

2007/2008 Second Quarter Report October 31, 2007



## **General Data**

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## **About the Company**

Caribbean Utilities Company, Ltd., known locally as "CUC", commenced operations as the only electric utility in Grand Cayman in May 1966. The Company has an installed capacity of 136.6 megaWatts ("MW"). A record peak load of 92.7 MW was experienced in August 2007. Our 193 employees are committed to providing a safe and reliable supply of electricity to over 23,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's rapid development for the past 40 years. CUC was directly impacted on September 11 and 12, 2004 by Hurricane Ivan, a category-four storm that caused widespread destruction across Grand Cayman and the loss of approximately 20% of the Company's transmission and distribution system. Despite facing major logistical challenges, we successfully completed the restoration of service to all reconnectable customers on Grand Cayman on November 30, 2004, which was within the 90-day period we projected following the hurricane.

## **Cover Photo**

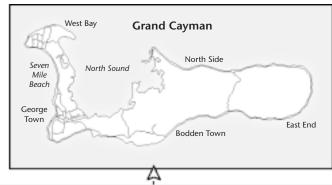
David Watler, CUC's Vice-President Production (left), presents 17-year old swimmer Andrew Smiley with his first-place trophy following CUC's 19th Annual 800m Sea Swim. Andrew recently represented the Cayman Islands at the Special Olympics 2007 World Summer Games in China returning with two gold medals (200m Individual Medley and 400m Freestyle) and a bronze medal (100m Backstroke).

### About the Islands

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 52,000, are comprised of three islands: Grand Cayman, Cayman Brac and Little Cayman. Located 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.

The islands, discovered by Christopher Columbus during his fourth and final voyage in 1503, were originally named "Las Tortugas" for their large turtle population. The islands later became known as "Cayman" representing the Carib word for crocodiles, a large number of which existed at that time. 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.





## To Our Shareholders



J.F. Richard Hew President & Chief Executive Officer

Dear Shareholder,

In the second quarter, Caribbean Utilities Company, Ltd. ("CUC" or "the Company") continued to experience growth in the number of residential and commercial customers, and in overall electricity sales which was up 4% over 2007 at 139.7 million kiloWatt-hours ("kWh"). This was despite above average rainfall and below average temperatures for the period which reduced customers' air conditioning load. A new peak load of 92.7 megaWatts ("MW"), 7% above last year's peak, was set in August and year-to-date electricity sales increased 6% to 281.5 kWh.

Earnings on Class A Ordinary Shares of \$6.1 million or \$0.242 per share were down from \$6.7 million or \$0.266 per share for second quarter 2007. Year-to-date earnings on Class A Ordinary Shares were \$13.4 million, a 7% decrease from \$14.4 million in fiscal 2007. The anticipated decline was attributable to higher, cyclical transmission and distribution and generator maintenance expenses partially offset by 6% sales growth for the period. A quarterly dividend of \$0.165 was declared on the Class A Ordinary Shares by the Board of Directors in November and is payable on December 15, 2007

to shareholders of record on November 23, 2007.

CUC's focus on system reliability is largely embodied in its proactive maintenance practices. Reliability to customers as measured by the Average Service Availability Index was 99.95% for the second quarter compared to 99.92% a year ago.

Rising fuel costs continued to increase electricity prices to consumers with the fuel factor for the period averaging CI\$0.11 per kWh. Fuel costs are passed directly on to consumers through a fuel factor charge appearing on monthly consumption invoices.

During the period, a comprehensive review of business continuity, technology recovery and crisis management was completed. CUC considers its ability to respond not only to hurricane threat but other potential disasters an important aspect of delivering a vital service to its market community and plans continued testing and evaluation of its systems on an ongoing basis.

Thankfully during this hurricane season, CUC has only been impacted by one storm, Hurricane Dean, which passed 102 miles southwest of Grand Cayman as a category four hurricane on Monday, August 20. CUC's robust transmission and distribution system suffered minor damage from related tropical storm force winds and full service was restored within 16 hours of the storm passing.

The management and executive appointments made in the first quarter 2008 have settled into their new roles and have begun to make contributions as expected. During the quarter, Douglas Murray joined the executive team as Corporate Secretary succeeding Robert Imparato who left

Caribbean Utilities Company, Ltd. Financial Highlights	Three months en	ded Oct. 31	Six months er	nded Oct. 31		
(\$ thousands, except basic and diluted earnings per ordinary share)	2007	2006	2007	2006	Change	Change %
Operating Revenues	45,625	42,882	88,996	84,169	4,827	6
Cash Flow from Operations *	10,378	10,481	22,170	22,320	(150)	-1
Earnings Applicable to Ordinary Shares	6,138	6,715	13,380	14,387	(1,007)	-7
Basic Earnings per Ordinary Share	0.242	0.266	0.528	0.569	(0.04)	-7
Diluted Earnings per Ordinary Share	0.241	0.266	0.527	0.569	(0.04)	-7
* Before working capital adjustments						

## To Our Shareholders

CUC in August. We welcome Mr. Murray and thank Mr. Imparato for 10 years of dedicated service to the Company.

At the half-year mark, I am generally pleased with CUC's results and again thank the management team and employees for their initiative and commitment in ensuring world-class, reliable electrical service to the residents of Grand Cayman.

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

J.F. Richard Hew

President & Chief Executive Officer

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November 26, 2007



CUC's focus on system reliability is largely embodied in its proactive maintenance practices. Reliability to customers as measured by the Average Service Ability Index was 99.95% for the second quarter compared to 99.92% a year ago.



**Letitia T. Lawrence** Vice-President Finance & Chief Financial Officer

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd ("CUC" or "the Company") interim unaudited financial statements for the three and six months ended October 31. 2007 and the MD&A and audited financial statements for the year ended April 30, 2007 included in the Company's 2007 Annual Report. The material has been prepared in accordance with National Instrument 51-102 relating to Management's Discussion and Analysis. CUC includes forwardlooking 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". By their very nature, forward looking statements are based on underlying assumptions and are subject to inherent risks and uncertainties surrounding future expectations generally

that may cause actual results to vary from plans, targets and estimates. Such risks and uncertainties include but are not limited to general economic, market and business conditions, regulatory developments and weather. CUC cautions readers that should certain events or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. 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. Additional information in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and is presented in United States dollars unless otherwise specified. The financial statements and MD&A in this second quarter report were approved by the Audit Committee.

The principal activity of the Company is to generate and distribute electricity in Grand Cayman, Cayman Islands pursuant to a 25-year exclusive Licence with the Cayman Islands Government ("Government").

## **Licence Negotiations**

The Company's 2007 audited results confirmed that the Company would have been entitled to a 4.5% rate increase effective August 1, 2007 under its current Licence as a result of the disposal of the 2.4 megaWatt ("MW") steam system as part of a Power Plant restructuring, increased operating expenses and infrastructure investment. CUC did not implement this rate increase, as it agreed with Government in 2005 that it would freeze

Caribbean Utilities Company, Ltd. Financial & Operational Highlights (\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary	Three months ended Oct. 31 Six months		Six months e	ended Oct. 31		
share and where otherwise indicated)	2007	2006	2007	2006	Change	Change %
Operating Revenues	45,625	42,882	88,996	84,169	4,827	6
Hurricane Ivan Cost Recovery Surcharge	1,242	1,198	2,502	2,363	139	6
Total Operating Expenses	37,411	34,473	71,090	66,048	5,042	8
Earnings Year-to-Date	6,251	6,828	14,085	14,927	(842)	-6
Basic Earnings per Ordinary Share	0.242	0.266	0.528	0.569	(0.04)	-7
Dividends paid per Ordinary Share	0.165	0.165	0.330	0.330	-	Nil
Net Generation (millions of kWh)	148.64	141.44	301.29	281.98	19.31	7
Peak Load Gross (MW)	92.71	86.83	92.71	86.83	5.88	7
Kilowatt-hour Sales (millions of kWh)	139.68	134.63	281.45	265.61	15.84	6
Total Customers	23,428	22,052	23,428	22,052	1,376	6

its base rates during the period of the Hurricane Ivan Cost Recovery Surcharge ("CRS"). As at October 31, 2007 a total of \$10.1 million has been collected since the CRS implementation date of August 1, 2005, leaving \$3.3 million to be recovered.

