







Caribbean Utilities Company, Ltd.

**2009 Second Quarter Report** June 30, 2009







#### **About the Company**

Caribbean Utilities Company, Ltd., ("CUC" or "the Company") 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 97.4 MW was experienced in July 2009. CUC is committed to providing a safe and reliable supply of electricity to over 25,000 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 54,000, are comprised of three islands: Grand Cayman, Cayman Brac and Little Cayman. Located approximately 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.

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#### To Our Shareholders

Dear Shareholder,

CUC's second quarter 2009 results, although lower in terms of sales and earnings when compared to the previous year, were largely in line with expectations given the economic downturn. Acknowledging that the global economic challenges could affect the Company, the management team has taken the necessary steps to ensure that CUC remains financially strong and continues to provide a reliable service to our customers.

In August of 2008 the Company announced it would change its year end to December 31. Therefore, as a result of this change, the analysis for the six months ended June 30, 2009 includes comparisons to the six month period ended July 31 2008. The six month period ended July 31, 2008 is the sum of the previously reported three month period ended April 30, 2008 and the three month period ended July 31, 2008 which is the period closest to that of the six months ended June 30, 2009.

As anticipated, a weakened global economy has negatively affected Grand Cayman's tourism market and increased energy conservation by consumers. In addition, lower than average temperatures have negatively impacted sales for the first half of 2009. The negative impact of reduced tourism numbers is expected to continue for the remainder of this year.

While there has been minimal growth in kiloWatt-hour ("kWh") sales during the period under review, I am confident that CUC will weather this storm and that as the global and local economies rebound, CUC's financial results will improve.

Net earnings for the three months ended June 30, 2009 were \$5.0 million, representing a decrease of 6% or \$0.3 million from net earnings of \$5.3 million for the three months ended July 31, 2008. The average temperatures for the period May through July are historically higher than those for April through June, as such a portion of the difference is attributable to seasonality. The effect of seasonality was partially offset by the 2.4% base rate increase in June. This is the first base rate increase made by the Company in seven years.

After the adjustment for dividends on the Class B Preference Shares of the Company, earnings on Class A Ordinary Shares for the second quarter of 2009 were \$4.9 million, or \$0.18 per Class A Ordinary Share, as compared to \$4.7 million, or \$0.19 per Class A Ordinary Share for the three months ended July 31, 2008. Earnings on Class A Ordinary Shares for the first half of 2009 were \$7.3 million, or \$0.26 per Class A Ordinary Share, as compared to \$9.0 million, or \$0.36 per Class A Ordinary Share for the six months ended July 31, 2008. A Class A Ordinary Share dividend of \$0.165 per share was paid on June 15, 2009 as planned.

It is important to note that CUC connected 222 customers during this quarter. Of these, 171 were added to the residential category and 51 customers were added to the commercial category. The number of customers as at June 30, 2009 was 25,068, an increase of 4% over the 24,167 customers as at July 31, 2008.

As a publicly traded company with a strong debt rating CUC benefits from access to efficient capital markets which enables the company to sustain its commitment to reliable and efficient electrical service to Grand Cayman. In May of 2009, CUC secured the first tranche of a \$40 million private placement of 7.50% Senior Unsecured Notes due May 29, 2024. The first tranche was in the amount of \$30 million. A second tranche of \$10 million closed in July 2009. Proceeds from the offering were used to repay short-term indebtedness and to finance ongoing additions and upgrades to CUC's generation and transmission and distribution ("T&D") system.

CUC has submitted a bid in response to the Electricity Regulatory Authority ("ERA") request for proposal 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, 2012 and another 16 MW no later than May 1, 2013 each for a period not exceeding 25 years. One other company also submitted a bid. The deadline for proposal submissions was April 2009 and the ERA has stated that a winning bidder will be announced in August 2009.

CUC experienced a new system peak load of 94.4 MW in June 2009, up 2% from the peak load of 92.9 MW recorded in June 2008. A further new system peak load was recorded after the end of the period at 95.9 MW on July 21, 2009. Currently CUC has an installed generation capacity of 136 MW with an additional 16 MW to be in service in September this year.

The completion of ongoing projects, such as the Frank Sound to Rum Point transmission loop and the 16 MW MAN Diesel generation capacity expansion, will ensure that current customers receive reliable service and will ensure sufficient infrastructure to support existing industry and attract future development to Grand Cayman (the "Island").

The 2009 Hurricane Season officially started on June 1. CUC considers its ability to respond not only to the threat of a hurricane but to other potential disasters an important aspect of delivering a vital service to its customers. The Company has successfully completed its annual comprehensive review and testing of business continuity, technology recovery and crisis management.

The Company renewed its insurance coverage as at July 1, 2009 for one year under similar terms and coverage to the prior year. Insurance coverage includes property and machinery breakdown insurance and business interruption insurance. The Company's insurance policy includes business interruption 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.

I am pleased to report that once again CUC has met the requirements for the Investors in People ("IIP") Standard. This is an important achievement for the Company. The IIP award is evidence of our successes in the investment in training and development, the communication of the goals and objectives of the organisation and relative performance to all employees and the creation of an environment that is safe to work in and pleasing to be a part of. The IIP Standard is a United Kingdom-based business improvement tool designed to advance an organization's performance through its people. This award recognizes just how much stock a company holds in its employees.

Thirty of our employees were recently honoured at the Company's 20th Annual Long Service Awards Ceremony. Together these men and women have contributed 495 years of service to CUC. I am grateful to them for their unwavering commitment and dedication to the Company.

CUC recently hosted the Caribbean Electric Utility Service Corporation ("CARILEC") CEO's 20th Anniversary Conference which was a resounding success. CARILEC is an association of electric utilities, suppliers, manufactures and other stakeholders operating in the electricity industry in the Caribbean. The association plays a coordinating role in servicing its members' needs for training, research and information sharing and mutual aid in disaster recovery.

Over 100 delegates from across the Caribbean, North America and Europe were in attendance. Delegates agreed that greater effort must be made to engage and educate other stakeholders in the industry including customers, governments and regulators in the interest of efficiency and sustainability of the industry as a whole. Delegates also stated that there is a critical need for the energy industry to provide greater public education on alternative energy sources and the present high cost of these alternatives relative to fossil fuels.

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

These are challenging times but we have the necessary resources in place to effectively meet these challenges as we have over the past forty years. We are committed to sustaining long-term growth in your share value and our value to customers.

J.F. Richard Hew

President & Chief Executive Officer

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August 4, 2009

#### **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 six months ended June 30, 2009 and audited financial statements for the eight months ended December 31, 2008. Effective January 1, 2009 the Company changed its fiscal year end date from April 30 to December 31. The unaudited financial statements for the six months ended June 30, 2009 are compared to the unaudited results for the three months ended April 30, 2008 summed with the unaudited results for the three months ended July 31, 2008. The material has been prepared in accordance with 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 2008 Transitional Period financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation the amount and timing of the recovery or refund would not be subject to regulatory approval.

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"), which expire in April 2028 and September 2029 respectively.

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

(\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)	Three Months Ended June 30, 2009	Three Months Ended July 31, 2008	Six Months Ended June 30, 2009	Six Months Ended July 31, 2008	Change for the Six Months	% Change for the Six Months
Electricity Sales	17,779	18,338	32,921	34,448	(1,527)	-4%
Fuel Factor Revenues	17,924	35,832	37,872	63,941	(26,069)	-41%
Operating Revenues	35,703	54,170	70,793	98,389	(27,596)	-28%
Total Operating Expenses	29,783	47,318	61,478	85,236	(23,758)	-28%
Earnings for the Period	5,042	5,310	7,477	9,723	(2,246)	-23%
Basic Earnings per Class A Ordinary Share	0.18	0.19	0.26	0.36	(0.10)	-28%
Dividends paid per Class A Ordinary Share	0.165	0.165	0.330	0.330	-	
Peak Load Gross (MW)	94.4	92.9	94.4	92.9	1.5	2%
Net Generation (millions of kWh)	152.9	158.7	281.4	297.9	(16.5)	-6%
Kilowatt-Hour Sales (millions of kWh)	142.2	149.1	262.3	277.8	(15.5)	-6%
Total Customers	25,068	24,167	25,068	24,167	901	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. Base rates are subject to an annual review and adjustment each June through the RCAM. In June 2009 the base rates were increased by 2.4%, the Company's first rate increase in seven years. All fuel and lubricating oil costs are passed through to customers without mark-up as a per kWh charge.

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. 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"). The Company has submitted a CIP for the 2009 to 2013 period totalling \$246 million, including approximately \$72 million related to new generation that is expected to be solicited externally. In March 2009 the ERA approved CUC's 2009 CIP totalling \$47.7 million. The proposed CIP for 2010 to 2013 is still under review.

CUC has submitted a bid in response to the ERA's request for proposal 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, 2012 and another 16 MW no later than May 1, 2013 each for a period not exceeding 25 years. One other company also submitted a bid. The deadline for proposal submissions was April 2009 and the ERA has stated that a winning bidder will be announced in August 2009.

A licence fee of 1%, payable to the Government, is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month as a pass-through charge. In addition to the licence fee, a regulatory fee of  $\frac{1}{2}$  of 1% is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month.

#### **Results of Operations**

The Company changed its year end from April 30 to December 31. Beginning January 1, 2009 each 12 month period will conclude on December 31. This change led to what is referred to as the 2008 Transitional Period spanning May 1, 2008 to December 31, 2008. The following analysis of the results of operations for the six months ended June 30, 2009 includes comparisons to the six month period ended July 31, 2008. The six month period ended July 31, 2008 is the sum of the previously reported three month period ended April 30, 2008 and the three month period ended July 31, 2008 which is the period closest to that of the six months ended June 30, 2009.

