

**August 4, 2010**

**FOR IMMEDIATE RELEASE**

**Grand Cayman, Cayman Islands**

**Caribbean Utilities Company, Ltd. is listed for trading in United States dollars on the Toronto Stock Exchange under the trading symbol "CUP.U".**

**CUC Announces Second Quarter Results for the Period Ended June 30th, 2010**

**Grand Cayman, Cayman Islands-** Caribbean Utilities Company, Ltd. ("CUC" or the "Company") announced today its unaudited results for the second quarter ended June 30, 2010 (all figures in United States dollars).

Electricity sales for the three months ended June 30, 2010 ("Second Quarter 2010") totaled 149.8 million kilowatt hours ("kWh") in comparison to 142.2 million kWh for the three months ended June 30, 2009 ("Second Quarter 2009"); an increase of 5%. For the six months ended June 30, 2010 ("First Half of 2010"), electricity sales increased by 4% to 273.2 kWh, compared to 262.3 kWh for the six months ended June 30, 2009 ("First Half of 2009"). Quarter over quarter electricity sales were significantly impacted by hotter than average temperatures in the Second Quarter 2010 compared to the cooler than average temperatures experienced in the Second Quarter 2009 with resultant lower than expected sales in the Second Quarter 2009. A new system peak load of 102.1 Megawatts ("MW") was recorded in June 2010, up 8.2% from the peak load of 94.4 MW recorded in June 2009.

Net earnings for the Second Quarter 2010 were \$6.2 million, an increase of \$1.2 million over net earnings of \$5 million for the Second Quarter 2009. Net earnings for the First Half of 2010 were \$8.6 million, an increase of \$1.1 million compared to net earnings of \$7.5 million for the First Half of 2009. Sales growth due to higher temperatures and modest growth in customer connections, partially offset by increased depreciation expense have contributed to this increase. The Company continued through the period with its deliberate efforts to improve productivity and achieved a 5% gain in total customers per employee at 132 at the end of the quarter and a 5% gain in sales per employee at 1.39 kWh for the First Half of 2010. In addition, cost control efforts, including recruitment and salary freezes, have also contributed positively to the Company's ability to manage during this challenging economic period.

President and CEO of CUC Mr. Richard Hew said, “Although we have seen a relatively good first half of 2010 in respect of revenues and earnings, our analysis confirms that it is largely due to increased air conditioning loads in response to higher temperatures. June in particular was a very hot month with average temperatures of 86 degrees Fahrenheit recorded, compared to 82 degrees Fahrenheit in June 2009.” He added, “Real underlying sales growth on the island has slowed considerably and we remain conservative with respect to the outlay of capital or other discretionary expenditures in advance of a sustained recovery of the Cayman Islands economy. However, we will continue our efforts to deliver reliable service to our customers.” During the quarter, the Company reached a new reliability peak Average System Availability Index rating of 99.99% as compared to 99.91% in the Second Quarter 2009.

After the adjustment for dividends on the Class B Preference Shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2010 were \$6.1 million, or \$0.21 per Class A Ordinary Share, as compared to \$4.9 million, or \$0.18 per Class A Ordinary Share for the Second Quarter 2009. Earnings on Class A Ordinary Shares for the First Half of 2010 were \$8.4 million, or \$0.29 per Class A Ordinary Share, as compared to \$7.3 million, or \$0.26 per Class A Ordinary Share for the First Half of 2009.

The Company connected 749 new customers between June 30, 2009 and June 30, 2010. Of these, 678 customers were added to the residential category and 71 customers were added to the commercial category. Total customers as at June 30, 2010 were 25,817, an increase of 3% over the 25,068 customers as at June 30, 2009.

CUC’s Second Quarter 2010 results and related Management’s Discussion and Analysis (“MD&A”) for the Second Quarter 2010 are attached to this release and incorporated by reference.

The Management’s Discussion and Analysis section of this report contains a detailed discussion of CUC’s unaudited second quarter financial results, the Cayman Islands economy, liquidity and capital resources, capital expenditures and the business risks facing the Company. The release and Second Quarter Report can be accessed at [www.cuc-cayman.com](http://www.cuc-cayman.com) (Investor Relations/Press Releases) and at [www.sedar.com](http://www.sedar.com).

CUC provides electricity to Grand Cayman, Cayman Islands, under an Electricity Generation Licence expiring in 2029 and an exclusive Electricity Transmission and Distribution Licence expiring in 2028. Further information is available at [www.cuc-cayman.com](http://www.cuc-cayman.com).

*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 labeled “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. Forward-looking 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.*

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Caribbean Utilities Company, Ltd.

**2010 Second Quarter Report**

June 30, 2010



### **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 151.230 megaWatts (MW), and a new record peak load of 102.086 MW was experienced on June 03, 2010. 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.

The Company’s registered office address is 457 North Sound Road, P.O Box 38, Grand Cayman KY1-1101 and employs 196 employees.

### **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. Duncan Taylor, 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 Discussion and Analysis section, concerning the use of forward-looking statements, which applies to the entirety of this Quarterly Report.