The Company remains actively engaged in licence negotiations with Government. The current licence remains in full force and effect until January 2011 or until replaced by a new licence by mutual consent.

### **Earnings**

Net earnings for the three months ended October 31, 2007 declined \$0.5 million to \$6.3 million, from \$6.8 million for the same period last year. Earnings on Class A Ordinary Shares for the period were \$6.1 million, or \$0.242 per Class A Ordinary Share, as compared to \$6.7 million, or \$0.266 per Class A Ordinary Share for second quarter fiscal 2007. This 9% quarter-over-quarter decline in earnings per share was driven by increased transmission and distribution ("T&D") maintenance expenses. The increase in T&D expenses is largely in line with the Company's expectations and reflective of the T&D division's cyclical maintenance programme, which is scheduled approximately every five years. Customers experienced average system availability reliability levels of 99.95% for the period as a result of the T&D maintenance programme and additional generating capacity from the 16 MW MAN diesel generating unit installed in June 2007.

Year-to-date net earnings were \$14.1 million as compared to \$14.9 million for the same period last year. Earnings on Class A Ordinary Shares for the period were \$13.4 million, or \$0.528 per Class A Ordinary Share, as compared to \$14.4 million, or \$0.569 per Class A Ordinary Share for the same period last year. This 7% quarter-over-quarter decline in earnings per ordinary share was due to higher T&D and generator maintenance expenses partially offset by 6% kiloWatt-hour ("kWh") sales growth. The first six months of 2007 saw delays in the Company's scheduled generator maintenance programme, which resulted in lower than usual expenses for the period. The 2008 expenses are largely in-line with budget and reflective of a return to normal maintenance schedules.

#### Sales

Total electricity sales for the second quarter of fiscal 2008 increased 4% to 139.7 million kWh from 134.6 million kWh for the same period last year. Although there was minimal direct impact to the Company from hurricanes during the 2007 Atlantic Hurricane Season, forecasted growth for the period was

negatively impacted by above-average rainfall and cooler than average temperatures. Air conditioning load is a significant driver of demand. Whereas fundamentals such as new customer connections are projected to remain strong, weather conditions and the price of fuel may be factors that could adversely affect growth for the remainder of the year.

Total customers as at October 31, 2007 were 23,428, an increase of 6% over the number of customers at the same time last year. The Company connected over 300 customers for the three month period ended October 31, 2007 with the majority of new customers coming from the residential class. Year-to-date the Company has connected 587 new residential customers and 73 commercial customers. Total electricity sales for the six months ended October 31, 2007 increased 6% to 281.5 million kWh from 265.6 million kWh for the same period last year.

### **Operating Revenues**

Operating revenues for the second quarter were \$45.6 million, a \$2.7 million increase over \$42.9 million for the same period last year. This 6% overall increase in operating revenues was comprised of a 6% increase in electricity sales revenues and an 8% increase in fuel factor revenues (which were offset by increased fuel expenses; see "Power Generation" section on page 6 and 7). Operating revenues for the six months ended October 31, 2007 totaled \$89 million, a 6% increase from \$84.2 million for the same period last year.

CRS revenues were comparable to the same period last year. The Company's earnings on Class A Ordinary Shares for the second quarter of fiscal 2008 excluding the impact of the CRS would have been \$4.9 million or \$0.193 per Class A Ordinary Share compared to \$5.5 million, or \$0.218 per Class A Ordinary Share for the same period last year. On a year-to-date basis, earnings on Class A Ordinary Shares, excluding the CRS, would have been \$10.9 million, or \$0.429 per Class A Ordinary Share compared to \$12.0 million, or \$0.475 per Class A Ordinary Share for the same period last year.

## **Operating Expenses**

Operating expenses for the three and six months ended October 31 were as follows:

	Three months	s ended Oc	tober 3
	2007	2006	Chang
	\$	\$	Ģ
Fuel and lube oil costs	27,036	24,696	
Other generating costs	741	846	-1
Total power generation expenses	27,777	25,542	
General and administration	2,698	2,756	
Customer service and promotion	424	328	2
Transmission and distribution	761	442	7
Depreciation and amortisation	4,072	3,631	1
Maintenance	1,679	1,774	-
Total other operating expenses	9,634	8,931	
Total operating expenses	37,411	34,473	
	Six months		
	2007	2006	Chang
			Chang
Fuel and lube oil costs	2007 \$ 49,650	2006 \$ 46,338	Chang
Fuel and lube oil costs Other generating costs	2007 \$	2006 \$	Chang
	2007 \$ 49,650	2006 \$ 46,338	Chang
Other generating costs	2007 \$ 49,650 1,725	2006 \$ 46,338 1,784	Chang c
Other generating costs  Total power generation expenses	2007 \$ 49,650 1,725 51,375	2006 \$ 46,338 1,784 48,122	Chang c
Other generating costs  Total power generation expenses  General and administration	2007 \$ 49,650 1,725 51,375	2006 \$ 46,338 1,784 48,122 5,566	Chang
Other generating costs  Total power generation expenses  General and administration  Customer service and promotion  Transmission and distribution  Depreciation and amortisation	2007 \$ 49,650 1,725  51,375  5,818  754  1,396  8,016	2006 \$ 46,338 1,784 48,122 5,566 607 1,020 7,371	Chang
Other generating costs  Total power generation expenses  General and administration Customer service and promotion Transmission and distribution	2007 \$ 49,650 1,725 51,375  5,818 754 1,396	2006 \$ 46,338 1,784 48,122 5,566 607 1,020	Chang
Other generating costs  Total power generation expenses  General and administration  Customer service and promotion  Transmission and distribution  Depreciation and amortisation	2007 \$ 49,650 1,725  51,375  5,818  754  1,396  8,016	2006 \$ 46,338 1,784 48,122 5,566 607 1,020 7,371	Chang

### **Power Generation**

Power generation expenses increased \$2.3 million, or 9% to \$27.8 million for the three months ended October 31, 2007, from \$25.5 million for the same period last year. This increase was driven by rising fuel prices and higher production levels partially offset by a deferred fuel credit. The Company experienced a 5% quarter-over-quarter increase in kWh

generation growth from 141.4 million kWh to 148.6 million kWh.

World fuel prices continue to impact the price of electricity. During the second quarter of fiscal 2008, CUC's average price per imperial gallon of fuel increased to \$3.35 (compared to \$3.05 for the same period last year). Changes in fuel prices, which include Government duty of \$0.60 per imperial gallon, are recovered from customers on a two-month delay basis through the fuel factor adjustment. The rising price of fuel resulted in a deferred fuel credit of \$0.3 million for the quarter as compared to a \$0.5 million deferred fuel charge for the same period last year. Large swings in this account, although normal, occur infrequently. The impact of these changes is of a timing nature.