#### **Earnings**

Net earnings for the three months ended June 30, 2009 were \$5.0 million, representing a decrease of 6% or \$0.3 million from net earnings of \$5.3 million for the three months ended July 31, 2008. Contributing to this decrease is negative sales growth for the period as compared to the three months ended July 31, 2008 and increased depreciation expense. The average temperatures for the period May through July are historically higher than those for April through June, as such, a portion of the difference is attributable to seasonality. These factors were partially offset by the 2.4% base rate increase in June as well as reductions in financing, consumer service & promotion, T&D and maintenance expenses.

Net earnings for the six months ended June 30, 2009 were \$7.5 million, representing a 23% or \$2.2 million decrease from net earnings of \$9.7 million for the six months ended July 31, 2008. Contributing to this decrease is negative sales growth in 2009, increased depreciation expense and the favourable fuel cost recovery of \$2.5 million for the three months ended April 30, 2008. The introduction of a fuel tracker mechanism in the Company's 2008 T&D Licence has eliminated favourable or adverse timing differences in fuel cost recovery for the financial reporting quarters subsequent to April 2008. The above factors were partially offset by lower maintenance and finance costs in 2009.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the three months ended June 30, 2009 were \$4.9 million, or \$0.18 per Class A Ordinary Share, as compared to \$4.7 million, or \$0.19 per Class A Ordinary Share for the three months ended July 31, 2008.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the six months ended June 30, 2009 were \$7.3 million, or \$0.26 per Class A Ordinary Share, as compared to \$9.0 million, or \$0.36 per Class A Ordinary Share for the six months ended July 31, 2008.

#### Sales

KiloWatt-hour sales for the three months ended June 30, 2009 totalled 142.2 million in comparison to 149.1 million for the three months ended July 31, 2008; a decrease of 5%. Sales were negatively impacted by customer conservation and lower than average temperatures throughout the second quarter of 2009. Also affecting the sales variance is the comparison of two differing periods. The average temperatures for the period May through July are historically higher than those for April through June and, as such, a portion of the difference is attributable to seasonality.

KiloWatt-hour sales for the six months ended June 30, 2009 totalled 262.3 million in comparison to 277.8 million for the six months ended July 31, 2008; a decrease of 6%. Sales were negatively impacted by customer conservation and lower than average temperatures throughout the first half of 2009. Also affecting the sales variance is the comparison of two differing periods. The average temperatures for the period February through July are historically higher than those for January through June and, as such, a portion of the difference is attributable to seasonality. Positive growth was seen for the period April through June 2009 versus the period April through June 2008 leading to the cumulative 6% decrease in growth as compared to the 7% decrease seen in the first quarter.

Total customers as at June 30, 2009 were 25,068, an increase of 4% compared to 24,164 customers as at June 30, 2008. The Company connected 222 customers for the three month period ended June 30, 2009 of these 171 new customers were added to the residential category and 51 customers to the commercial category.

Lower growth is expected to continue for the remainder of 2009. A weakened global economy which has negatively affected the tourism market, and increased conservation on the part of customers have played a role in the lower sales for the first half of 2009. The Cayman Islands economy, in particular the tourism sector, is influenced by the United States (U.S.) economy as the majority of visitors originate from North America. As was anticipated, the effects of the downturn in the U.S. economy have affected the Cayman Islands tourism sector to a greater degree in 2009 than was seen in 2008 (see "The Economy" section for further detail).

#### **Operating Revenues**

Operating revenues experienced a 34% decrease to \$35.7 million for the three months ended June 30, 2009 from \$54.2 million for the three months ended July 31, 2008 due primarily to declines in fuel factor revenues.

Electricity sales revenue saw a decrease of \$0.5 million in the three months ended June 30, 2009 to \$17.8 million when compared to electricity sales revenues of \$18.3 million for the three months ended July 31, 2008. Electricity sales revenues are lower mainly due to a decline in kWh sales. Several factors led to conservation by customers including concerns regarding the global economy as well as lower than average temperatures. The average temperature for the three months ended June 30, 2009 was 2.5 degrees Fahrenheit lower than the average temperature experienced for the three months ended July 31, 2008 which significantly impacted air conditioning load.

Operating revenues experienced a 28% decrease to \$70.8 million for the six months ended June 30, 2009 from \$98.4 million for the six months ended July 31, 2008 due primarily to declines in fuel factor revenues.

Electricity sales revenue saw a decrease of \$1.5 million, or 4%, in the six months ended June 30, 2009 to \$32.9 million when compared to electricity sales revenues of \$34.4 million for the six months ended July 31, 2008. Electricity sales revenues are lower mainly due to a decline in kWh sales which was partially offset by the 2.4% base rate increase in June 2009.

Fuel factor revenues for the three months ended June 30, 2009 totalled \$17.9 million, a 50% decrease from the \$35.8 million in fuel factor revenues for the three months ended July 31, 2008. Fuel factor revenues decreased due to lower kWh sales and a significant decrease in the cost of fuel (see the "Power Generation" section for further details).

Fuel factor revenues for the six months ended June 30, 2009 totalled \$37.9 million, a 41% decrease from the \$63.9 million in fuel factor revenues for the six months ended July 31, 2008. Fuel factor revenues decreased due to lower kWh sales and a significant decrease in the cost of fuel (see the "Power Generation" section for further details).

## **Operating Expenses**

Total operating expenses for the three months ended June 30, 2009 decreased 37% to \$29.8 million from \$47.3 million for the three months ended July 31, 2008. The major contributing factor to the decrease in operating expenses is lower power generation expenses which are comprised predominantly of fuel costs.

Total operating expenses for the six months ended June 30, 2009 decreased 28% to \$61.5 million from \$85.2 million for the six months ended July 31, 2008. The major contributing factor to the decrease in operating expenses is lower power generation expenses which are comprised predominantly of fuel costs.

Operating expenses were as follows:

(\$ thousands)	Three Months Ended June 30, 2009	Three Months Ended July 31, 2008	Six Months Ended June 30, 2009	Six Months Ended July 31, 2008	Change for the Six Months	% Change for the Six Months
Power generation expenses	19,052	36,916	40,101	63,362	(23,261)	-37%
General and administration	2,555	2,553	5,274	5,392	(118)	-2%
Consumer Service and promotion	361	404	760	975	(215)	-22%
Transmission and distribution	686	693	1,439	1,652	(213)	-13%
Depreciation	4,744	4,335	9,596	8,827	769	9%
Maintenance	2,337	2,362	4,210	4,935	(725)	-15%
Amortization of Intangible Assets	<u>48</u>	<u>55</u>	<u>98</u>	<u>93</u>	<u>5</u>	5%
Total operating expenses	29,783	47,318	61,478	85,236	(23,758)	-28%

#### **Power Generation**

Power generation costs decreased 48% when compared to the three months ended July 31, 2008. The decrease is a reflection of declining fuel prices and lower production levels.

Power generation costs decreased 37% when compared to the six months ended July 31, 2008. The decrease is a reflection of declining fuel prices and lower production levels.

Power generation expenses were as follows:

(\$ thousands)	Three Months Ended June 30, 2009	Three Months Ended July 31, 2008	Six Months Ended June 30, 2009	Six Months Ended July 31, 2008	Change for the Six Months	% Change for the Six Months
Fuel costs	21,705	45,239	38,622	76,449	(37,827)	-49%
Lube costs	993	441	1,792	886	906	102%
Deferred fuel charges	(4,409)	(9,537)	(1,897)	(15,576)	13,679	-88%
Deferred lube charges	(113)	(13)	(193)	(13)	(180)	1,385%
Other generation expenses	<u>876</u>	<u>786</u>	<u>1,777</u>	<u>1,616</u>	<u>161</u>	10%
Total power generation expenses	19,052	36,916	40,101	63,362	(23,261)	-37%

The Company's average price per imperial gallon ("IG") of fuel for the three months ended June 30, 2009 decreased to \$2.61, compared to \$5.35 for the three months ended July 31, 2008. The Company's average price per IG of fuel for the six months ended June 30, 2009 decreased to \$2.54, compared to \$4.68 for the six months ended July 31, 2008.

The Company's average price per IG of lube for the three months ended June 30, 2009 increased to \$14.27, compared to \$9.18 for the three months ended July 31, 2008. The Company's average price per IG of lube for the six months ended June 30, 2009 increased to \$14.92, compared to \$8.73 for the six months ended July 31, 2008.

Diesel fuel and lube oil costs are 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 June 30, 2009 totalled \$0.3 million and for the six months ended June 30, 2009 totalled \$0.5 million.

The Fuel Tracker Account (see Note 5 to the Interim Financial Statements) is comprised of total diesel fuel and lube oil costs to be recovered from consumers

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

G&A expenses for the three months ended June 30, 2009 totalled \$2.6 million, comparable to \$2.6 million for the three months ended July 31, 2008.

G&A expenses for the six months ended June 30, 2009 totalled \$5.3 million, a decrease of \$0.1 million from \$5.4 million for the six months ended July 31, 2008 due mainly to an increase in General Expenses Capitalised ("GEC") of \$0.2 million. Partially offsetting GEC were insurance costs which increased by \$0.1 million (refer to Note 1 of the Interim Financial Statements for further details regarding GEC).

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

C&P expenses for the three months ended June 30, 2009 totalled \$0.4 million, comparable to \$0.4 million for the three months ended July 31, 2008.

C&P expenses for the six months ended June 30, 2009 totalled \$0.8 million, a decrease of \$0.2 million from \$1.0 million for the six months ended July 31, 2008. This decrease was primarily attributable to an additional provision for doubtful debt expenses of \$0.2 million in the six months ended July 31, 2008.