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## **To Our Shareholders**

Dear Shareholder,

During the quarter ended June 30, 2010, Caribbean Utilities Company, Ltd. ("CUC" or the "Company") experienced an increase in energy sales and peak demand, largely as a result of the warmer than average weather in Grand Cayman, compared to the cooler than average temperatures for the same period in 2009. The Company set a new peak load record of 102.1 megaWatts ("MW") compared to the June 2009 peak of 94.4 MW.

Despite the positive quarter in respect of sales, the Company recognises that this is mainly weather related as the island continues to experience challenging economic circumstances inhibiting underlying growth. The Company continues to monitor the economic circumstances affecting the island and to be conservative with its capital and operating expenditures while maintaining the focus on reliable service delivery.

For the three months ended June 30, 2010 ("Second Quarter 2010"), kiloWatt-hour (kWh) sales were 149.8 million kWh, up 5% from 142.2 million kWh during the same period in 2009 ("Second Quarter 2009"). Sales for the six months ended June 30, 2010 ("First Half of 2010") were up 4% at 273.2 million kWh from 262.3 million for the same period in 2009 ("First Half 2009").

Net earnings for the Second Quarter 2010 were \$6.2 million, up from \$5.0 million for the Second Quarter of 2009, as a result of increased sales due to warmer temperatures and lower general and administration expenses, which were partly offset by higher depreciation and financing costs. These factors drove net earnings for the First Half of 2010 upward to \$8.6 million compared to \$7.5 million for the First Half of 2009.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2010 were \$6.1 million, or \$0.21 per Class A Ordinary Share, as compared to \$4.9 million or \$0.18 per Class A Ordinary Share for the Second Quarter 2009. After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Half of 2010 were \$8.4 million, or \$0.29 per Class A Ordinary Share, as compared to \$7.3 million or \$0.26 per Class A Ordinary Share for the First Half of 2009.

In early May, the Company submitted its annual rate cap adjustment mechanism ("RCAM") analysis to the Electricity Regulatory Authority as set out in the Electricity Transmission and Distribution Licence. The RCAM, which permits base consumer rates to move with inflation, yielded no rate adjustment as the slight inflation in the applicable United States price index, adjusted to exclude food and fuel, was offset by deflation in the Cayman Islands consumer price index, also adjusted to exclude food and fuel, for calendar year 2009.

June 1 marked the annual commencement of hurricane season and in preparation for the new season the Company completed its annual hurricane preparedness drill in May. Effective July 1, the Company renewed its insurance coverage which includes property and machinery breakdown insurance and business interruption insurance.

Also in May, the Company's ISO 14001 environmental compliance certification was confirmed following an independent recertification audit. We commend those employees who have worked diligently to achieve and retain this standard which reflects the Company's commitment to environmental protection.

**Caribbean Utilities Company, Ltd.**

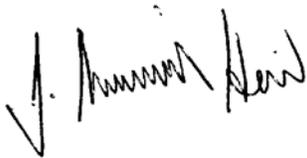
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We are also proud of the community efforts of our staff who made significant volunteer contributions to various community projects totalling 688 hours for the Second Quarter 2010. This equates to an average of 3.5 hours of community service per employee for the period.

During the Second Quarter 2010, the Company achieved an 88% customer satisfaction rating as measured by our twice annual customer satisfaction survey, up from 84% in 2009. The Company also reached a new reliability peak Average System Availability Index rating of 99.99% as compared to 99.91% in the Second Quarter 2009. We commend our employees for these achievements under tight economic constraints.

CUC celebrated 44 years of providing electricity to Grand Cayman in May this year. Through the provision of a safe and reliable service, CUC has contributed significantly to the growth and development of the island over the years.

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

August 2, 2010

## Interim Management 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, 2010 and audited financial statements for the twelve months ended December 31, 2009. 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 ("Canadian 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 2009 annual financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation 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. Forward-looking 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

<i>(\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)</i>	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Change for the Six Months	% Change for the Six Months
Electricity Sales	<b>18,736</b>	17,534	<b>34,274</b>	32,378	<b>1,896</b>	6%
Fuel Factor Revenues	<b>24,446</b>	18,169	<b>49,285</b>	38,415	<b>10,870</b>	28%
Operating Revenues	<b>43,182</b>	35,703	<b>83,559</b>	70,793	<b>12,766</b>	18%
Total Operating Expenses	<b>35,461</b>	29,783	<b>71,683</b>	61,478	<b>10,205</b>	17%
Earnings for the Period	<b>6,188</b>	5,042	<b>8,644</b>	7,477	<b>1,167</b>	16%
Basic Earnings per Class A Ordinary Share	<b>0.21</b>	0.18	<b>0.29</b>	0.26	<b>0.03</b>	12%
Dividends paid per Class A Ordinary Share	<b>0.165</b>	0.165	<b>0.33</b>	0.33	-	0%
Peak Load Gross (MW)	<b>102.1</b>	94.4	<b>102.1</b>	94.4	<b>7.7</b>	8%
Net Generation (millions of kWh)	<b>160.7</b>	152.9	<b>292.9</b>	281.4	<b>11.5</b>	4%
Kilowatt-Hour Sales (millions of kWh)	<b>149.8</b>	142.2	<b>273.2</b>	262.3	<b>10.9</b>	4%
System Availability (%)	<b>99.99</b>	99.91	<b>99.99</b>	99.94	<b>0.05</b>	0%
Total Customers	<b>25,817</b>	25,068	<b>25,817</b>	25,068	<b>749</b>	3%
Customers per Employee (#)	<b>132</b>	126	<b>132</b>	126	<b>6</b>	5%
Sales per employee (millions of kWh)	<b>0.76</b>	0.71	<b>1.39</b>	1.32	<b>0.07</b>	5%

## 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 Transmission and Distribution ("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 return on rate base ("RORB") for 2009 was 7.8%. CUC's RORB for 2010 is targeted in the 7.75% to 9.75% range (2009: 9% to 11%).