Power generation expenses for the six months ended October 31, 2007 totaled \$51.4 million, an increase of \$3.3 million, or 7%, from \$48.1 million for the same period last year. On an aggregate basis, CUC's price of fuel rose to \$3.44 per imperial gallon in October 2007 from \$2.82 in April 2007 resulting in a deferred fuel credit of \$3.8 million for the period (compared to a credit of \$2.4 million for the same period last year). Power generation expenses comprise over 70% of CUC's total operating expenses.



Construction on the 100,000 square-foot Walkers Building is well underway as the private sector continues to invest in the infrastructural development of Grand Cayman.

(\$ thousands)	Three n	nonths ended	October 31
	2007	2006	Change
	\$	\$	%
Fuel	26,831	23,755	13
Lube	469	416	13
Deferred fuel	(264)	525	-150
Other	741	846	-12
Total	27,777	25,542	9
	Six n	nonths ended	October 31
	Six n <b>2007</b>	nonths ended 2006	October 31 Change
			Change
Fuel	2007	2006	Change
Fuel Lube	2007 \$	2006	
	2007 \$ 52,635	2006 \$ 47,803	Change %
Lube	2007 \$ 52,635 846	2006 \$ 47,803 904	Change % 10 -6

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

G&A expenses for the three months ended October 31, 2007 declined \$0.1 million to \$2.7 million from \$2.8 million for the same period last year. In July 2007 the Company renewed its business interruption ("BI"), machinery breakdown and property insurance at a premium of \$2.8 million. This amount represents a 13% reduction from the 2006/2007 premium of \$3.2 million.

For the six months ended October 31, 2007 G&A expenses of \$5.8 million, increased \$0.2 million from \$5.6 million for the same period last year as lower insurance premiums were offset by increased professional service fees.

### Customer Service and Promotion (C&P)

C&P expenses for the three months ended October 31, 2007 increased \$0.1 million to \$0.4 million for the same period last year. C&P expenses for the six months ended October 31, 2007 increased \$0.2 million to \$0.8 million from \$0.6 million for the same period last year. This increase was driven by increased

claims for customer equipment damages. The T&D maintenance programme (see "Transmission and Distribution (T&D)" section below) is expected to significantly reduce the occurrences of these types of equipment damages going forward.

### Transmission and Distribution (T&D)

T&D expenses for the three months ended October 31, 2007 of \$0.7 million increased \$0.3 million over \$0.4 million for the same period last year. This quarter-over-quarter increase is in-line with the Company's forecasts and reflective of the T&D Division's cyclical maintenance programme. For the six months ended October 31, 2007, T&D expenses increased \$0.4 million to \$1.4 million from \$1.0 million for the same period last year.

### Depreciation and Amortisation (D&A)

D&A expenses for the second quarter increased \$0.5 million to \$4.1 million from \$3.6 million for the same period last year. This increase was in-line with the Company's forecasts and a result of new growth-related capital expenditures including the recently installed 16 MW MAN Diesel generating unit.

D&A expenses for the six months ended October 31, 2007 increased \$0.6 million to \$8.0 million from \$7.4 million for the same period last year. The Company expects to see continued increases in D&A expenses based upon current capital expenditure projections.

### Maintenance

Maintenance expenses for the three months ended October 31, 2007 declined slightly to \$1.7 million from \$1.8 million for the same period last year. In September 2007, one of the Company's 10.3 MW Stork Werkspoor generating units experienced a turbocharger failure. The estimated cost to replace the turbocharger was \$0.7 million, of which \$0.6 million was completed and capitalised by October 31, 2007.

As a result of the Stork Werkspoor failure, some routine maintenance scheduled for the second quarter was delayed. It is still anticipated that these delayed maintenance items will be completed before the end of the fiscal year.

On a year-to-date basis, maintenance expenses increased \$0.3 million to \$3.7 million for the six months ended October 31, 2007 as compared to \$3.4 million for the same period last year. The first six months of fiscal 2007 saw delays in the Company's scheduled maintenance programme which resulted in lower than usual maintenance expenses for that period. The higher

expenses in 2008 are below the Company's forecasts due to the delays in the second quarter maintenance schedule described above.

### Other Income and Expenses

Other Income and Expenses (\$ thousands)		
	Three months ended	October 31
	2007	2006
	\$	\$
Total interest costs	2,918	2,616
Capitalised interest	(168)	(283)
Net interest expense	2,750	2,333
Foreign exchange gain	(404)	(431)
Other income	(383)	(321)
Total net other expenses	1,963	1,581
	Six months ended	October 31
	2007	2006
	\$	\$
Total interest costs	5,715	5,300
Capitalised interest	(416)	(610)
Net interest expense	5,299	4,690
Foreign exchange gain	(735)	(751)
Other income	(743)	(745)
Total net other expenses	3,821	3,194

Total net other income and expenses for the second quarter increased \$0.4 million, or 25% to \$2.0 million from \$1.6 million for the same period last year. Total net other income and expenses increased \$0.6 million, or 19%, to \$3.8 million for the six months ended October 31, 2007 from \$3.2 million for the same period last year. These increases were driven by higher interest expenses.

Interest expenses for the three months ended October 31, 2007 of \$2.8 million increased \$0.5 million from \$2.3 million for

the same period last year. This 22% increase in expenses is due to a \$0.4 million increase in total interest costs from increased borrowings, and a \$0.1 million decrease in capitalised interest quarter-over-quarter. Despite the higher overall capital expenditures in the second quarter of fiscal 2008, the value of projects to which financing costs were capitalisable declined quarter-over-quarter. Second quarter 2008 capital expenditures included land purchases of \$3.3 million.

Foreign exchange gains and Other Income for the second quarter and for the six months ended October 31, 2007 were comparable to last year.

### The Economy

Government and the private sector continue to invest in the infrastructural development of Grand Cayman. New developments such as the 160,000 square-foot Governor's Square Shopping and Office Centre; the 89,000 square-foot Caribbean Club condominium complex; the 60,000 square-foot Bank of Butterfield building; the 100,000 square-foot Walkers Building and the 500,000 square-foot Phase One Camana Bay have recently come on-line or are scheduled to come on-line during the year. In addition, the Government's 2007/2008 capital expenditure forecasts exceed \$135 million for schools, government offices, hurricane shelters and roads.

Air arrivals for the first nine months of calendar 2007 exceeded arrivals for the same period last year by 9%. Cruise arrivals declined slightly year-over-year. The following table presents tourist statistics for the nine months ended Septembern 30 (in thousands):

Arrivals	2007	2006	2005	2004	2003
By Air By Sea	221 1,359	203 1,431	120 1,356	243 1,353	221 1,289
Total	1,580	1,634	1,476	1,596	1,510

Government forecasts for the 2007/2008 (year ended June 30) period continue to indicate sustainable growth in the Cayman Islands economy with average gross domestic product (GDP) growth estimated at 3.5% for the period. The forecast for unemployment is for a continued decline to 3.6% and inflation is expected to remain modest for the period at 3.5%.

### **Financial Position**

The table below ("Changes in Balance Sheets") is a summary of significant changes to the Company's balance sheets between October 31, 2007 and April 30, 2007.