## Transmission and Distribution ("T&D")

T&D expenses for the three months ended June 30, 2009 totalled \$0.7 million, comparable to \$0.7 million for the three months ended July 31, 2008.

T&D expenses for the six months ended June 30, 2009 totalled \$1.5 million, a decrease of \$0.2 million from \$1.7 million for the six months ended July 31, 2008. This decrease was mostly attributable to decreased training costs.

## **Depreciation**

Depreciation expenses for the three months ended June 30, 2009 totalled \$4.7 million, an increase of \$0.4 million from \$4.3 million for the three months ended July 31, 2008.

Depreciation expenses for the six months ended June 30, 2009 totalled \$9.6 million, an increase of \$0.8 million from \$8.8 million for the six months ended July 31, 2008. This trend in increasing costs is the result of growth-related capital expenditures. Based upon current capital expenditure projections, continued increases in depreciation expenses are expected.

#### Maintenance

Maintenance expenses for the three months ended June 30, 2009 totalled \$2.3 million, a decrease of \$0.1 million from \$2.4 million for the three months ended July 31, 2008. Maintenance schedules are driven by the age of generating units as well as the levels of production.

Maintenance expenses for the six months ended June 30, 2009 totalled \$4.2 million, a decrease of \$0.7 million from \$4.9 million for the six months ended July 31, 2008. The decreased production levels seen in the six months ended June 30, 2009 have led to various maintenance plans being rescheduled.

#### Other Income and Expenses

Finance charges for the three months ended June 30, 2009 totalled \$1.6 million, a decrease of \$0.8 million from \$2.4 million for the three months ended July 31, 2008.

Finance charges for the six months ended June 30, 2009 totalled \$3.2 million, a decrease of \$1.7 million from \$4.9 million for the six months ended July 31, 2008.

(\$ thousands)	Three Months Ended June 30, 2009	Three Months Ended July 31, 2008	Six Months Ended June 30, 2009	Six Months Ended July 31, 2008	Change for the Six Months	% Change for the Six Months
Total interest costs	(2,830)	(3,162)	(5,495)	(5,954)	459	-8%
Capitalized interest	-	-	-	210	(210)	-100%
AFUDC	<u>1,233</u>	<u>763</u>	<u>2,250</u>	<u>763</u>	<u>1,487</u>	195%
Total finance charges	(1,597)	(2,399)	(3,245)	(4,981)	1,736	-35%
Foreign exchange gain	395	479	844	887	(42)	-5%
Other income	<u>324</u>	<u>378</u>	<u>563</u>	<u>665</u>	<u>(102)</u>	-15%
<b>Total net other expenses</b>	(878)	(1,542)	(1,838)	(3,429)	1,592	-46%

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 six months ended July 31, 2008 was \$0.2 million. This methodology was ceased in April 2008 as under the current 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 Licence and will be reviewed annually. The AFUDC amount for the three months ended June 30, 2009 totalled \$1.2 million, a \$0.4 million increase when compared to \$0.8 million for the three months ended July 31, 2008.

The AFUDC amount for the six months ended June 30, 2009 totalled \$2.3 million a \$1.5 million increase when compared to \$0.8 million for the six months ended July 31, 2008. The difference is attributable to differing lengths of application of the methodology. During the six months ended July 31, 2008 AFUDC was only applied for three of the six months.

Foreign exchange gains totalled \$0.4 million for the three months ended June 30, 2009 a decrease of 18% when compared to \$0.5 million the three months ended July 31, 2008. The decrease is attributable to decreased private currency exchanges.

Foreign exchange gains totalled \$0.8 million for the six months ended June 30, 2009 a decrease of 5% when compared to \$0.9 million for the six months ended July 31, 2008. The decrease is attributable to decreased private currency exchanges.

Other income totalled \$0.3 million for the three months ended June 30, 2009 a decrease of 14% when compared to \$0.4 million for the three months ended July 31, 2008.

Other income totalled \$0.6 for the six months ended June 30, 2009 a 15% decrease when compared to \$0.7 million for the six months ended July 31, 2008.

#### The Economy

According to the 2009/2010 Strategic Policy Statement of the Government the prevailing outlook of continued weakening in global economic performance in 2009 will lead to softer performances in local industries. It is Government's belief that unlike credit difficulties

abroad, the retail banking sector in the Cayman Islands will maintain its robust supply of credit to businesses and households.

As at June 30, 2009 the Fiduciary Services Division of the Cayman Islands Monetary Authority ("CIMA") had supervisory responsibility for 157 active trust licences, 73 active licences under the Companies Management Law (2003 Revision), the Investments and Securities Services Division of CIMA had supervisory responsibility for 9,912 mutual funds, the Banking and Trust division had supervisory responsibility for 280 banks. This compares to 178 active trust licences, 77 active licences, 9,695 mutual funds and 269 banks at June 30, 2008. Full mutual fund administrators as at June 30, 2009 increased to 99 from 97 and restricted mutual fund administrators increased to 51 from 44 when compared to June 30, 2008.

The Government forecasted that stay-over tourism would experience challenges due to the weak growth prospects for the U.S. and other advanced economies. Additionally, increasing competition from other markets, such as Europe, were expected to pose a challenge to the Cayman Islands Tourism sector, based on robust booking trends for European cruise packages by North American travellers.

The Company expects that the current global economy will continue to have an impact on tourist arrivals to the Cayman Islands. This belief is based on the current arrival figures as at June 30, 2009 (www.caymanislands.ky) whereby visitor arrivals are low when compared to prior years. As at June 30, 2009 visitor air arrivals for the six month period were reflecting forecasts of the Government and demonstrated a decrease of 13% while cruise arrivals fell by 6% when compared to the same period last year. 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 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. However, declines when compared to 2008 are expected to be the predominant trend for 2009.

The following table presents statistics for tourist arrivals in the Cayman Islands for the 12 months ending December 31:

Arrivals	2008	2007	2006	2005	2004
By Air	302,879	291,503	267,258	167,801	259,929
By Sea	1,553,053	1,715,666	1,923,597	1,798,999	1,693,293
Total	1,855,932	2,007,169	2,190,855	1,966,800	1,953,222

As at June 30, 2009 there were 154,640 air arrivals and 846,952 cruise arrivals reported.

As at December 31, 2008, the Cayman Islands Consumer Price Index ("CPI") stood at 152.0, a 3.4% increase compared to December 31, 2007 and a 3.2% decline compared to September 30, 2008 results.

In June 2009 Moody's rated the Cayman Islands as stable with a rating of Aa3. Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honoured as promised. Such ratings reflect both the likelihood of default and the probability of a financial loss suffered in the event of default. The rating is the second highest in the Caribbean region.

All data is sourced from the Cayman Islands Economics & Statistics Office, Cayman Islands Monetary Authority and Cayman Islands Department of Tourism websites; www.eso.ky; www.cimoney.com.ky and www.caymanislands.ky.

## **Liquidity and Capital Resources**

The following table outlines the summary of cash flow:

(\$ thousands)	Three Months Ended June 30, 2009	Three Months Ended July 31, 2008	Six Months Ended June 30, 2009	Six Months Ended July 31, 2008	Change for the Six Months	% Change for the Six Months
Beginning cash	1,530	1,268	1,431	1,324	107	8%
Cash provided by/(used in):						
Operating activities	8,655	6,551	20,524	18,725	1,799	10%
Investing activities	(12,554)	(14,614)	(21,789)	(26,307)	4,518	-17%
Financing activities	<u>5,458</u>	<u>8,357</u>	<u>2,923</u>	<u>7,820</u>	<u>(4,897)</u>	-63%
Ending cash	3,089	1,562	3,089	1,562	1,527	98%

#### Operating Activities

Cash flow provided by operations, after working capital adjustments, for the three months ended June 30, 2009, was \$8.7 million, an increase of \$2.1 million from \$6.6 million for the three months ended July 31, 2008. This increase is attributable to an increase in regulatory deferrals of \$3.0 million offset by the decrease in non-cash working capital balances.

Cash flow provided by operations, after working capital adjustments, for the six months ended June 30, 2009, was \$20.5 million, an increase of \$1.8 million from \$18.7 million for the six months ended July 31, 2008. This increase is attributable to an increase in regulatory deferrals of \$2.8 million reduced by an increase in non-cash working capital balances.

## Investing Activities

Cash used in investing activities totalled \$12.6 million for the three months ended June 30, 2009 a decrease of \$2.0 million from \$14.6 million for the three months ended July 31, 2008. This decrease is attributable to decreased capital related expenditures.

Cash used in investing activities totalled \$21.8 million for the six months ended June 30, 2009 a decrease of \$4.5 million from \$26.3 million for the six months ended July 31, 2008. This decrease is attributable to decreased capital related expenditures.

#### Financing Activities

Cash provided by financing activities totalled \$5.5 million for the three months ended June 30, 2009 a decrease of \$2.9 million from \$8.4 million for the three months ended July 31, 2008. This decrease in cash is mainly attributable to a \$6.2 million decrease in bank overdraft.

Cash received from financing activities totalled \$2.9 million for the six months ended June 30, 2009 a decrease of \$4.9 million from \$7.8 million for the six months ended July 31, 2008. This decrease in cash is mainly attributable to a \$4.2 million decrease in bank overdraft.

## Liquidity

In May 2009, the Company closed on the first tranche of a \$40 million private placement of 7.50% Senior Unsecured Notes due May 29, 2024. The first tranche was in the amount of \$30 million and the second tranche of \$10 million closed in July 2009. The debt offering was privately placed with institutional investors in the U.S. Proceeds from the offering were used to repay short-term indebtedness and to finance ongoing additions and upgrades to CUC's generation, transmission and distribution system.