CUC's base rates are designed to recover all non-fuel and regulatory costs and include per 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%. In early May 2010, after the requisite review, the Company confirmed to the Electricity Regulatory Authority ("ERA") that the RCAM yielded no rate adjustment for June 2010 as the slight inflation in the applicable United States price index, adjusted to exclude food and fuel, was offset by deflation in the Cayman Islands consumer price index, also adjusted to exclude food and fuel, for calendar year 2009. 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 ERA has the overall responsibility of regulating the electricity industry in the Cayman Islands in accordance with the ERA Law. The ERA oversees all licensees, establishes and enforces licence standards, enforces applicable environmental and performance standards, reviews the proposed RCAM and sets the rate adjustment factors as appropriate.

The ERA also annually reviews and approves CUC's capital investment plan ("CIP"). In February 2010 the ERA approved CUC's 2010-2014 CIP for \$98 million of non-generation expansion expenditures. Additional generation needs are subject to a competitive bid process.

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 ½ of 1% is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month.

In the event of a natural disaster as defined in the T&D Licence, the actual increase in base rates will be capped for the year at 60% of the change in the Price Level Index and the difference between the calculated rate increase and the actual increase expressed as a percentage, shall be carried over and applied in addition to the normal RCAM adjustment in either of the two following years if the Company's RORB is below the target range. In the event of a disaster the Company would also write-off destroyed assets over the remaining life of the asset that existed at time of destruction. Z Factor rate changes will be required for insurance deductibles and other extraordinary expenses.

## **Earnings**

Net earnings for the three months ended June 30, 2010 (the "Second Quarter 2010") were \$6.2 million, representing an increase of 24% or \$1.2 million compared to net earnings of \$5.0 million for the three months ended June 30, 2009 (the "Second Quarter 2009"). Contributing to this increase is positive sales growth for the period, which was driven by higher than average temperatures, and lower maintenance, general and administration ("G&A") and transmission and distribution ("T&D") expenses. These factors were partially offset by higher depreciation and financing costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2010 were \$6.1 million, or \$0.21 per Class A Ordinary Share, as compared to \$4.9 million or \$0.18 per Class A Ordinary Share for the Second Quarter 2009.

Net earnings for the six months ended June 30, 2010 were \$8.6 million, representing an increase of 16% or \$1.1 million compared to net earnings of \$7.5 million for the six months ended June 30, 2009. Contributing to this increase in earnings was positive sales growth for the period, attributable in part to higher than average temperatures, and lower G&A and T&D expenses. These factors were partially offset by higher depreciation, maintenance and financing costs.

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, 2010 were \$8.4 million, or \$0.29 per Class A Ordinary Share, as compared to \$7.3 million or \$0.26 per Class A Ordinary Share for the six months ended June 30, 2009.

## Sales

KiloWatt-hour sales for the Second Quarter 2010 totalled 149.8 million, an increase of 7.6 million, or 5% in comparison to 142.2 million for the Second Quarter 2009. Sales were positively impacted by increased customer numbers quarter-over-quarter and higher average temperatures that affected customer air conditioning load. The average temperature for the Second Quarter 2010 was 84 degrees Fahrenheit ("F") as compared to an average temperature of 82 degrees F for the same period last year.

KiloWatt-hour sales for the six months ended June 30, 2010 totalled 273.2 million, an increase of 10.9 million or 4%, in comparison to 262.3 million for the six months ended June 30, 2009. Sales for the six month period were also positively impacted by warmer weather conditions that affected customer air conditioning load. The average temperature for the six months ended June 30, 2010 was 81 degrees F as compared to an average temperature of 80 degrees F for the same period last year. Sales for the first six months of 2009 were negatively impacted by customer conservation driven by high fuel prices in late 2008.

Total customers as at June 30, 2010 were 25,817, an increase of 749 customers, or 3%, compared to 25,068 customers as at June 30, 2009. The Company had a net increase of 141 customers for the Second Quarter 2010, comprising 100 residential connections and 41 commercial connections.