## **Liquidity and Capital Resources**

The following table outlines the summary of cash flow:

Summary of Cash Flow (\$ thousands)		
	Three months ende	ed October 31
	2007	2006
	\$	\$
Cash, beginning of period	1,937	3,697
Cash provided by (used in)		
Operating Activities	9,018	13,064
Investing Activities	(8,977)	(8,317)
Net Financing Activities	(752)	(6,089)
Cash, end of period	1,226	2,355

	Six months end	ed October 31
	2007	2006
	\$	\$
Cash, beginning of period	6,891	576
Cash provided by (used in)		
Operating Activities	11,683	27,106
Investing Activities	(26,522)	(17,038
Net Financing Activities	9,174	(8,289
Cash, end of period	1,226	2,355

## **Operating Activities**

Cash flow from operations, after working capital adjustments, for the second quarter of fiscal 2008 was \$9.0 million, as compared to \$13.1 million for the same period last year. This \$4.1 million decrease was due primarily to a \$1.4 million increase in non-cash working capital balances in 2008 versus a \$2.6 million decrease in non-cash working capital balances from the same period last year.

## **Changes in Balance Sheets**

(between October 31, 2007 and April 30, 2007)

<b>Balance Sheet Account</b>	Increase/(Decrease) (\$ millions)	Explanation
Cash	(5.7)	Decrease due to cash used in investing activities of \$26.5 million partially offset by cash provided by operating activities of \$11.6 million and cash from financing activities of \$9.2 million.
Accounts receivable - trade	3.5	Increase is due to higher consumption and higher fuel factor billings as a result of rising fuel prices.
Property, plant and equipment	18.5	Net increase is comprised of capital expenditures of (1) \$26.5 million and (2) depreciation expense of \$8.0 million.
Bank overdraft	5.2	Increase due to drawdown against the RBC operating line of credit.
Short-term debt	(7.0)	Decrease is a net result of the repayment of \$15 million Fortis loan and drawdown of \$8.0 million against the RBC credit facilities.
Long-term debt	18.4	Increase is due to the issue of \$30 million Senior Unsecured Notes, partially offset by the debt repayment on current Senior Unsecured Notes and the reclassification of \$1.4 million of previously deferred debt expenses against long-term debt balances as a result of the Company adopting CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement.
Retained earnings	5.0	Increase due to net earnings for the period of \$14.1 million, offset by Class A dividends of \$8.4 million and Class B dividends of \$0.7 million.

Cash flow from operations, after working capital adjustments, for the six months ended October 31, 2007 was \$11.7 million, a \$15.4 million decrease from \$27.1 million for the same period last year. This 57% decline was driven by a \$0.8 million decrease in earnings for the period, a \$3.5 million increase in trade receivables and a \$2 million increase in fuel inventory as compared to a \$9.1 million decrease in insurance receivables for the final payment on the Hurricane Ivan insurance claim during the same period last year. In June 2007, the Company assumed ownership of the North Sound Power Plant's bulk fuel inventory previously owned by the Company's primary fuel supplier.

### **Investing Activities**

Cash used in investing activities increased \$0.7 million to \$9.0 million for second quarter 2008, from \$8.3 million for the same period last year. This 8% quarter-over-quarter increase is due to higher capital expenditures.

Higher capital expenditures also accounted for the \$9.5 million, or 56%, increase in cash used in investing activities for the six months ended October 31, 2007 of \$26.5 million compared to \$17.0 million for the same period last year.

### **Financing Activities**

Cash used in financing activities for the three months ended October 31, 2007 was \$0.7 million, as compared to cash used in financing activities for the same period last year of \$6.1 million. This \$5.4 million decrease in cash used in financing activities is the result of a net increase in debt (including bank overdraft) of \$3.3 million in the second quarter of 2008 as compared to a net decrease in debt of \$2.0 million during the same period last year. During the second quarter 2008, the Company drew down an additional \$2.0 million on the Royal Bank of Canada ("RBC") capital expenditure credit facility, increasing the total outstanding on this RBC facility to \$10 million.

Cash provided by financing activities for the six months ended October 31, 2007 was \$9.2 million, as compared to cash used in financing activities for the same period last year of \$8.3

million. This \$17.5 million increase in cash provided by financing activities was the result of a net increase in debt (including bank overdraft) of \$17.9 million in 2008 as compared to a net increase in debt of \$0.4 million last year.

CUC closed on the first tranche of a \$40 million private placement of 5.65% Senior Unsecured Notes due June 1, 2022, on June 1, 2007. The first tranche was in the amount of \$30 million and was used to repay short-term debt, including a \$15 million demand note to Fortis Inc. ("Fortis") (see "Transactions with Related Parties" section below).

The second tranche of \$10.0 million from the 5.65% Senior Unsecured Notes is scheduled to close in December 2007 and will be used to repay short-term indebtedness and to finance capital expenditures.

#### Transactions with Related Parties

In 2007, the Company entered into a 7% \$15 million Demand Note agreement with the Company's majority shareholder Fortis. The Fortis transaction allowed the Company to effect a lower blended rate on short-term borrowings. Proceeds from the June 2007 private placement debt offering were used to repay the \$15 million Demand Note to Fortis, additional short-term indebtedness and to finance ongoing capital expenditures.

In August 2007 the Company entered into an equipment lease contract agreement with Fortis Turks and Caicos, a wholly-owned subsidiary of Fortis, for the rental of one of the Company's 1.4 MW mobile units. The term of the agreement is three months with monthly rental fees and all costs incurred for the transport of the unit including shipping costs, taxes, port charges, custom duties and other levies and maintenance costs payable by Fortis Turks and Caicos. During the second quarter of 2008, the Company recorded \$41,000 in rental fee income to Other Income from the rental of the mobile generating unit to Fortis Turks and Caicos.

## **Contractual Obligations**

The contractual obligations over the next five years and periods thereafter, as at October 31, 2007, are outlined in the table below ("Contractual Obligations").

# Contractual Obligations (as at October 31 in \$ millions)

	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
	(\$)	(\$)	(\$)	(\$)	(\$)
Total debt	176.9	19.2	24.5	32.5	100.7

## **Capital Resources**

The Company's principal activity as the exclusive provider of electricity in Grand Cayman, a major financial and tourism centre, requires CUC to have ongoing access to capital to build and maintain the electrical system for the community it serves. The Company's capital structure is shown below:

Capital Structure (\$ millions)				
		Six month	ns ended Octol	per 31
	2007 \$	%	2006	%
Total Debt	176.9	56	156.8	53
Shareholders' Equity	140.7	44	140.0	47
Total	317.6	100	296.8	100

The change in the Company's capital structure between October 2007 and April 2007 is the result of a net increase in debt of \$11.5 million partially offset by an increase in retained earnings due primarily to earnings for the period. The change in the Company's capital structure between October 2007 and October 2006 is the result of a net increase in debt of \$20.1 million.

The Company's credit ratings are as follows:

S&P : A/Negative DBRS : A (low)

## **Credit Facilities**

The Company has \$34.7 million of unsecured credit financing facilities with RBC comprising:

Credit Facilities	Details
Corporate Credit Card Line	\$0.3 million
Letters of Credit	\$02.4 million
Operating, Revolving Line of Credit	\$ 7.5 million
Catastrophe Standby Loan	\$ 7.5 million
Demand Loan Facility - Interim Funding of Capital Expenditures	\$17.0 million
Total	\$34.7 million

Of the total above, \$16.8 million was available at October 31, 2007.

