, but not all, events that may be of interest to you. If you require further information or have any questions regarding CUC's Class A Ordinary Shares (listed in U.S. funds on the Toronto Stock Exchange), please contact:

# Caribbean Utilities Company, Ltd.

Douglas H. Murray Corporate Secretary P.O. Box 38 Grand Cayman KY1-1101 CAYMAN ISLANDS

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