The following tables present customer and sales highlights:

Customers (#)	June 2010	June 2009	% Change
Residential	22,024	21,346	3%
Commercial	<u>3,793</u>	<u>3,722</u>	2%
<b>Total Customers</b>	<b>25,817</b>	<b>25,068</b>	<b>3%</b>

Sales and customer highlights continued:

Sales (thousands kWh)	Three Months Ended June 2010	Three Months Ended June 2009	Six Months Ended June 2010	Six Months Ended June 2009	% Change for the Six Months
<b>Residential</b>	70,930	65,237	126,702	120,675	5%
<b>Commercial</b>	77,279	75,493	143,367	138,698	3%
Other (street lighting, etc.)	<u>1,562</u>	<u>1,476</u>	<u>3,123</u>	<u>2,938</u>	6%
<b>Total Sales</b>	<b>149,771</b>	<b>142,206</b>	<b>273,192</b>	<b>262,311</b>	<b>4%</b>

## Operating Revenues

Operating revenues increased \$7.5 million, or 21%, to \$43.2 million for the Second Quarter 2010 from \$35.7 million for the Second Quarter 2009 due primarily to 5% kWh sales growth and 35% higher fuel factor revenues.

## Caribbean Utilities Company, Ltd.

Operating revenues increased \$12.8 million, or 18%, to \$83.6 million for the six months ended June 30, 2010, from \$70.8 million for the six months ended June 30, 2009, due to 4% kWh sales growth and 28% higher fuel factor revenues.

Electricity sales revenue increased \$1.2 million, or 7%, to \$18.7 million in the Second Quarter 2010 when compared to electricity sales revenues of \$17.5 million for the Second Quarter 2009. This increase is mainly due to 5% kWh sales growth experienced quarter-over-quarter, primarily related to higher than average temperatures, and the 2.4% base rate increase implemented in June 2009.

Electricity sales revenue increased \$1.9 million, or 6%, to \$34.3 million for the six months ended June 30, 2010, from \$32.4 million for the six months ended June 30, 2009. This increase is mainly due to 4% kWh sales growth experienced period over period, primarily related to higher than average temperatures, and the 2.4% base rate increase implemented in June 2009.

Fuel factor revenues for the Second Quarter 2010 totalled \$24.4 million, a 34% increase from the \$18.2 million in fuel factor revenues for the Second Quarter 2009. This increase is due to higher sales and higher fuel costs (see "Power Generation" section for further detail).

Fuel factor revenues for the six months ended June 30, 2010 totalled \$49.3 million, a \$10.9 million, or 28%, increase from the \$38.4 million in fuel factor revenues for the six months ended June 30, 2009. This increase is due to higher sales and higher fuel costs (see "Power Generation" section for further detail). The average Fuel Cost Charge rate per kWh charged to consumers for the six months ended June 30, 2010 was \$0.19, a 19% increase from \$0.16 per kWh for the six months ended June 30, 2009. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

Total operating revenues were as follows:

Revenues (thousands \$)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Change for the Six Months	% Change for the Six Months
Residential	9,176	8,329	16,473	15,454	1,019	7%
Commercial	9,469	9,108	17,627	16,762	865	5%
Other (street lighting, etc.)	91	97	174	162	12	7%
<b>Electricity Sales Revenues</b>	<b>18,736</b>	17,534	<b>34,274</b>	32,378	<b>1,896</b>	6%
<b>Fuel Factor Revenues</b>	<b>24,446</b>	18,169	<b>49,285</b>	38,415	<b>10,870</b>	28%
<b>Total Operating Revenues</b>	<b>43,182</b>	35,703	<b>83,559</b>	70,793	<b>12,766</b>	18%

### Operating Expenses

Total operating expenses for the Second Quarter 2010 increased 19% to \$35.5 million from \$29.8 million for the Second Quarter 2009. The major contributing factor to the increase in operating expenses is higher generation expenses which are comprised predominantly of fuel costs. Higher depreciation expense also contributed to the increase.

Operating expenses for the six months ended June 30, 2010 totalled \$71.7 million, a \$10.2 million, or 17%, increase from \$61.5 million for the six months ended June 30, 2009. The major contributing factors to this increase are higher power generation, depreciation and

## Caribbean Utilities Company, Ltd.

maintenance expenses which were partially offset by lower general and administration, and T&D expenses.

Operating expenses were as follows:

Operating expenses (\$ thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Change for the Six Months	% Change for the Six Months
Power generation expenses	25,213	19,052	50,815	40,101	10,714	27%
General and administration	2,100	2,555	4,181	5,274	(1,093)	-21%
Consumer Service and promotion	383	361	793	760	33	4%
Transmission and distribution	506	686	1,052	1,439	(387)	-27%
Depreciation	5,068	4,744	10,066	9,596	470	5%
Maintenance	2,108	2,337	4,577	4,210	367	9%
Amortization of Intangible Assets	83	48	199	98	101	103%
<b>Total operating expenses</b>	<b>35,461</b>	<b>29,783</b>	<b>71,683</b>	<b>61,478</b>	<b>10,205</b>	<b>17%</b>

### Power Generation

Power generation costs for the Second Quarter 2010 increased \$6.1 million, or 32%, to \$25.2 million when compared to \$19.1 million for the Second Quarter 2009. The increase is a result of growth in kWh generated and an increase in the cost of fuel. The peak load for the Second Quarter 2010 was 102.1 MW, an 8% increase over the peak load for the same period last year of 94.4 MW.

Power generation costs for the six months ended June 30, 2010 increased \$10.7 million, or 27%, to \$50.8 million when compared to \$40.1 million for the six months ended June 30, 2009.