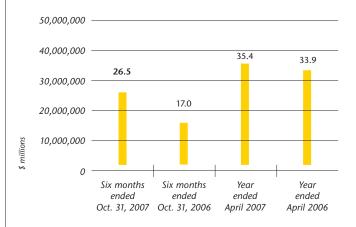
### **Capital Expenditures**

The electric utility business is capital intensive and large investments in capital infrastructure are required to reliably meet growth in customer demand. Costs related to replacements, upgrades and betterments of capital assets are capitalised as incurred.

Capital expenditures for the second quarter were \$9.0 million, a \$0.7 million or 8% increase over capital expenditures for the same period last year of \$8.4 million. Capital expenditures for the six months ended October 31, 2007 were \$26.5 million, a \$9.5 million or 56% increase over capital expenditures for the same period last year of \$17 million. Capital expenditures for the three and six months ended October 31, 2007 were as follows:

Capital Expenditures (\$ millions)		
	Three months	Six months
	ended	ended
	October 31, 2007	October 31, 2007
T&D	3.3	6.1
Generation	1.8	10.5
Other	3.9	9.9
Total	9.0	26.5

### **Capital Expenditures**



Other Capital Expenditures for the three and six months ended October 31, 2007 included land purchases of \$3.3 million and \$8.6 million respectively. This land purchased adjacent to the Company's North Sound Power Plant compound will enable the Company to continue to expand its operations at the North Sound Road location.

### 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 affect liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at October 31, 2007.

#### **Business Risks**

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

### Licence Negotiations

Negotiations continue with Government for the issuance of new licences. The Company's current Licence remains in full force and effect until January 2011 or until replaced by a new Licence by mutual consent.

#### **Economic Conditions**

The general economic condition of CUC's service area 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, disasters such as hurricanes will always remain a risk. In order to mitigate some of this risk, the Company maintains insurance coverage management believes is proper and consistent with insurance policies obtained by similar companies.

### **Changes in Accounting Policies**

On May 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants ("CICA") accounting standards for Financial Instruments, Hedges and Comprehensive Income. The nature and impact of adopting these new standards is described in detail in Note 2 to the Company's interim unaudited financial statements for the three and six months ended October 31, 2007. The only significant impact of adoption the standards was the reallocation of \$1.4 million of deferred debt issue expenses from Other Assets to Long-Term Debt. The adoption of the accounting standards did not have a material impact on the Company's statements of earnings for the three and six months ended October 31, 2007

## **Future Accounting Policies**

### International Financing Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for companies reporting under Canadian GAAP. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. CUC has begun assessing the adoption of IFRS for fiscal year 2012, however the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### Inventories

In March 2007, the AcSB approved a new standard with respect to inventories effective for fiscal years beginning on or after January 1, 2008. The new standard requires inventories to be measured at the lower of cost or net realizable value and disallows the use of a last-in-first-out inventory costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is to be reversed. This new standard is not expected to have a material impact on the Company's earnings.

## **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 year. Estimates are based on historical experience, current conditions and

various other assumptions believed to be reasonable under the circumstances. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from the current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known. The Company's critical accounting estimates relate to:

### Revenue Recognition

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at October 31, 2007, the amount of unbilled revenue recorded in Accounts Receivable - Trade was \$1.2 million (October 31, 2006: \$0.9 million) on operating revenues for the second quarter of \$45.6 million (second quarter 2007: \$42.9 million) and \$89 million for the six months ended October 31, 2007 (six months ended October 31, 2006: \$84.2 million).

### **Employee Future Benefits**

The Company's defined benefit pension plan is subject to judgments utilised in the actuarial determination of the expense and related obligation. The main assumptions utilised by management in determining pension expense and obligations were the discount rate for the accrued benefit obligation, pension commencement date, inflation and the expected rate of return on plan assets. As at October 31, 2007, the Company had an accrued benefit liability of \$0 (October 31, 2006: \$0.2 million).

During the second quarter of 2008 the Company recorded net compensation expense of \$0.1 million (second quarter 2007: \$0.2 million) and for the six months ended October 31, 2007 the Company recorded net compensation expense of \$0.3 million (six months ended October 31, 2006: \$0.4 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 including new technologies and historical information, and take into consideration the anticipated physical life of the assets. As at October 31, 2007, the net book value of the Company's Property, Plant and Equipment was \$305.8 million compared to \$280.4 million as at October 31, 2006, and \$287.3 million as at April 30, 2007 increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the three months ended October 31, 2007 was \$4.1 million and \$8.0 million for the six months ended October 31, 2007 compared to \$3.6 million for the three months ended October 31, 2006 and \$7.4 million for the six months ended October 31, 2006. Due to the value of the Company's property, plant and equipment, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

#### **Quarterly Results**

The table on page 14 ("Quarterly Results") summarizes unaudited quarterly information for each of the eight quarters ended January 31, 2006 through October 31, 2007. This information has been obtained from CUC's unaudited interim Financial Statements, which in the opinion of Management, have been prepared in accordance with GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

A summary of the past eight quarters reflects the Company's and Grand Cayman's post-Hurricane Ivan growth.

## October 2007/October 2006

Net earnings for the three months ended October 31, 2007 declined \$0.5 million to \$6.3 million, from \$6.8 million for the same period last year. Earnings on Class A Ordinary Shares for the period were \$6.1 million, or \$0.242 per Class A Ordinary Share, as compared to \$6.7 million, or \$0.266 per Class A Ordinary Share for second quarter fiscal 2007. This 8% quarter-over-quarter decline in earnings per share was driven by increased T&D maintenance expenses.

### July 2007/July 2006

Net earnings for the three months ended July 31, 2007 declined slightly to \$7.8 million, from \$8.1 million for the same period last year. Earnings on Class A Ordinary Shares for the first quarter of fiscal 2008 were \$7.2 million, or \$0.29 per Class A Ordinary Share, as compared to \$7.7 million, or \$0.30 per Class

A Ordinary Share for first quarter fiscal 2007.

The primary reasons for the 3% quarter-over-quarter decline in earnings applicable to Class A Ordinary Shares were increased maintenance expenses.

## April 2007/April 2006

Earnings on Class A Ordinary Shares for fourth quarter 2007 were \$4.0 million, or \$0.16 per Class A Ordinary Share, as compared to \$5.0 million, or \$0.20 per Class A Ordinary Share for fourth quarter fiscal 2006. The primary reasons for the 20% decline in earnings per share were increased maintenance expenses.

### January 2007/January 2006

Primarily as a result of the disposal of the Company's steam turbine and boiler assets, net losses for the three months ended January 31, 2007 were \$0.6 million, a 115% decline from net earnings of \$3.9 million for the same period last year. Third quarter 2007 results were negatively impacted by \$0.7 million of unplanned maintenance resulting from a series of unexpected generator failures. Losses on Class A Ordinary Shares for third quarter 2007 were \$0.7 million, or \$0.03 losses per Class A Ordinary Share, as compared to \$3.8 million, or \$0.155 earnings per Class A Ordinary Share for the third quarter fiscal 2006.

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

CUC maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarised and reported within the time

periods specified in the Canadian Securities Administrators rules and forms. Disclosure process included quality review performed by CUC's Disclosure Committee and Audit Committee.

The President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have evaluated the Company's disclosure controls and procedures as of October 31, 2007 and concluded that the Company's current disclosure controls and procedures are adequately designed.

## Internal Controls over Financing Reporting (ICFR)

The CEO and CFO of the Company, together with Management, have evaluated the design of the Company's ICFR, as defined under the rules adopted by the Canadian Securities Administrators, and based on this evaluation the CEO and CFO have concluded that as at October 31, 2007, CUC's ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements in accordance with Canadian GAAP.