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

Miscellaneous receivables from Fortis Inc. totalling \$0.05 million were outstanding at June 30, 2009. Fortis Turks & Caicos paid a receivable of \$0.01 in March 2009 and were invoiced \$0.07 million in June 2009 which remains outstanding as at June 30, 2009.

#### **Contractual Obligations**

The contractual obligations of the Company over the next five years and periods thereafter, as at June 30, 2009, are outlined in the following table:

(\$ millions)	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt MAN Diesel SE generation	190.1	21.8	29.2	34.7	104.4
expansion contract	9.7	9.7	-	-	-
Defined Benefit Pension	<u>0.2</u>	<u>0.2</u>	=	=	=
Total	200.0	31.7	29.2	34.7	104.4

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 - 27.2, 2010 - 9.3. The contract contains an automatic renewal clause for the years 2010 through to 2012. Should any party choose to terminate within that two year period notice must be given a minimum of one year in advance of the desired termination date.

#### **Financial Position**

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2008 to June 30, 2009.

Significant changes in Balance Sheets between December 31, 2008 and June 30, 2009	Increase (Decrease)	Explanation
(\$ millions)		
Cash	1.7	Increase due to cash used in investing activities of \$21.7 million partially offset by cash provided by operating activities of \$20.5 million and cash provided by financing activities of \$2.9 million.
Accounts receivable - Trade	(5.0)	Decrease due to lower consumption and lower fuel factor billings as a result of decreasing fuel prices.
Regulatory Assets	3.3	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.
Property, Plant and Equipment	12.1	Net increase is comprised of capital expenditures of (1) \$21.7 million and (2) depreciation expense of \$9.6 million.
Bank Overdraft	(4.2)	Decrease in bank overdraft with funds received from debt issue.
Long-Term Debt	15.7	Increase due to \$30 million debt issue offset by semi-annual principal payments made in June and portions allocated to current debt.
Share premium	0.8	Increase due to sale of 51 thousand shares.
Retained Earnings	(2.0)	Decrease due to net earnings for the period of \$7.5 million offset by Class A dividends of \$9.3 million and Class B dividends of \$0.2 million.

## **Capital Resources**

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

To help ensure access to capital, the Company targets a long-term capital structure containing approximately 45% equity, including preference shares, and 55% debt. The Company plans to maintain investment-grade credit ratings.

The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the rights offering that occurred in the 2008 Transitional Period.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65% of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at June 30, 2009, the Company was in compliance with all debt covenants.

The Company's capital structure is presented in the following table:

Capital structure	<b>June 30, 2009</b> (\$ millions)	%	December 31, 2008 (\$ millions)	%
Total debt	190.1	53	174.6	51
Shareholder's equity	<u>168.8</u>	<u>47</u>	<u>170.0</u>	<u>49</u>
Total	358.9	100	344.6	100

The Company received \$30 million of a \$40 million debt issue in June 2009. Concurrently, the Company repaid \$14 million of previously issued long-term debt. The Company's debt percentage subsequently increased to 53% when compared to the December 31, 2008 capital structure.

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 while the DBRS rating relates to senior unsecured debt.

#### **Credit Facilities**

The Company has \$32.9 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	\$0.6
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	\$32.9

Of the total above, \$24.0 million was available at June 30, 2009.

## **Capital Expenditures**

Capital expenditures for the three months ended June 30, 2009 were \$12.5 million, a \$2.1 million, or 14% decrease from \$14.6 million in capital expenditures for the three months ended July 31, 2008.

Capital expenditures for the six months ended June 30, 2009 were \$21.7 million, a \$4.6 million, or 17% decrease from \$26.3 million in capital expenditures for the six months ended July 31, 2008. The capital expenditures for the six months ended June 30, 2009 primarily relate to:

- Distribution system extension and upgrades \$3.8 million.
- Transmission system expansion and upgrades 69 kiloVolt ("kV") line extension to close loops to West Bay and Frank Sound \$0.8 million.
- Generation system 2009 Generation Expansion \$9.3 million

- North Sound Power Plant 69 kV Substation upgrades \$1.2 million
- Inventory that has met the criteria of Property, Plant and Equipment in accordance with CICA 3031 has been added to work in progress and is included in capital expenditure. For the six months ended June 30 2009, a decrease of \$0.05 million was allocated to Transmission and a decrease of \$0.09 million was allocated to Distribution, totalling a decrease of \$0.14 million reallocated from inventories to capital work in progress. As at June 30, 2009, inventories totalling \$5.4 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.

AFUDC of \$2.3 million was capitalized in the six months ended June 30, 2009

Capital expenditures (\$ Millions)	Three months ended June 30, 2009	Three months ended July 31, 2008	Six months ended June 30, 2009	Six months ended July 31, 2008
Transmission	2.0	3.2	2.3	4.3
Distribution	2.5	7.3	4.6	10.9
Generation	7.8	3.9	14.3	10.0
Other	<u>0.2</u>	<u>0.2</u>	<u>0.5</u>	<u>1.1</u>
Total	12.5	14.6	21.7	26.3

## **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 June 30, 2009.

#### **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 Company's capital expenditure plan 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 as at July 1, 2009 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include \$100 million in property and machinery breakdown insurance and business interruption 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 Power 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 million limit on property and business interruption (excluding windstorm, earth movement and flood)

The Company's insurance policy includes business interruption 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.

#### Defined Benefit Pension Plan

The Company maintains a defined benefit pension plan. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The assumed long-term rate of return on pension plan assets, for the purposes of estimating pension expense for 2009, is 3%. This compares to assumed long-term rates of return of 5% used during the 2008 Transitional Period. The loss on pension plan assets during the 2008 Transitional Period was (12%).

Market driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets from the assumed return on the assets causing material changes in consolidated pension expense and funding requirements. Net pension expense is impacted by, among other things, the amortization of experience and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other pension assumptions, including the assumed discount rate, may also result in future consolidated contributions to pension plans that differ significantly from current estimates as well as causing material changes in consolidated pension expense. The discount rate assumed for 2009 is 6.5% compared to the discount rate assumed during the 2008 Transitional Period which was 5%.

There is also measurement uncertainty associated with pension expense, future funding requirements, the accrued benefit asset, accrued benefit liability and benefit obligation due to measurement uncertainty inherent in the actuarial valuation process.

A discussion of the critical accounting estimates associated with pensions is provided in the "Critical Accounting Estimates" section of this MD&A.

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

#### Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the new CICA Handbook Section 3064 - Goodwill and Intangible Assets. This Section, which replaced Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions related to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard 38, Intangible Assets. The standard resulted in a January 1, 2009 reclass of intangible assets of \$2.2 million, with a corresponding reduction in PP&E of \$0.2 million and a reduction in Other Assets of \$2.0 million (see Note 8 to the Interim Financial Statements for further details).

## Rate Regulated Operations

Effective January 1 2009, the Accounting Standards Board ("AcSB") amended CICA Handbook Section 1100, Generally Accepted Accounting Principles removing the temporary exemption providing relief to entities subject to rate regulation.

Effective January 1 2009, with the removal of the temporary exemption Section 1100, the Company must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Certain assets and liabilities arising from rate regulation continue to have specific guidance under a primary source of Canadian GAAP that applies only to the particular circumstances described therein, including those arising under section 1600, Consolidated Financial Statements, Section 3061, Property, Plant and Equipment and Section 3475, Disposal of Long-Lived Assets and Discontinued Operations.

The assets and liabilities arising from rate regulation do not have specific guidance under a primary source of Canadian GAAP. Therefore, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Section 1000, *Financial Statement Concepts*. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that its regulatory assets and liabilities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Statement of Financial Accounting Standards No.71,

Accounting for the Effects of Certain Types of Regulation. Therefore, there was no effect on the Company's financial statements as at January 1, 2009 due to the removal of the temporary exemption in section 1100.

## **Future Accounting Pronouncements**

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an Omnibus Exposure Draft indicating that publicly accountable enterprises be required to apply IFRS, in full and without modification, beginning January 1, 2011.

The Company's expected IFRS 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, 2010, and of amounts reported on the Company's opening IFRS balance sheet as at January 1, 2010.

The Company is continuing to assess the financial reporting impacts of adopting IFRS in 2011. The full impact on future financial position and results of operations is not reasonably determinable or estimable at this time, particularly in light of the recently released IASB exposure draft on Rate-regulated Activities. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the additional disclosure requirements as well as systems changes that will be necessary to gather and compile the required disclosure information.

**IFRS Conversion Project:** The Company commenced its IFRS conversion project in 2007 and has established a formal project governance structure which includes the audit committee, senior management and a project team. Overall project governance, management and support are coordinated by Fortis Inc and an independent external advisor has been engaged to assist in the IFRS conversion project. Project progress reports are provided to the Company's Audit Committee on a quarterly basis. The Company has also engaged its external auditors, Ernst & Young to review accounting policy determinations as they are arrived at and agreed to internally by the Company's project team.

The Company's IFRS conversion project consists of three phases: Scoping and Diagnostics, Analysis and Development, and Implementation and Review.

Phase One: Scoping and Diagnostics, which involved project planning and staffing and identification of differences between current Canadian GAAP and IFRS, was completed in the first half of 2008. The resulting identified areas of accounting difference of highest potential impact to the Company, based on existing IFRS at the time, were identified to include rate-regulated accounting; property plant and equipment; provisions and contingent liabilities; employee benefits; impairment of assets; and, initial adoption of IFRS under the provisions of IFRS 1 First-Time Adoption of International Financial Reporting Standards.

Phase Two: Analysis and Development is nearing completion, and involves detailed diagnostics and evaluation of the financial impacts of various options and alternative methodologies provided for under IFRS; identification and design of operational and financial business processes; initial staff and audit committee training; analysis of IFRS 1 optional exemptions and mandatory exceptions to the general requirement for full retrospective application upon transition to IFRS; summarization of 2011 IFRS disclosure requirements; and development of required solutions to address identified issues.