Power generation expenses were as follows:

Power Generation (\$ thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Change for the Six Months	% Change for the Six Months
Fuel costs (net of deferred fuel charges)	23,979	17,296	48,146	36,725	11,421	31%
Lube costs (net of deferred lube charges)	467	873	1,139	1,690	(551)	-33%
Other generation expenses	767	883	1,530	1,686	(156)	-9%
<b>Total power generation expenses</b>	<b>25,213</b>	<b>19,052</b>	<b>50,815</b>	<b>40,101</b>	<b>10,714</b>	<b>27%</b>

The Company's average price per imperial gallon ("IG") of fuel for the Second Quarter 2010 increased 28% to \$3.33, compared to \$2.61 for the Second Quarter 2009. The Company's

average price per IG of fuel for the six months ended June 30, 2010 increased 28% to \$3.24, compared to \$2.54 for the six months ended June 30, 2009.

The Company's average price per IG of lube for the Second Quarter 2010 decreased 32% to \$9.64, compared to \$14.27 for the Second Quarter 2009. The Company's average price per IG of lube for the six months ended June 30, 2010 decreased 32% to \$10.08, compared to \$14.92 for the six months ended June 30, 2009.

The Fuel Tracker Account (see note 5 of the financial statements) is comprised of total diesel fuel and lube oil costs to be recovered from consumers.

Other generation expenses for the Second Quarter 2010 totalled \$0.8 million, an 11% decrease from \$0.9 million for the Second Quarter 2009. Other generation expenses for the six months ended June 30, 2010 totalled \$1.5 million, a 9% decrease from \$1.7 million for the six months ended June 30, 2009. This change is primarily due to efforts to control discretionary costs.

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

G&A expenses for the Second Quarter 2010 totalled \$2.1 million, a decrease of \$0.5 million, or 19% when compared to \$2.6 million for the Second Quarter 2009. This decrease is partially attributable to increased General Expenses Capitalised ("GEC") in accordance with the Company's employee level of activity on capital related projects versus operating projects (refer to Note 1 of these Interim Financial Statements for further detail regarding GEC) and decreased consultancy and payroll costs. The Company implemented a hiring, salary and bonus freeze in 2009 that remains in effect in an effort to control discretionary costs.

G&A expenses for the six months ended June 30, 2010 totalled \$4.2 million, a decrease of \$1.1 million from \$5.3 million for the six months ended June 30, 2009 due mainly to an increase in GEC of \$0.7 million.

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

C&P expenses for the Second Quarter 2010 totalled \$0.4 million, comparable to C&P expenses for the Second Quarter 2009.

C&P expenses for the six months ended June 30, 2010 totalled \$0.8 million which was comparable to C&P expenses for the six months ended June 30, 2009. The Company continues to seek improved efficiencies in this area through the use of technology, while providing higher levels of customer service.

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

T&D expenses for the Second Quarter 2010 totalled \$0.5 million, a \$0.2 million, or 29% decrease compared to \$0.7 million for the Second Quarter 2009 due mainly to efforts to control discretionary costs.

T&D expenses for the six months ended June 30, 2010 totalled \$1.1 million, a decrease of \$0.3 million from \$1.4 million for the six months ended June 30, 2009. This decrease was partially due to increased capitalised labour as the T&D Division focused on capital projects and partially due to efforts to control discretionary costs.

### **Depreciation**

Depreciation expense for the Second Quarter 2010 totalled \$5.1 million, an increase of \$0.4 million, or 9%, from \$4.7 million for the Second Quarter 2009. This increase is primarily the

result of growth-related additions to fixed assets in prior periods including the 16MW generating unit commissioned in September 2009.

Depreciation expense for the six months ended June 30, 2010 totalled \$10.1 million, an increase of \$0.5 million from \$9.6 million for the six months ended June 30, 2009. This increase is the result of growth-related capital expenditures.

### Maintenance

Maintenance expenses for the Second Quarter 2010 totalled \$2.1 million, a decrease of \$0.2 million from \$2.3 million for the Second Quarter 2009. The Company's scheduled maintenance program has been delayed which resulted in lower than usual generator maintenance expenses for the period.

Maintenance expenses for the six months ended June 30, 2010 totalled \$4.6 million, an increase of \$0.4 million from \$4.2 million for the six months ended June 30, 2009. The Company expects all budgeted maintenance for 2010 to be completed before the end of the year.

### Amortization

Amortization of intangible assets for the Second Quarter 2010 totalled \$0.08 million, an increase of \$0.03 million, or 60% when compared to \$0.05 million for the Second Quarter 2009. This increase relates to an additional reclassification of computer software from property, plant and equipment during the Third Quarter 2009.

Amortization of intangible assets for the six months ended June 30, 2010 totalled \$0.2 million, an increase of \$0.1 million or 100% when compared to \$0.1 million for the six months June 30, 2009.

Amortization represents the monthly recognition of the expense associated with software purchases as well as other intangible assets such as the costs associated with the license negotiations.

### Other Income and Expenses

Net Other Expenses for the Second Quarter 2010 totalled \$1.5 million, an increase of \$0.6 million from \$0.9 million for the Second Quarter 2009. Net other expenses for the six months ended June 30, 2010 totalled \$3.2 million, an increase of \$1.4 million from \$1.8 million for the six months ended June 30, 2009.