There has been no change in the Company's ICFR during the second quarter of fiscal 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

### **Subsequent Events**

On November 6, 2007, the Company's Board of Directors declared a regular quarterly dividend of \$0.165 per Class A Ordinary Share, or an annualised divided of \$0.66 per Class A Ordinary Share. The dividend will be payable December 15, 2007 to shareholders of record November 23, 2007.

### **Quarterly Results** (Unaudited)

(expressed in \$ thousands, except basic and diluted Earnings per ordinary share)

Quarter Ended	Operating Revenue	Net Earnings/ (Losses)	Income/(Loss) Applicable to Ordinary Shares	Earnings/(Losses) per Share (Basic)	Diluted Earnings/(Losses) per Share
October 31, 2007	45,625	6,251	6,138	0.24	0.24
July 31, 2007	43,371	7,834	7,242	0.29	0.29
April 30, 2007	36,709	4,115	4,002	0.16	0.16
January 31, 2007	37,982	(587)	(700)	(0.03)	(0.03)
October 31, 2006	42,881	6,827	6,715	0.27	0.27
July 31, 2006	41,287	8,099	7,672	0.30	0.30
April 30, 2006	33,151	5,223	4,945	0.20	0.20
January 31, 2006	34,822	3,884	3,771	0.15	0.15

### Outlook

Licence negotiations with the Government continue and both parties have indicated that they are working towards an early conclusion to these negotiations. CUC plans to invest in infrastructure to meet the demands of the Grand Cayman economy in response to a growing resident population, continued growth of the tourism sector and the continued expansion of the financial services sector.

## **Outstanding Share Data**

At November 26, 2007, the Company had issued and outstanding 25,331,438 Ordinary Shares and 250,000 9% Cumulative Participating Class B Preference Shares.

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

Letitia T. Lawrence

Vice-President Finance & Chief Financial Officer

November 26, 2007

# **Balance Sheets**

Unaudited - Fiscal 2008 (expressed in thousands of United States dollars)

	Note	As of Oct. 31, 2007 \$	As of Oct. 31, 2006 \$	As of April 30, 2007 \$
Assets				
Current Assets Cash and due from banks Accounts receivable - trade Inventories Prepayments	3	1,226 20,104 7,354 2,435 ————————————————————————————————————	2,355 18,261 5,250 2,632 ————————————————————————————————————	6,891 16,583 5,401 1,172 ————————————————————————————————————
Property, plant and equipment	4	305,801	280,397	287,338
Other assets	5	14,454	13,393	11,855
Total Assets		351,374	322,288	329,240
Current Liabilities Bank overdraft Accounts payable and accrued expenses Short-term debt Current portion of long-term debt Consumer's deposits and advances for construction	6	5,181 25,002 10,000 10,520 3,528	22,169 8,000 10,505 3,314 43,988	24,931 17,000 10,512 3,416
Long-term debt	7	156,431	138,286	138,028
Total Liabilities		210,662	182,274	193,887
Shareholders' Equity Share capital Share premium Contributed surplus Retained earnings	8	1,759 42,541 250 96,162 140,712	1,756 41,871 193 96,194 ————————————————————————————————————	1,758 42,230 224 91,141 ——————————————————————————————————
Total Liabilities and Shareholders' Equity		351,374	322,288	329,240

# **Statements of Earnings**

Unaudited - Fiscal 2008 (expressed in thousands of United States dollars except for per share amounts)

	A	Three months ende		Six months ende	
	Note	2007	2006	2007 \$	2006 \$
Operating Revenues					
Electricity sales		26,312	24,936	53,145	49,872
Hurricane Ivan cost recovery surcharge	12	1,242	1,198	2,502	2,363
Fuel factor		18,071	16,748	33,349	31,934
Total Operating Revenues		45,625	42,882	88,996	84,169
Operating Expenses					
Power generation		27,777	25,542	51,375	48,122
General and administration		2,698	2,756	5,818	5,566
Customer service and promotion		424	328	754	607
Transmission and distribution		761	442	1,396	1,020
Depreciation and amortisation		4,072	3,631	8,016	7,371
Maintenance		1,679	1,774	3,731	3,362
Total Operating Expenses		37,411	34,473	71,090	66,048
Operating Income		8,214	8,409	17,906	18,121
Other Income/(Expenses)					
Interest expense		(2,750)	(2,333)	(5,299)	(4,690)
Foreign exchange gain		404	431	735	751
Other income		383	321	743	745
Total Net Other (Expenses)		(1,963)	(1,581)	(3,821)	(3,194)
Earnings for the Period		6,251	6,828	14,085	14,927
Dividends on preference shares		(113)	(113)	(705)	(540)
Earnings on Class A Ordinary Shares		6,138	6,715	13,380	14,387
Weighted average number of Class A					
Ordinary Shares issued and fully paid	9	25,343	25,290	25,350	25,294
Earnings per Class A Ordinary Share	9	0.242	0.266	0.528	0.569
Diluted earnings per Class A					
Ordinary Share	9	0.241	0.266	0.527	0.569
Dividends declared per Class A					
Ordinary Share		0.165	0.165	0.330	0.330

See accompanying Notes to financial statements.

# **Statements of Retained Earnings**

Unaudited - Fiscal 2008 (expressed in thousands of United States dollars)

	Three months end	Three months ended October 31		Six months ended October 31	
	2007	2006	2007 \$	2006	
Balance at Beginning of Period	94,204	93,647	91,141	90,148	
Earnings for the Period	6,251	6,828	14,085	14,927	
Dividends	(4,293)	(4,281)	(9,064)	(8,881)	
Balance at End of Period	96,162	96,194	96,162	96,194	

# **Statements of Cash Flows**

Unaudited - Fiscal 2008 (expressed in thousands of United States dollars)

	Three months ende	d October 31	Six months ende	d October 31
	2007	2006	2007 \$	2006 \$
Operating Activities				
Earnings for the period	6,251	6,828	14,085	14,927
Items not affecting working capital:				
Depreciation and amortisation	4,072	3,631	8,016	7,371
Stock-based compensation	10	15	26	31
Loss/(Profit) on disposal of fixed assets	45		43	(9)
	10,378	10,481	22,170	22,320
Net (increase)/decrease in non-cash working				
capital balances related to operations	(1,360)	2,583	(10,487)	4,786
Cash flow provided by operating activities	9,018	13,064	11,683	27,106
Investing Activities				
Proceeds of sale of fixed assets	-	1	5	3
Purchase of property, plant and equipment	(8,977)	(8,318)	(26,527)	(17,041)
Cash flow used in investing activities	(8,977)	(8,317)	(26,522)	(17,038)
Financing Activities				
Proceeds from debt financing	2,000	_	38,000	10,000
Repayment of debt	-	(2,000)	(25,254)	(9,247)
Increase/(Decrease) in bank overdraft	1,267	-	5,181	(377)
Dividends paid	(4,293)	(4,281)	(9,064)	(8,881)
Net proceeds of share issues	274	192	311	216
Cash flow (used in)/provided by in financing activities	(752)	(6,089)	9,174	(8,289)
(Decrease)/Increase in Cash	(711)	(1,342)	(5,665)	1,779
Cash - beginning of period	1,937	3,697	6,891	576
Cash - end of period	1,226	2,355	1,226	2,355

Unaudited - Fiscal 2008 (expressed in thousands of United States dollars)

### 1. Nature of Operations and Financial Statement Presentation

These unaudited interim financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for interim financial statements. These interim financial statements do not include all of the disclosures normally found in the Caribbean Utilities Company, Ltd. ("CUC" or "the Company") annual financial statements and should be read in conjunction with the Company's financial statements for the year ended April 30, 2007.