Phase Three: Implementation and Review, has recently commenced and involves the execution of changes to information systems and business processes; completion of formal authorization processes to approve recommended accounting policy changes; and further training programs across the Company's finance and other affected areas, as necessary. It will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements and reconciliations; embedding of IFRS in business processes; and audit committee approval of IFRS-compliant interim and annual financial statements for 2011.

**Accounting for Rate-Regulated Activities under IFRS:** IFRS does not currently provide specific guidance with respect to accounting for rate-regulated activities. However, in December 2008, the IASB initiated a project on accounting for rate-regulated activities and whether or not rate-regulated entities could or should recognize assets or liabilities as a result of rate-regulation imposed by a regulatory body.

On July 23, 2009, the IASB issued an Exposure Draft on Rate-Regulated Activities. Comments on the Exposure Draft are to be submitted for consideration by the IASB by November 20, 2009. Based on the current project timeline of the ISAB, a final standard is expected to be issued in 2010.

Uncertainty as to the final outcome of this exposure draft, and the final standard on accounting for rate-regulated activities under IFRS, has resulted in the Company being unable to reasonably estimate and conclude on the impact on the Company's future financial position and results of operations with respect to differences, if any, in accounting for rate-regulated activities under IFRS versus Canadian GAAP. However, based on the Exposure Draft as it currently exists and the Company's analysis to date, CUC anticipates that its existing accounting policies may be largely aligned with IFRS requirements in many areas and, therefore, may not require significant change. The ability to record regulatory assets and liabilities, as proposed in the Exposure Draft, will reduce earnings volatility that may have otherwise resulted under IFRS, however will result in the requirement to provide enhanced balance sheet presentation and note disclosures. Differences between IFRS and Canadian GAAP, in addition to those referred to below under "Accounting Policy Impacts and Decisions", may still be identified based on further detailed analysis by the Company, the outcome of a final standard on accounting for rate-regulated activities and other changes in IFRS prior to the Company's conversion to IFRS in 2011.

**Accounting Policy Impacts and Decisions**: The Company has completed an initial assessment of the impacts of adopting IFRS. However, final conclusions cannot be reached at this time pending further certainty as to a final IFRS standard on accounting for rate-regulated activities. As a result of work performed to date, the following have been identified as having the most significant potential to impact the Company's accounting policies, financial reporting and information systems requirements upon conversion to IFRS:

#### (a) Property Plant and Equipment:

IFRS and Canadian GAAP contain the same basic principles of accounting for PP&E, however, differences in application do exist.

For example, capitalization of directly attributable costs in accordance with IAS 16, *Property Plant and Equipment* may require measurement of an item of property, plant and equipment upon initial recognition to include or exclude certain previously recognized amounts under Canadian GAAP. Specifically, the Company expects that there may be changes in accounting for:

- i. the amount of capitalized overheads;
- ii. the capitalization of borrowing costs in accordance with IAS 23, Borrowing Costs.

Uncertainty with respect to the final outcome of the IASB's exposure draft on accounting for rate-regulated entities, and the anticipated IFRS standard resulting therefrom, has resulted in the Company's inability to reasonably estimate and conclude on the impact on the Company's financial statements with respect to differences, if any, in accounting for rate-regulated operations under IFRS versus Canadian GAAP.

Upon transition to IFRS, the Company has the elective option to reset the cost of its PP&E based on fair value in accordance with the provisions of IFRS 1, and to use either the revaluation model or the cost model to measure its PP&E subsequent to transition. Currently, the Company intends to use the cost model to measure all of CUC property, plant and equipment subsequent to transition.

## (b) Provisions and Contingent Liabilities:

IAS 37, Provisions, Contingent Liabilities and Contingent Assets requires a provision to be recognized when there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and, a reliable estimate can be made of the obligation. Under Canadian GAAP the criterion for recognition is "likely", which is a higher threshold than "probable". It is possible, therefore, that some contingent liabilities which would meet the recognition criterion under IFRS would not have been recognized under Canadian GAAP. The Company is currently not aware of any existing additional liabilities or provisions that would require recognition under IFRS.

#### (c) Employee Benefits:

IAS 19, Employee Benefits requires the past service cost element of defined benefit plans to be expensed on an accelerated basis, with vested past service costs being expensed immediately and unvested past service costs being recognized on a straight line basis until the benefits become vested. In addition, actuarial gains and losses are permitted under IAS 19 to be recognized directly in equity rather than through profit or loss, and IFRS 1 also provides an option to recognize all cumulative actuarial gains and losses existing at the date of transition immediately in retained earnings.

Under Canadian GAAP, past service costs are generally amortized on a straight line basis over the expected average remaining service period of active employees in the defined benefit plan.

#### (d) Impairment of Assets:

IAS 36, Impairment of Assets uses a one-step approach for testing and measuring asset impairments, with asset carrying values being compared to the higher of value in use and fair value less costs to sell. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset. In the absence of an active market, fair value less costs to sell may also be determined using discounted cash flows. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are used to compare against the asset's carrying value to determine if impairment exists. This may result in more frequent write-downs in the carrying value of assets under IFRS since asset carrying values that were previously supported under Canadian GAAP based on undiscounted cash flows may not be supported on a discounted cash flow basis under IFRS. However, under IAS 36, previous impairment losses may be reversed where circumstances change such that the impairment has reduced. This also differs from Canadian GAAP which prohibits the reversal of previously recognized impairment losses.

As the Company's assets are subject to rate-regulation, the potential for and extent of any impairment losses will be primarily subject to the utilities' continued ability to recover costs through the regulatory process.

(e) IFRS 1, First-Time Adoption of International Financial Reporting Standards:

IFRS 1 provides the framework for the first time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS from Canadian GAAP should be directly recognized in retained earnings. Certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1.

The Company has completed an analysis of IFRS 1. While preliminary decisions have been made with respect to the optional exemptions available upon transition, final decisions cannot be made at this time pending more detailed analysis of the IASB's exposure draft on rate-regulated accounting.

(f) Internal Controls Over Financial Reporting and Disclosure:

In accordance with the Company's approach to the certification of internal controls required under Canadian Securities Administrators' National Instrument 52-109, all entity level, information technology, disclosure and business process controls will require updating and testing to reflect changes arising from the Company's conversion to IFRS. Where material changes are identified, these changes will be mapped and tested to ensure that no material deficiencies exist as a result of the Company's conversion to these new accounting standards.

(g) Information Systems:

It is anticipated that the adoption of IFRS will have an impact on information systems requirements. The Company has assessed the need for system upgrades or modifications to ensure an efficient conversion to IFRS. As part of Phase Two of the Company's IFRS conversion project, information systems plans have been prepared for implementation in Phase Three. The extent of the impact on the Company's information systems is largely dependant upon the final outcome of the IASB project on rate-regulated accounting and is therefore not fully determinable at this time.

The IASB has a number of on-going projects on its agenda, in addition to the project on rate-regulated accounting, that may result in changes to existing IFRS prior to the Company's conversion in 2011. The Company continues to monitor these projects and the impact that any resulting IFRS changes may have on its anticipated accounting policies, financial position or results of operations under IFRS for 2011 and beyond.

## **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 June 30, 2009, the amount of unbilled revenue recorded in Accounts Receivable - Trade was \$5.0 million (July 31, 2008: \$0.6 million). The unbilled revenue saw an increase due to the institution of a bill date change; beginning in December 2008 consumers are now billed at the beginning of each month leading to the accrual of approximately three weeks of unbilled revenue as compared to the one week in previous periods.

#### kWh Sales

KiloWatt-hour sales throughout the month are based on meter readings that establish electricity consumption since the last meter reading. The kWh accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for electricity consumption will result in adjustments of kWh sales statistics in the periods they become known when actual results differ from the estimates. As at June 30, 2009, the amount of estimated kWh sales was 38.4 million kWh's. Due to the institution of a bill date change in December 2008 to the beginning of each month it is necessary to accrue for kWh's for accurate reporting.

## 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 June 30, 2009, the Company had an accrued benefit liability of \$0.04 million (July 31, 2008: \$0.2 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 June 30, 2009, the net book value of the Company's PP&E was \$342.6 million compared to \$325.2 million as at July 31, 2008, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the six months ended June 30, 2009 was \$9.6 million and \$8.8 million for the six months ended July 31, 2008. Due to the value of the Company's PP&E, 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 October 31, 2007 through June 30, 2009. This information has been obtained from CUC's unaudited interim Financial Statements, which in the opinion of Management, have been prepared in accordance with Canadian 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	Income applicable to ordinary shares	Earnings per ordinary share	Diluted earnings per ordinary share
June 30, 2009	35,703	5,042	4,929	0.18	0.18
March 31, 2009	35,090	2,435	2,322	0.08	0.08
December 31, 2008*	32,986	1,865	1,865	0.08	0.08
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

<sup>\*</sup>Two-month period due to a change in year end effective January 1, 2009.

#### June 2009/July 2008

Net earnings for the three months ended June 30, 2009 were \$5.0 million, representing a decrease of 6% or \$0.3 million from net earnings of \$5.3 million for the three months ended July 31, 2008. Contributing to this decrease is negative sales growth for the three months ended June 30, 2009 and increased depreciation expense, these factors were partially offset by the 2.4% base rate increase in June as well as reductions in financing, Consumer Service & promotion, T&D and 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 June 30, 2009 were \$4.9 million, or \$0.175 per Class A Ordinary Share, as compared to \$4.7 million, or \$0.190 per Class A Ordinary Share for the three months ended July 31, 2008.