Other Income and Expenses (\$ thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Change for the Six Months	% Change for the Six Months
Total interest costs	(3,078)	(2,830)	(6,220)	(5,495)	(725)	13%
AFUDC	<u>761</u>	<u>1,233</u>	<u>1,525</u>	<u>2,250</u>	(725)	-32%
Total finance charges	(2,317)	(1,597)	(4,695)	(3,245)	(1,450)	45%
Foreign exchange gain	446	395	833	844	(11)	-1%
Other income	<u>338</u>	<u>324</u>	<u>630</u>	<u>563</u>	67	12%
<b>Total net other expenses</b>	<b>(1,533)</b>	<b>(878)</b>	<b>(3,232)</b>	<b>(1,838)</b>	<b>(1,394)</b>	<b>76%</b>

Finance charges for the Second Quarter 2010 totalled \$2.3 million, a \$0.7 million, or 44% increase from \$1.6 million for the Second Quarter 2009. This increase is attributable to interest costs on the \$40 million 7.5% senior secured notes issued in May and July 2009 and a decrease in the Allowance for Funds Used during Construction (AFUDC) in the Second Quarter of 2010. Finance charges for the six months ended June 30, 2010 totalled \$4.7 million, an increase of \$1.5 million from \$3.2 million for the six months June 30, 2009.

Under the T&D Licence there 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 2010 is 8.75% as agreed with the ERA, in accordance with the T&D Licence, and will be reviewed annually. The cost of capital rate for 2009 was 10%. The AFUDC amount for the Second Quarter 2010 totalled \$0.8 million, a \$0.4 million decrease when compared to \$1.2 million for the second quarter 2009.

The AFUDC amount for the six months ended June 30, 2010 totalled \$1.5 million a \$0.8 million decrease when compared to \$2.3 million for the six months ended June 30, 2009. This decrease is attributable to the lower cost of capital rate and reduced capital expenditure.

Foreign exchange gains and losses are the result of monetary assets and liabilities denominated in foreign currencies that are translated into United States dollars at the exchange rate prevailing on the Balance Sheet date. Revenue and expense items denominated in foreign currencies are translated into United States dollars at the exchange rate prevailing on the transaction date. Foreign exchange gains for the Second Quarter 2010 totalled \$0.4 million, comparable to foreign exchange gains of \$0.4 million for the Second Quarter 2009.

Foreign exchange gains totalled \$0.8 million for the six months ended June 30, 2010 comparable to \$0.8 million for the six months ended June 30, 2009.

Other income is comprised of pole rental fees, income from pipeline operations, sales of meter sockets, sale of recyclable metals and other miscellaneous income. Other income totalled \$0.3 million for the Second Quarter 2010 comparable to \$0.3 million for the Second Quarter 2009.

Other income totalled \$0.6 million for the six months ended June 30, 2010 comparable to \$0.6 million for the six months ended June 30, 2009.

## **The Economy**

The Cayman Islands is recognised as one of the top 10 international financial centres in the world, with over 40 of the top 50 banks holding licences here. A reputation of sensible regulation comparable to other international financial centres coupled with a competent workforce of lawyers, bankers, and accountants, provides the base on which Cayman continues to build its clientele. Licensees in the banking sector represent 45 countries from across the globe. The fundamentals of the banking sector remain sound and the industry in general has been relatively resilient in a very challenging market environment.

The Cayman Islands Monetary Authority acknowledges that greater regulation, converging international standards and increased monitoring are imminent and occurring. The Cayman Islands have gained seats on the steering committee and the peer review group of the Global Forum on Transparency and Exchange of Information for tax purposes. This will allow the Cayman Islands to proactively institute necessary changes as well as influence the resulting international standards. The Global Forum has been the multilateral framework within which work in the area of transparency and exchange of information has been carried out by both OECD and non-OECD economies since 2000.

## Caribbean Utilities Company, Ltd.

Some of the key indicators for the Financial Services industry are shown in the following table:

	As at June 2010	As at December 2009	As at December 2008	As at December 2007	As at December 2006
Bank Licences	265	266	278	281	291
Registered Companies	92,539	92,867	93,693	87,109	83,532
Mutual Funds	9,486	9,523	9,870	9,413	8,134
Mutual Fund Administrators	131	141	155	152	153
Captive Insurance Companies	760	780	777	765	740

Tourism plays a significant role in the Island's economy. In 2009, 79% of air arrivals to the country were citizens of the USA. As such the USA economy largely impacts that of the Cayman Islands. For the Second Quarter of 2010 air arrivals were 8% higher when compared to the same period in 2009.