The principal activity of the Company is to generate and distribute electricity in its exclusive licence area of Grand Cayman, Cayman Islands, under licence from the Government of the Cayman Islands ("Government") originally dated May 10, 1966, amended November 1, 1979 and renewed for a further 25 years on January 17, 1986. Amendments to the 25-year licence dated January 17, 1986, as amended by a Supplementary Licence dated October 16, 1989, have been negotiated and incorporated into a further Supplementary Licence executed on November 15, 1994 (collectively, the "Licence").

## 2. Summary of Significant Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles 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. 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.

## Comprehensive Income, Financial Instruments and Hedges

On May 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants ("CICA") accounting standards for Comprehensive Income (CICA Handbook Section 1530), Financial Instruments (CICA Handbook Section 3855 and 3861) and Hedges (CICA Handbook Section 3865).

- a) Section 1530, Comprehensive Income, provides guidance for the reporting and display of other comprehensive income. Comprehensive income is the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Amounts recognised in other comprehensive income must eventually be recognised into the income statement and these reclassifications are to be disclosed separately. Examples of some items that would be included in other comprehensive income are changes in the fair value of available for sale assets and the effective portion of the changes in fair value cash flow hedging instruments. As the Company currently does not have any hedging instruments and will not be designating any financial assets as available for sale, the Company did not have any adjustments recognized through comprehensive income upon adoption of this new standard.
- b) Section 3855, Financial Instruments Recognition and Measurement and Section 3861, Financial Instruments Disclosure and Presentation, address the criteria for recognition and presentation of financial instruments on the balance sheet and the measurement of financial instruments according to prescribed classifications. The standards also address how the financial instruments are measured subsequent to initial recognition and how the gains and losses are recognised. All financial instruments, including derivatives and derivative features embedded in financial instruments or other contracts but which are not closely related to the host financial instrument or contract, are initially recorded at fair value.

The Company has designated its financial instruments as follows:

- 1) Cash is classified as "Held for Trading". After its initial fair value measurement, any change in fair value is recorded in net income.
- 2) Accounts receivable is classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortised cost using the effective interest method. For the Company, the measurement amount generally corresponds to cost.
- 3) Short-term debt, accounts payable and accrued expenses, consumer deposits and advances for construction and long-term debt are classified as "Other Financial Liabilities". Initial measurement is at fair value with any transaction costs added to the fair value amount. Subsequently, they are measured at amortised cost using the effective interest method. For the Company, the measurement amount generally corresponds to cost.

The Company reviewed its contracts for embedded derivatives and determined that while some of the Company's long-term debt contracts have prepayment options that qualify as embedded derivatives to be separately recorded, none have been recorded as they are immaterial to the Company's results of operations and financial position. Under Section 3855, deferred financing costs are no longer recognised as a deferred charge and upon adoption of this standard the Company has reclassified \$1.4 million of unamortised deferred financing costs as part of its debt balances. These costs are required to be amortised using the effective interest method versus the straight-line method. This change in methodology did not have a material impact on the Company's earnings upon adoption of this new standard.

c) Section 3865, *Hedges*, establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. The Company currently has no hedging instruments, therefore the adoption of this standard did not have any impact on the Company.

Adoption of these standards had no impact on the Company's fiscal 2008 opening retained earnings.

Unaudited - Fiscal 2008 (expressed in thousands of United States dollars)

## 2. Summary of Significant Accounting Policies (continued)

### **Accounting Changes**

Effective May 1, 2007, the Company adopted the revised Section 1506, *Accounting Changes*, which relate to accounting policies, changes in accounting estimates and errors. Under this revised standard, voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information. Adoption of this standard had no impact on the Company's Interim Financial Statements for the three and six months ended October 31, 2007.

## **Future Accounting Policies**

### International Financing Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for companies reporting under Canadian GAAP. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. CUC has begun assessing the adoption of IFRS for fiscal year 2012, however the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

#### **Inventories**

In March 2007, the AcSB approved a new standard with respect to inventories effective for fiscal years beginning on or after January 1, 2008. The new standard requires inventories to be measured at the lower of cost or net realisable value and disallows the use of a last-in-first-out inventory costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is to be reversed. This new standard is not expected to have a material impact on the Company's earnings.

#### 3. Inventories

In June 2007, the Company renewed its Primary Fuel Supply Contract with Esso Standard Oil S.A. Limited. As a condition of the new contract, the point of delivery for fuel billing purposes has moved from the Company's North Sound Power Plant compound to the Esso terminal. CUC has also assumed responsibility for the management of the fuel pipeline (fuel suppliers will continue to pay the regular throughput fee) and ownership of bulk fuel inventory at the North Sound Power Plant. All other points of significance are in-line with previous contracts with this fuel supplier.

As a result of the Company's purchase of the bulk fuel inventory, the value of CUC's closing stock of fuel at October 31, 2007 was \$2.2 million (2007: \$0.3 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Power Plant.

(\$ thousands)	October 31,	October 31,	April 30,
	2007	2006	2007
	\$	\$	\$
Inventory - Line spares	4,942	4,676	4,965
Inventory - Fuel	2,201	325	244
Inventory - Other	211	249	192
Total	7,354	5,250	5,401

Unaudited - Fiscal 2008 (expressed in thousands of United States dollars)

Property, Plant and Equipment (\$ thousands)			
(\$ triousurius)	Adjusted Cost/	Accumulated	October 2007
	Appraised Value	Depreciation	Net
	\$	\$	\$
Transmission and Distribution	187,601	46,668	140,933
Generation	195,949	61,959	133,990
Other:			
Land	9,715	-	9,715
Buildings	17,964	6,522	11,442
Equipment, motor vehicles and computers	19,740	10,019	9,721
Total Other	47,419	16,541	30,878
Property, plant and equipment	430,969	125,168	305,801
	Adjusted Cost/	Accumulated	October 2006
	Appraised Value	Depreciation	Net
	\$	\$	\$
Transmission and Distribution	189,399	41,818	147,581
Generation	172,763	60,338	112,425
Other:			
Land	1,170	-	1,170
Buildings	17,487	5,544	11,943
Equipment, motor vehicles and computers	16,953	9,675	7,278
Total Other	35,610	15,219	20,391
Property, plant and equipment	397,772	117,375	280,397
	Adjusted Cost/	Accumulated	April 2007
	Appraised Value	Depreciation	Net
	\$	\$	\$
Transmission and Distribution	190,489	44,835	145,654
Generation	179,951	58,698	121,253
Other:			
Land	1,171	-	1,171
Buildings	17,879	6,004	11,875
Equipment, motor vehicles and computers	16,888	9,503	7,385
Total Other	35,938	15,507	20,431
Property, plant and equipment	406,378	119,040	287,338

In addition, engine spares with a net book value of \$11.1 million (October 31, 2006: \$10.6 million) are included in generation.

During the six months ended October 31, 2007, the Company capitalised interest of \$0.4 million (six months ended October 31, 2006: \$0.6 million).