#### April 2008/March 2009

Net earnings for the three months ended March 31, 2009 were \$2.4 million, representing a 45% or \$2.0 million decrease from net earnings of \$4.4 million for the three months ended April 30, 2008. Contributing to this decrease is negative sales growth in 2009 and the favourable fuel cost recovery of \$2.5 million for the three months ended April 30, 2008. The introduction of a fuel tracker mechanism in the Company's 2008 T&D Licence has eliminated favourable or adverse timing differences in fuel cost recovery for the financial reporting quarters subsequent to April 2008. The above factors were partially offset by lower maintenance and finance costs in 2009.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the three months ended March 31, 2009 were \$2.3 million, or \$0.08 per Class A Ordinary Share, as compared to \$4.3 million, or \$0.169 per Class A Ordinary Share for the three months ended April 30, 2008.

#### December 2008/January 2008

Net earnings for the two months ended December 31, 2008 were \$1.9 million, a \$3.4 million or 64% decrease from earnings of \$5.3 million for the three months ended January 31, 2008. Contributing to this decrease was lower than average temperatures and higher than average rainfall.

Net earnings for the 2008 Transitional Period ended December 31, 2008 were \$12.6 million, a \$6.7 million or 36% decrease from earnings of \$19.3 million for the nine months ended January 31, 2008. This decrease in earnings is due to the base rate reductions, Hurricane Cost Recovery Surcharge ("CRS") removal and increased maintenance costs of \$0.8 million, partially offset by lower finance charges of \$5.2 million. Also contributing to this decrease

were lower than average temperatures and higher rainfall in the 2008 Transitional Period which negatively impacted kWh sales growth.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the two months ended December 31, 2008 were \$1.9 million, or \$0.08 per Class A Ordinary Share, as compared to \$4.3 million, or \$0.17 per Class A Ordinary share for the three months ended April 30, 2008.

Dividends paid on Class A Ordinary Shares as at December 31, 2008 were \$0.495 per share. The Company notes that dividends paid consists of the three distributions of \$0.165 per share that traditionally represented three full quarters of earnings, but due to the change in the reporting period dividends paid are compared to only eight months of earnings for the 2008 Transitional Period.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the 2008 Transitional Period were \$11.9 million, or \$0.45 per Class A Ordinary Share, as compared to \$18.5 million, or \$0.73 per Class A Ordinary Share for the nine months ended January 31, 2008.

## 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.

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

The President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), together with Management, have established and maintained the Company's disclosure controls and procedures, to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the six months ending June 30, 2009; and information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

#### Internal Controls over Financial Reporting ("ICFR")

The CEO and CFO of the Company, together with Management, have established and maintained the Company's internal control over financial reporting (ICFR), as defined in

National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). There was no material weakness relating to design existing as of June 30, 2009.

There has been no change in the Company's ICFR that occurred during the period beginning on April 1, 2009 and ended on June 30, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### Outlook

The Company has submitted a CIP for the 2009-2013 period totalling \$246 million, including approximately \$72 million related to new generation that is expected to be solicited externally. In March 2009 the ERA approved CUC's 2009 CIP totalling \$47.7 million. The proposed CIP for 2010-2013 is still under review. The submitted plan has been formatted to take into consideration anticipated reductions in growth in the upcoming periods due to the impact of the global financial crisis on the tourism, financial and construction sectors of the Cayman Islands which the Company continues to monitor.

## **Outstanding Share Data**

At August 4, 2009, the Company had issued and outstanding 28,186,755 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

August 4, 2009

**Balance Sheets** (expressed in thousands of United States Dollars)

Unaudited	Note	As at June 30, 2009	As at December 31, 2008 Note 3
Assets			
Current Assets			
Cash and cash equivalents		3,089	1,431
Accounts Receivable	4	11,885	16,879
Regulatory Assets	5	21,779	18,493
Inventories	6	2,498	2,485
Prepayments		<u>358</u>	<u>1,914</u>
		39,609	41,202
Property, Plant and Equipment	7	342,638	330,560
Other Assets		38	41
Intangible Assets	8	<u>2,200</u>	<u>2,184</u>
Total Assets		384,485	373,987
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank Overdraft		-	4,158
Accounts Payable and Accrued Expenses		21,288	21,048
Regulatory Liabilities	5	363	359
Short-Term Debt	9	8,000	8,000
Current Portion of Long-Term Debt		14,000	14,266
Consumer's Deposits and Advances for Construction		<u>3,848</u>	<u>3,785</u>
		47,499	51,616
Long-Term Debt	19	168,146	152,377
		215,645	203,993
Shareholders' Equity			
Share Capital	11	1,928	1,922
Share Premium	11	72,937	72,092
Contributed Surplus	12	301	279
Retained Earnings		<u>93,674</u>	<u>95,701</u>
Total Shareholders' Equity		168,840	169,994
Total Liabilities and Shareholders' Equity		384,485	<u>373,987</u>

See accompanying Notes to Interim Financial Statements

**Statements of Earnings and Comprehensive Income** (expressed in thousands of United States Dollars, except basic and diluted earnings per ordinary share)

Unaudited	Note	Three Months	Three Months	Six Months	Six Months
		Ended	Ended	Ended	Ended
		June 30, 2009	July 31, 2008	June 30, 2009	July 31, 2008
		2007	Note 3	2007	Note 3
Operating Revenues					
Electricity Sales		17,779	18,338	32,921	34,448
Fuel Factor		<u>17,924</u>	<u>35,832</u>	<u>37,872</u>	63,941
Total Operating Revenues		35,703	54,170	70,793	98,389
Operating Expenses					
Power Generation		19,052	36,916	40,101	63,362
General and Administration		2,555	2,553	5,274	5,392
Consumer Service and Promotion		361	404	760	975
Transmission and Distribution		686	693	1,439	1,652
Depreciation		4,744	4,335	9,596	8,827
Maintenance		2,337	2,362	4,210	4,935
Amortization of Intangible Assets		<u>48</u>	<u>55</u>	<u>98</u>	<u>93</u>
Total Operating Expenses		29,783	47,318	61,478	85,236
Operating Income		5,920	6,852	9,315	13,153
Other Income/(Expenses):					
Finance Charges	16	(1,597)	(2,399)	(3,245)	(4,981)
Foreign Exchange Gain	15	395	479	844	886
Other Income		<u>324</u>	<u>378</u>	<u>563</u>	<u>665</u>
Total Net Other (Expenses)/Income		(878)	(1,542)	(1,838)	(3,430)
<b>Earnings and Comprehensive Income for the</b>		- 0.40			
Period		5,042	5,310	7,477	9,723
Preference Dividends Paid- Class B		(113)	<u>(593)</u>	(226)	<u>(706)</u>
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Poid (in they send)	12	4,929	4,717	7,251	9,017
Shares Issued and Fully Paid (in thousands)	13 13	28,135	25,441 0.19	28,111 0.26	25,410 0.36
Earnings per Class A Ordinary Share	13	0.18 0.18	0.19	0.26	0.36
Diluted Earnings per Class A Ordinary Share	13				
Dividends Declared per Class A Ordinary Share		0.165	0.165	0.330	0.330

See accompanying Notes to Interim Financial Statements.

# **Statements of Retained Earnings** (expressed in thousands of United States Dollars)

Unaudited	Three Months Ended June 30, 2009	Three Months Ended July 31, 2008	Six Months Ended June 30, 2009	Six Months Ended July 31, 2008
Balance at beginning of period	93,387	97,243	95,701	97,131
Earnings for the period	5,042	5,310	7,477	9,723
Dividends	(4,755)	(4,786)	<u>(9,504)</u>	<u>(9,087)</u>
Balance at end of period	93,674	97,767	93,674	97,767

See accompanying Notes to Interim Financial Statements.

Statements of Cash Flows (expressed in thousands of United States Dollars)

Unaudited	Three Months Ended June 30, 2009	Three Months Ended July 31, 2008 Note 3	Six Months Ended June 30, 2009	Six Months Ended July 31, 2008 Note 3
Operating Activities				
Earnings for the period	5,042	5,310	7,477	9,723
Items not affecting cash:				
Depreciation	4,744	4,335	9,596	8,827
Amortisation of Intangible Assets	48	55	98	93
Stock-based compensation	12	-	22	-
Loss on disposal of property, plant and equipment	= 9,846	- 9,700	- 17,193	440 19,083
Net change in non-cash working capital balances related to operations	1,956	2,914	6,613	5,705
Net Change in Regulatory Deferrals	(3,147)	(6,063)	(3,282)	(6,063)
Cash flow related to operating activities	8,655	6,551	20,524	18,725
Investing Activities				
Proceeds on sale of property, plant and equipment	-	8	-	74
Costs related to intangible assets	(60)	_	(114)	(34)
Purchase of property, plant and equipment	(12,494)	(14,622)	(21,675)	(26,347)
Cash flow related to investing activities	(12,554)	(14,614)	(21,789)	(26,307)
Financing Activities				
Proceeds from debt financing	31,500	16,500	31,500	16,500
Repayment of debt	(15,500)	(17,762)	(15,766)	(17,762)
(Decrease)/Increase in bank overdraft	(6,225)	(1,137)	(4,158)	2,292
Dividends paid	(4,755)	(4,786)	(9,504)	(9,087)
Subscriptions in advance	-	15,162	-	15,162
Net proceeds from share issues	<u>438</u>	<u>380</u>	<u>851</u>	<u>715</u>
Cash flow related to financing activities	5,458	8,357	2,923	7,820
Increase in net cash	1,559	294	1,658	238

See accompanying Notes to Interim Financial Statements.

1,530

3,089

5,074

1,268

1,562

2,399

1,431

3,089

5,111

Cash and cash equivalent - Beginning of period

Cash and cash equivalent - End of period

Supplemental disclosure of cash flow

Interest paid during the period

information:

1,324

1,562

2,419

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

Unaudited – June 30, 2009 (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 period ended December 31, 2008. Except as disclosed within this note 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.