Despite the increase in tourist arrivals for the period, the Company expects that the current state of the global economy will continue to have a dampening impact on tourist arrivals to the Cayman Islands. Air arrivals have a direct impact on the Company's sales growth as these 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 following table presents statistics for tourist arrivals in the Cayman Islands for the six months ending June 30:

Arrivals	2010	2009	2008	2007	2006
By Air	162,070	154,640	178,321	163,086	150,486
By Sea	866,340	846,952	901,474	1,043,064	1,053,590
Total	1,028,410	1,001,592	1,079,795	1,206,150	1,204,076

Government released the 2009 Consumer Price Index ("CPI") report in April 2010 showing that the Cayman Islands went into a deflationary phase in 2009. This is the first year on record for the country, as the average inflation rate for 2009 reached negative 1.3%. The report also indicated that the general negative price movements in the Cayman Islands may be associated with the downward movement in US prices where the annual inflation rate in 2009 averaged negative 0.4%. The 2009 deflation may also be associated with the dampened demand for goods and services arising from the economic recession and decline in the local population. The 2009 Labour Force Survey Report estimated the population at 52,830 as compared to 57,009 in 2008 due to declines in the non-Caymanian workforce. Cayman has a high proportion of foreign nationals that provide labour in various sectors of the economy.

In 2009 the Foreign & Commonwealth Office ("FCO") of the United Kingdom Government, stated that in order for the Cayman Islands to increase its borrowings through the capital markets, additional revenue measures had to be introduced. These revenue measures are expected to have a positive impact on Government's financial situation overall, but with some negative repercussions to the local economy resulting from increased costs of doing business.

Government appointed an independent commission, now known as the Miller commission, in October 2009 in response to an FCO recommendation. The commission's major focus was to complete a professional assessment of options for new revenue sources to diversify and broaden Government's revenue base. The Commission has completed its report which is published on the Government's website. Generally, the FCO has accepted that a key issue for the Government in securing fiscal sustainability is to reduce and control its expenditures and its borrowing levels. Government has prepared a three-year plan to set out their primary

medium term economic and fiscal strategies based upon the following key strategies: expenditure reduction; broadening the revenue base; limiting borrowing to minimal levels; and engaging in more private finance initiatives. In June 2010, the FCO accepted and offered its support of the initiatives as laid out in the plan, including Government's additional borrowing requirements for its 2010/2011 fiscal year.

Government released the 2009 Annual Economic Report in July 2010, which indicates that the Cayman Islands GDP contracted by 6.6% in 2009. GDP growth is projected for 2010 at negative 3.1%. This projection was attributed to Government's continued contractionary fiscal stance and the spill over effect of the advanced economies' recovery on the financial services industry. The report showed that in 2009, construction (based on the value of building permits) declined by 29.3% from 2008. It was also noted that Government Capital spending and total capital imports fell, suggesting a decline in both public and private investment in capital goods. The report forecasts the 2010 inflation rate to be 2% as a result of recent revenue measures that may be offset by lower imported inflation and softer domestic demand.

*All data is sourced from the Cayman Islands Government, General Registry of the Cayman Islands, Cayman Islands Economics & Statistics Office, Cayman Islands Monetary Authority and Cayman Islands Department of Tourism websites: [www.gov.ky](http://www.gov.ky) [www.ESO.ky](http://www.ESO.ky) [www.cimoney.com.ky](http://www.cimoney.com.ky) and [www.caymanislands.ky](http://www.caymanislands.ky).*

### Liquidity and Capital Resources

The following table outlines the summary of cash flow:

<i>(\$ thousands)</i>	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Change for the Six Months
Beginning cash	7,814	1,530	4,927	1,431	3,496
Cash provided by/(used in):					
Operating activities	7,793	8,655	21,305	20,524	781
Investing activities	(4,982)	(12,554)	(11,261)	(21,789)	10,528
Financing activities	(8,665)	5,458	(13,011)	2,923	(15,934)
<b>Ending cash</b>	<b>1,960</b>	<b>3,089</b>	<b>1,960</b>	<b>3,089</b>	<b>(1,129)</b>

#### Operating Activities

Cash flow provided by operations, after working capital adjustments, for the Second Quarter 2010, was \$7.8 million, a decrease of \$0.9 million from \$8.7 million for the Second Quarter 2009. This decrease is mostly attributable to the decrease in accounts payable related to interest payments and fuel payments.

Cash flow provided by operations, after working capital adjustments, for the six months ended June 30, 2010, was \$21.3 million, an increase of \$0.8 million from \$20.5 million for the six months ended June 30, 2009. This increase is attributable to the increase in earnings.

#### Investing Activities

Cash used in investing activities for the Second Quarter 2010 totalled \$5.0 million, a decrease of \$7.6 million from \$12.6 million for the Second Quarter 2009. This decrease is attributable to decreased capital related expenditures.

Cash used in investing activities totalled \$11.3 million for the six months ended June 30, 2010 a decrease of \$10.5 million from \$21.8 million for the six months ended June 30, 2009. This decrease is attributable to decreased capital related expenditures.

#### Financing Activities

## Caribbean Utilities Company, Ltd.

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Cash used in financing activities for the Second Quarter 2010 totalled \$8.7 million, a \$14.2 million change from cash received from financing activities of \$5.5 million for the Second Quarter 2009. This change in cash received is mainly attributable to the funding received from long term debt financing in the Second Quarter 2009.

Cash used in financing activities totalled \$13.0 million for the six months ended June 30, 2010 a change of \$15.9 million from cash received from financing activities of \$2.9 million for the six months ended June 30, 2009. This change in cash received is mainly attributable to the funding received from debt financing in the Second Quarter 2009.