Unaudited - Fiscal 2008 (expressed in thousands of United States dollars)

5.	Other Assets (\$ thousands)	October 31, 2007	October 31, 2006	April 30, 2007
	Deferred fuel costs	12,945	10,629	9,115
		•	,	,
	Deferred licence renewal costs (1)	1,296	1,135	1,198
	Sundry assets	213	204	201
	Deferred debt issue expense (2)		1,425	1,341
		14,454	13,393	11,855

#### (1) Deferred licence renewal costs

Deferred licence renewal costs are related to the ongoing negotiations with the Government for new Licences for the Company. Amortisation of deferred licence renewal costs will commence upon conclusion of current licence negotiations.

#### (2) Deferred debt issue expense

As a result of the Company adopting CICA Handbook Section 3855, the Company reclassified \$1.4 million of deferred debt issue expenses against long-term debt.

#### 6. Short-Term Financing

At April 30, 2007, the Company had \$2.0 million outstanding against the Royal Bank of Canada's ("RBC") credit facilities agreement. During the first six months of fiscal 2008, the Company drew down an additional \$8.0 million against the capital expenditure line of credit with RBC and \$5.2 million against the operating line of credit, bringing the total outstanding under the RBC credit facility agreement to \$15.2 million and the total available to \$16.8 million.

#### 7. Long-Term Debt

On June 1, 2007 the Company closed on the first tranche of a \$40 million private placement of 5.65% Senior Unsecured Notes due June 1, 2022. The first tranche was in the amount of \$30 million. The debt offering was privately placed with one institutional investor in the United States. Proceeds from the offering were used to repay short-term indebtedness, including a \$15 million Demand Note to Fortis and to finance ongoing additions to CUC's generation capacity and T&D system.

The second tranche of \$10 million from the 5.65% Senior Unsecured Notes is scheduled to close in December 2007.

### 8. Capital Stock

Authorised:

- a) 60,000,000 (2007: 60,000,000) Class A Ordinary Shares of CI\$0.05 each
- b) 250,000 (2007: 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:

	Quarter ended October 31, 2007		Year-to-date Oc	tober 31, 2007
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance beginning of period Customer Share Purchase and Dividend	25,334,703	1,508,018	25,331,438	1,507,824
Reinvestment Plans Employee Share Purchase Plan and Employee	23,399	1,393	23,399	1,393
Long Service Bonus Plans			3,265	194
Class A Ordinary Shares issued and outstanding	25,358,102	1,509,411	25,358,102	1,509,411
9% Cumulative, Participating Class B Preference Shares	250,000	250,000	250,000	250,000
Total	25,608,102	1,759,411	25,608,102	1,759,411

Unaudited - Fiscal 2008 (expressed in thousands of United States dollars)

### 9. 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 25,342,503 million and 25,290,268 million for the quarters ended October 31, 2007 and 2006 respectively. The year-to-date weighted-average shares outstanding were 25,349,775 million and 25,294,016 million, respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

## 10. 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.

		Quarter ended October 31,2007	Year-to-date October 31, 2007
		October 31,2007	October 31, 2007
Outstanding at beginning of period		619,119	619,119
Granted Exercised		-	-
Forfeited		-	-
Torretted			
Outstanding at end of period		619,119	619,119
			· ———
Range of exercise prices		\$	\$
Granted		N/A	N/A
Exercised		N/A	N/A
Forfeited		N/A	N/A
Outstanding at July 31, 2007		11.46 - 13.78	11.46 - 13.78
The position with respect to outstanding unex	sercised options as at October 31, 2007 was as	s follows:	
Date of Grant	Number of Class A Ordinary Shares under Option	Exercise Price \$	Term of Option
1.1.10.2001	424.040	11 460	10
July 18, 2001	421,019 198,100	11.460 13.780	10 years
September 22, 2003	——————————————————————————————————————	13.760	10 years
Outstanding at end of period	619,119		

### 11. Foreign Exchange

The closing rate of exchange on October 31, 2007 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn.\$0.9447 per US\$1.00. The official exchange rate for the conversion of Cayman Islands dollars into U.S. dollars as determined by the Cayman Islands Monetary Authority is fixed at CI\$1.00 per US\$1.20. Thus, the rate of exchange as of October 31, 2007 for conversion of Cayman Islands dollars into Canadian dollars was \$1.134 per CI\$1.00.

Unaudited - Fiscal 2008 (expressed in thousands of United States dollars)

#### 12. Cost Recovery Surcharge (CRS)

On August 1, 2005, the Company implemented a CRS of \$0.0089 (CI\$0.0075) per kWh to recover approximately \$13.4 million of direct Hurricane Ivan losses. CRS revenues for the three and six months ended October 31, 2007 were \$1.2 million and \$2.5 million respectively (\$1.2 million and \$2.4 million respectively for the three and six months ended October 31, 2006). As at October 31, 2007, a total of \$10.1 million has been collected since the implementation date leaving \$3.3 million to be recovered.

#### 13. Pension Plan

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. As at October 31, 2007, the Company had an accrued benefit liability of \$0 (October 31, 2006: \$0.2 million). During the second quarter of 2008 the Company recorded net compensation expense of \$0.1 million (second quarter 2007: \$0.2 million) and for the six months ended October 31, 2007 the Company recorded net compensation expense of \$0.3 million (six months ended October 31, 2006: \$0.4 million).

#### 14. Transactions with Related Parties

In 2007, the Company entered into a 7% \$15 million Demand Note agreement with the Company's majority shareholder Fortis Inc. ("Fortis"). The Fortis transaction allowed the Company to effect a lower blended rate on short-term borrowings. Proceeds from the June 2007 private placement debt offering were used to repay the \$15 million Demand Note to Fortis, additional short-term indebtedness and to finance ongoing capital expenditures.

In August 2007 the Company entered into an equipment lease contract agreement with Fortis Turks and Caicos, a wholly-owned subsidiary of Fortis, for the rental of one of the Company's 1.4 MW mobile units. The term of the agreement is three months with monthly rental fees and all costs incurred for the transport of the unit including shipping costs, taxes, port charges, custom duties and other levies and maintenance costs payable by Fortis Turks and Caicos. During the second quarter of 2008, the Company recorded \$41,000 in rental fee income to Other Income from the rental of the mobile generating unit to Fortis Turks and Caicos.

### 15. Subsequent Events

On November 6, 2007, the Company's Board of Directors declared a regular quarterly dividend of \$0.165 per Class A Ordinary Share, or an annualised divided of \$0.66 per Class A Ordinary Share. The dividend will be payable December 15, 2007 to shareholders of record November 23, 2007.

### 16. Interim Results

Interim results will fluctuate due to the seasonal nature of electricity. 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.

### 17. Comparative Figures

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

## **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 Company 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) 813-4600 Fax: (416) 643-5501

E-mail: inquiries@cibcmellon.ca

#### Caribbean Utilities Company, Ltd.

Assistant to the Corporate Secretary P.O. Box 38 Grand Cayman KY1-1101 **CAYMAN ISLANDS** Tel: (345) 949-5200 Fax: (345) 949-4621 E-mail: investor@cuc.ky

Website: www.cuc-cayman.com

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

## Caribbean Utilities Company, Ltd.

Douglas H. Murray Corporate Secretary P.O. Box 38 Grand Cayman KY1-1101 **CAYMAN ISLANDS** Tel: (345) 949-5200 Fax: (345) 949-4621

E-mail: investor@cuc.ky Website: www.cuc-cayman.com

# **Trading Symbol**

CUC's Toronto Stock Exchange symbol is:

Class A Ordinary Shares: CUP.U

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