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 ("the Licences") 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 GAAP including selected accounting treatments that differ from those used by entities not subject to rate regulation.

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. Base rates are subject to an annual review and adjustment each June through the RCAM. In June 2009 the base rates were increased by 2.4%. All fuel and lubricating oil costs are passed through to customers without mark-up as a per kWh charge.

For regulatory purposes fixed assets comprise the Property, Plant and Equipment ("PP&E") as reported in the Company's financial statements and intangible assets 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 7) and an allowance for General Expenses Capitalised ("GEC") (Note 7). GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity.

#### Seasonality

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.

#### Year End Change

The Company changed its year end from April 30 to December 31. Beginning January 1, 2009 each twelve month period will conclude on December 31. This change led to what is referred to as the 2008 transitional period spanning May 1, 2008 to December 31, 2008. The following analysis of the results of operations for the six months ended June 30, 2009 includes comparisons to the six month period ended July 31, 2008. The six month period ended July 31, 2008 is the period closest to that of the six months ended June 30, 2009 and the period most similar in seasonality.

## 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.

## 3. Changes in Accounting Policies

#### Adopted in 2009

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the new CICA Handbook Section 3064 - Goodwill and Intangible Assets. This Section, which replaced Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions related to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard 38, Intangible Assets. The standard resulted in a December 31, 2008 reclass of intangible assets of \$2.2 million, with a corresponding reduction in PP&E of \$0.2 million and a reduction in Other Assets of \$2.0 million (see Note 8 to the Interim Financial Statements for further details).

#### Rate Regulated Operations

Effective January 1 2009, the Accounting Standards Board ("AcSB") amended CICA Handbook Section 1100, Generally Accepted Accounting Principles removing the temporary exemption providing relief to entities subject to rate regulation.

Effective January 1 2009, with the removal of the temporary exemption Section 1100, the Company must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Certain assets and liabilities arising from rate regulation continue to have specific guidance under a primary source of Canadian GAAP that applies only to the particular circumstances described therein, including those arising under section 1600, Consolidated Financial Statements, Section 3061, Property, Plant and Equipment and Section 3475, Disposal of Long-Lived Assets and Discontinued Operations.

The assets and liabilities arising from rate regulation do not have specific guidance under a primary source of Canadian GAAP. Therefore, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Section 1000, *Financial Statement Concepts*. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorized to issue accounting standards in other

jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that its regulatory assets and liabilities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Statement of Financial Accounting Standards No.71, Accounting for the Effects of Certain Types of Regulation. Therefore, there was no effect on the Company's financial statements as at January 1, 2009 due to the removal of the temporary exemption in section 1100.

### **Future accounting changes**

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In March 2009, the AcSB issued an Omnibus Exposure Draft indicating that publicly accountable enterprises be required to apply IFRS, in full and without modification, beginning January 1, 2011.

The Company's expected IFRS 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, 2010, and of amounts reported on the Company's opening IFRS balance sheet as at January 1, 2010.

The Company's analysis of IFRS, as they currently exist, and comparison with Canadian GAAP has identified a number of differences. However, the International Accounting Standards Board's ("IASB's") on-going project on rate-regulated accounting, and uncertainty around the outcome of this project, has resulted in the Company's inability to conclude on the impact of these differences, if any, on the Company's future financial position and results of operations.

### 4. Accounts Receivable

	As at June 30, 2009	As at December 31, 2008
Billings to consumers	4,879	12,676
Unbilled revenues	5,011	2,105
Other receivables	1,902	1,988
Employee Share Purchase Plan	<u>93</u>	<u>110</u>
Total Accounts Receivable	11,885	16,879

#### Unhilled Revenues

As at June 30, 2009, the amount of unbilled revenue recorded in Accounts Receivable - Trade was \$5.0 million (July 31, 2008: \$0.6 million). The unbilled revenue saw an increase due to the institution of a bill date change; beginning in December 2008 consumers are now billed at the beginning of each month leading to the accrual of approximately three weeks of unbilled revenue as compared to the one week in previous periods.

#### Other Receivables

Other receivables are comprised mainly of services and goods provided outside the Company's normal course of business.

### Employee Share Purchase Plan

The Company provides interest-free advances to employees to purchase Class A Ordinary Shares, with such advances recovered through payroll deductions over the next twelve months. The maximum semi-annual participation is 1,000 Class A Ordinary Shares per employee. The plan is non-compensatory as shares purchased by the employee are obtained at the prevailing market value at the time of purchase.

### 5. 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 consumers. 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 following table shows the position of regulatory assets and liabilities:

Asset/Liability	Description	As at June 30, 2009	As at December 31, 2008
Regulatory Assets	Fuel Tracker Account (a)	21,779	18,493
Regulatory Liabilities	Government & Regulatory Tracker Account (b)	(363)	(359)

- 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 six months ended June 30, 2009 would have been \$3.3 million lower.
- b) Government and Regulatory Tracker Account A licence fee of 1% of gross 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% is charged on gross revenues then prorated and applied only to customer billings with consumption over 1,000 kWh per month. 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, liabilities would be reduced by \$0.4 million and earnings for the six months ended June 30, 2009 would have been \$0.004 million higher.

### 6. Inventories

	As at June 30, 2009	As at December 31, 2008
Line spares	125	118
Fuel	1,979	1,916
Other	<u>394</u>	<u>451</u>
Total	2,498	2,485

The inventory amounts expensed for the quarter totalled \$22.8 million which includes \$22.7 million in fuel and lube costs and \$0.1 million in line inventory.

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

Property, Plant and Equipment	Cost	Accumulated Depreciation	Net Book Value June 30, 2009
Transmission & Distribution (T&D)	219,386	58,673	160,713
Generation	232,533	75,825	156,708
Other:	,	,	,
Land	5,304	-	5,304
Buildings	19,077	7,421	11,656
Equipment, motor vehicles and computers	20,520	12,263	8,257
Total Other	44,901	19,684	25,217
Property, plant and equipment	496,820	154,182	342,638

Property, Plant and Equipment	Cost	Accumulated Depreciation	Net Book Value December 31, 2008
Transmission & Distribution (T&D)	211,392	54,806	156,586
Generation	212,559	71,241	141,318
Other:			
Land	11,399	-	11,399
Buildings	18,520	7,668	10,852
Equipment, motor vehicles and computers	21,275	10,870	10,405
Total Other	51,194	18,538	32,656
Property, plant and equipment	475,145	144,585	330,560

Included in PP&E are a number of capital projects in progress with a total cost to date of \$39.2 million (December 31, 2008: \$31.2 million). 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 (December 31, 2008:\$4.7 million). In addition, engine spares with a net book value of \$13.6 million (December 31, 2008: \$13.5 million) are included in Generation.

The Company's policy had 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. During the six month period ended July 31, 2008, the Company capitalised interest of \$0.2 million. This methodology was ceased in April 2008 as under the current T&D Licence is

a provision for an 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% and will be adjusted annually. As a result, during the six month period ended July 31, 2008, the Company recognised \$0.8 million in AFUDC. The Company recognised an amount of \$2.3 million for the six months ended June 30, 2009 under the provision for AFUDC. In the absence of rate regulation, net income would have been \$1.9 million lower.

The Company capitalised an amount of \$0.4 million for the six months ended June 30, 2009 under the provision for GEC (Note 1). In the absence of rate regulation net income would have been \$0.4 million lower.

## 8. Intangible Assets

Intangible Assets	Cost	Accumulated Depreciation	Net Book Value June 30, 2009
Deferred licence renewal costs	1,890	102	1,788
Computer Software	899	677	222
Other Intangible Assets in progress	190	-	190
Total			
Intangible Assets	2,979 Cost	Accumulated Depreciation	2,200 Net Book Value December 31, 2008
Deferred licence renewal costs	1,845	61	1,784
Computer Software	839	620	219
Other Intangible Assets in progress	181	-	181
Total			

Effective January 1, 2009 in accordance with section 3064 the Company now separately recognises all intangible assets. Computer Software costs were previously recognised under PP&E and all other intangible assets were previously included with Other Assets.

Deferred licence renewal costs relate to extensive negotiations with the Government for licences for the Company. Amortisation of deferred licence renewal costs commenced upon conclusion of licence negotiations in April 2008 and extends over the life of the licences.

## 9. Short-Term Financing

At December 31, 2008, the Company had \$13.3 million outstanding against the Royal Bank of Canada's ("RBC") credit facilities agreement.

Credit Facilities	Total Credit Financing Facilities	Total Utilised June 30, 2009	Total Available June 30, 2009
Corporate Credit Card Line	300	300	-
Letters of Credit	595	595	_
Operating, Revolving Line of Credit	7,500	-	7,500
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>17,000</u>	<u>8,000</u>	<u>9,000</u>
Total	32,895	8,895	24,000

### 10. Capital Management

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

To help ensure access to capital, the Company targets a long-term capital structure containing approximately 45% equity, including preference shares, and 55% debt, as well as investment-grade credit ratings.

The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the rights offering that occurred in the 2008 transitional period. The capital managed by the Company is composed of debt (short-term debt, long-term debt and bank overdraft) and shareholders' equity (including: capital stock, share premium, subscriptions to be issued, contributed surplus and retained earnings).

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65% of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at June 30, 2009, the Company was in compliance with all debt covenants.

The Company's capital structure is shown below:

Capital structure	June 30, 2009	%	December 31, 2008	%
Total debt	190,146	53	174,643	51
Shareholder's equity	<u>168,840</u>	<u>47</u>	169,994	<u>49</u>
Total	358,986	100	344,637	100

The Company received \$30.0 million of a \$40.0 million debt issue in June 2009. Concurrently, the Company repaid \$14.0 million in current portion of long-term debt. The Company's debt percentage subsequently increased to 53% when compared to the December 31, 2008 capital structure.

### 11. Capital Stock

#### Authorised:

- a) 60,000,000 (December 31, 2008: 60,000,000) Class A Ordinary Shares of CI\$0.05 each
- b) 250,000 (December 31, 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 as follows fully stated, not in thousands):

Class A Ordinary Share Issue	Three months ended June 30, 2009 Number of shares	Three months ended June 30, 2009 Amount (\$Thousands)	Six months ended June 30, 2009 Number of shares	Six months ended June 30, 2009 Amount (\$ Thousands)	Transitional Period ended Dec 31, 2008 Number of shares	Transitional Period ended Dec 31, 2008 Amount (\$ Thousands)
Balance, beginning of	20 125 201	1 (75	20 007 212	1 (72	25 414 002	1.512
period Consumer Share Purchase and Dividend Reinvestment	28,135,291	1,675	28,087,313	1,672	25,414,003	1,513
Plans	45,764	3	88,792	5	112,317	7
Employee Share Purchase, Employee Long Service Bonus Plans and Employee Stock Options	5,700	0	10,650	1	16,475	1
Stock Options	3,700		10,030	•	10,175	1
Rights Offering	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	2,544,518	<u>151</u>
Class A Ordinary Shares issued & outstanding	28,186,755	1,678	28,186,755	1,678	28,087,313	1,672
9% Cumulative,						
Participating Class B	<u>250,000</u>	<u>250</u>	<u>250,000</u>	<u>250</u>	<u>250,000</u>	<u>250</u>
Total		1,928		1,928		1,922

Share premium increased by \$0.8 million in the second quarter of 2009 due to common stock issuances.

#### 12. 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	Six months ended June 30, 2009 Number of options	Six months ended June 30, 2009 Weighted average exercise price per share	Eight Months ended December 31, 2008 Number of options	Eight months ended December 31, 2008 Weighted average exercise price per share
Outstanding at beginning of period	770,603	12.19	779,603	12.19
Granted	161,700	8.76	-	-
Exercised			-	-
Forfeited	_	_	<u>(9,000)</u>	(13.09)
Outstanding at end of period	932,303	<u>11.60</u>	770,603	<u>12.19</u>

The position with respect to outstanding unexercised options as at June 30, 2009 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	193,100	13.78	10 years
11-Apr-08	157,700	12.22	10 years
27-Feb-09	161,700	8.76	10 years
Outstanding at end of period & Weighted Avg.	932,303	11.60	

On February 27, 2009; 161,700 options were granted under the Executive Stock Option Plan at an exercise price of \$8.76. The options vest on the basis of one quarter of the grant on each of the first through fourth anniversaries of the dates of the grant and bear a term of 10 years from the date of the grant, thereby expiring on February 27, 2019. The fair value of each option granted was calculated to be \$0.37 per option. The fair value was estimated on the date of the grant using the Black-Scholes fair value option pricing model and the following assumptions:

Dividend Yield (%): 5.51
Expected Volatility (%): 11.60
Risk-free interest rate (%): 3.20
Expected life (years) (%): 7.00

The Company has a policy of recording compensation expense upon the issuance of stock options. Under the fair value method, the compensation expense was \$0.01 million for the three months ended June 30, 2009 (July 31, 2008: \$0.00 million), compensation expense was \$0.02 million for the six months ended June 30, 2009 (July 31, 2008: \$0.00 million) resulting in a corresponding increase of the contributed surplus.

#### 13. 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 28,135,291 and 25,440,566 for the quarters ended June 30, 2009 and July 31, 2008 respectively. The weighted average Ordinary Shares outstanding were 26,721,894 and 25,383,764 for the years ended December 31, 2008 and April 30, 2008 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at June 30, 2009 the outstanding options are not dilutive as the market price of common shares is below exercise price.

	Earnings (in thousands) June 30, 2009	Weighted average shares (in thousands) June 30, 2009	Earnings per Common Shares June 30, 2009
Net earnings applicable to common shares	4,929		
Weighted Average share outstanding		28,135	
Basic Earnings Per Common Share			0.18
Effect of potential dilutive securities:			
Stock Options		-	
Diluted Earnings per Common Share	4,929	28,135	0.18
	Earnings (in	Weighted	TD
	thousands) July 31, 2008	average shares (in thousands) July 31, 2008	Earnings per Common Shares July 31, 2008
Net earnings applicable to common shares	thousands) July 31,	average shares (in thousands)	Common Shares
Net earnings applicable to common shares Weighted Average share outstanding	thousands) July 31, 2008	average shares (in thousands)	Common Shares
C 11	thousands) July 31, 2008	average shares (in thousands) July 31, 2008	Common Shares
Weighted Average share outstanding	thousands) July 31, 2008	average shares (in thousands) July 31, 2008	Common Shares July 31, 2008
Weighted Average share outstanding  Basic Earnings Per Common Share	thousands) July 31, 2008	average shares (in thousands) July 31, 2008	Common Shares July 31, 2008

# 14. 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.

	June 30, 2009 Carrying Value	June 30, 2009 Estimated Fair Value	December 31, 2008 Carrying Value	December 31, 2008 Estimated Fair Value
Held for trading				
Cash and cash equivalents	<u>3,089</u>	<u>3,089</u>	<u>1,431</u>	<u>1,431</u>
	3,089	3,089	1,431	1,431
Loans and receivables Trade and other accounts receivable	11,885	11,885	16,879	16,879
Other Assets <sup>1</sup>	<u>38</u>	<u>38</u>	<u>41</u>	<u>41</u>
Other financial liabilities	11,923	11,923	16,920	16,920
Short-term borrowings	8,000	8,000	8,000	8,000
Trade and other accounts payable	21,288	21,288	21,048	21,048
Customer deposits	3,848	3,848	3,785	3,785
Long term debt, including current portion <sup>2</sup>	183,500 216,636	172,767 205,903	167,766 200,599	158,679 191,512

<sup>1</sup> Other receivables due from customers

## 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 June 30, 2009 totalled \$172.8 million, (December 31, 2008: \$158.7 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.

<sup>2</sup> Carrying value of long term debt includes deferred debt issue costs

Trade Receivables	June 30, 2009	<b>December 31, 2008</b>
	0.507	12.225
Current	9,587	12,327
Past due 31-60 days	643	2,704
Past due 61-90 days	732	876
Past due over 90 days	<u>1,160</u>	<u>1,188</u>
<b>Total Accounts Receivables</b>	12,122	17,095
Less: Allowance for doubtful accounts	(237)	(216)
Less: Consumer's Deposits and Advances for Construction	(3,848)	(3,785)
Net Exposure	8,037	13,094

### 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

Long-term debt is issued at fixed interest rates, thereby minimising cash flow and interest rate exposure. The Company is primarily exposed to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The current amount of short-term borrowings totals \$8.0 million.

## 15. Foreign Exchange

The closing rate of exchange on June 30, 2009 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn\$1.1630 per US\$1.00. The official exchange rate for the conversion of Cayman Islands dollars into U.S. dollars as determined by CIMA is fixed at CI\$1.00 per US\$1.20. Thus, the rate of exchange as of June 30, 2009 for conversion of Cayman Islands dollars into Canadian dollars was Cdn\$1.3956 per CI\$1.00.

### 16. Finance Charges

The composition of finance charges were as follows:

Finance Charges (\$ thousands)	Three Months Ended June 30, 2009	Three Months Ended July 31, 2008	Six Months Ended June 30, 2009	Six Months Ended July 31, 2008
Total interests costs	2,830	3,162	5,495	5,954
Capitalised interest *	-	-	-	(210)
AFUDC *	(1,233)	<u>(763)</u>	(2,250)	<u>(763)</u>
Total *Refer to PP&E (Note 7) with regards to Capit	1,597 alised Interest and AFUDC meth	<b>2,399</b> nodology	3,245	4,981

### 17. Pension Plan

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. As at June 30, 2009, the Company had an accrued benefit liability of \$0.04 million (December 31, 2008: \$0.05). During the six months ended June 30, 2009, the Company recorded net compensation expense in relation to its defined benefit plan of \$0.3 million (December 31, 2008:\$0.25 million).

During the first six months of 2009 the Company recorded net compensation expense in relation to its defined contribution plan of \$0.4 million (July 31, 2008: \$0.4 million).

### 18. Transactions with Related Parties

Miscellaneous receivables from Fortis Inc. totalled \$0.05 million as at June 30, 2009, \$0 million at July 31, 2008 and Fortis Turks & Caicos totalled \$0.07 million as at June 30, 2009, \$0 million July 31, 2008. The aforementioned receivables are measured at cost.

## 19. Long Term Debt

In June 2009, the Company closed on the first tranche of a \$40 million private placement of 7.50% Senior Unsecured Notes due May 29, 2024 resulting in the receipt of \$30 million. The debt offering was privately placed with institutional investors in the U.S.

## 20. Subsequent Events

On July 10, 2009 the Company drew down the remaining US\$10.0 million of the 7.50% senior unsecured note issued in June 2009 (note 19).

On July 22, 2009 Fortis Inc. acquired, through its wholly owned subsidiary Fortis Energy (Bermuda) Ltd., 768,200 of the Company's Class A Ordinary Shares at a price of \$8.00 per share. The 768,200 shares were acquired by Fortis pursuant to a private agreement dated July 22, 2009.

As a result of this acquisition, Fortis Inc. now indirectly owns 16,757,528 CUC shares, having increased its beneficial ownership position by approximately 2.7% to approximately 59.5% of the issued and outstanding CUC shares.

21. Comparative Figure	es
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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

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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.

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