### Transactions with Related Parties

Miscellaneous receivables from Fortis Turks & Caicos totalling \$0.16 million were outstanding at June 30, 2010 (2009: \$0.05 million).

### Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at June 30, 2010, are outlined in the following table:

Contractual Obligations (\$ millions)	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	195.3	29.5	37.7	30.9	97.2
Defined benefit pension	<u>0.4</u>	<u>0.4</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b>195.7</b>	<b>29.9</b>	<b>37.7</b>	<b>30.9</b>	<b>97.2</b>

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 initial contract terminated in April 2010. CUC continues to operate within the terms of the initial contract. 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. No such termination notice has been given by either party to date. As such the contract is effectively renewed until 2011. The approximate quantities per the contract in millions of IGs: 2010 – 25.3.

### Financial Position

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2009 to June 30, 2010:

## Caribbean Utilities Company, Ltd.

Significant changes in Balance Sheets between December 31, 2009 and June 30, 2010 (\$ millions)	Increase (Decrease)	Explanation
Cash	(3.0)	Decrease due to cash used in investing activities of \$11.3 million and cash utilised in financing activities of \$13.0 million, partially offset by cash provided by operating activities of \$21.3 million.
Regulatory Assets	1.0	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	0.9	Net increase is comprised of capital expenditures of (1) \$11.0 million and (2) depreciation expense of \$10.1 million.
Bank Overdraft	0.7	Increase due to drawdown against the RBC Overdraft line of credit.
Accounts Payable & Accrued Expenses	1.8	Change mainly attributable to increase in accrued interest and fuel payables.
Short-Term Debt	9.0	Increase due to drawdown of additional \$9 million against the RBC Capital Expenditure line of credit.
Current Portion of Long Term Debt	(1.5)	Decrease due to repayment of 8.47% unsecured loan note.
Long-Term Debt	(12.4)	Decrease due to principal repayments made in June and portions allocated to Current Portion of Long Term Debt.
Share premium	0.9	The Company issued 104,421 shares through its share purchase plans.
Retained Earnings	(0.9)	Decrease due to net earnings for the period of \$8.7 million offset by Class A dividends of \$9.5 million and Class B dividends of \$0.1 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's objective is 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 2008.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65 per cent of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at June 30, 2010, the Company was in compliance with all debt covenants.

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

Capital structure	June 30, 2010 (\$ millions)	%	December 31, 2009 (\$ millions)	%
Total debt	195.3	53	200.2	54
Shareholder's equity	<u>171.9</u>	<u>47</u>	<u>171.9</u>	<u>46</u>
<b>Total</b>	<b>367.2</b>	<b>100</b>	<b>372.1</b>	<b>100</b>

The change in the Company's capital structure at June 30, 2010 is due to a net reduction in total debt. In June 2010 the Company repaid \$14 million on various senior secured notes and borrowed an additional \$9 million against the RBC capital expenditure line of credit. The rate on the RBC credit line is Libor+1.5% per annum.

The Company's credit ratings under Standard & Poors ("S&P") and the Dominion Bond Rating System ("DBRS") are as follows:

S&P A/Negative  
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.

In November 2009 S&P affirmed the Company's 'A' credit rating but revised its outlook from stable to negative. The outlook revision reflects the pressures facing the Cayman economy and S&P's concern that it could create a more difficult operating environment for CUC in the next few years. S&P stated that if the Cayman economy continues to demonstrate subdued or negative growth the rating could be lowered. Conversely, the outlook could be revised to stable if the economy quickly improves.

### **Credit Facilities**

The Company has \$32.9 million of unsecured credit financing facilities with the Royal Bank of Canada ("RBC") comprised of:

<b>Credit Facilities</b>	<b>(\$ millions)</b>
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>
<b>Total</b>	<b><u>\$32.9</u></b>

Of the total above, \$14.3 million was available at June 30, 2010.

### **Capital Expenditures**

Capital expenditures for the Second Quarter 2010 were \$4.9 million, a \$7.6 million, or 61% decrease from \$12.5 million in capital expenditures for the Second Quarter 2009.

Capital expenditures for the six months ended June 30, 2010 were \$11.2 million, a \$10.5 million, or 48% decrease from \$21.7 million in capital expenditures for the six months ended June 30, 2009. The capital expenditures for the six months ended June 30, 2010 primarily relate to:

- Distribution system extension and upgrades - \$5.3 million.
- Transmission system expansion and upgrades – 69 kiloVolt ("kV") line extension to close loops to West Bay and Frank Sound - \$1.4 million.
- G36 Piston & Liner Upgrade - \$1.7 million
- Information Technology hardware and software - \$0.4 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 2010, a decrease of \$0.02 million was allocated to Transmission and a decrease of \$0.09 million was allocated to Distribution, totalling a decrease of \$0.11 million reallocated from inventories to capital work in progress. As at June 30, 2010, inventories totalling \$5.2 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 \$1.5 million was capitalized in the six months ended June 30, 2010

Capital expenditures (\$ Millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six months Ended June 30, 2010	Six months Ended June 30, 2009
Transmission	0.2	2.0	1.4	2.3
Distribution	2.6	2.5	5.3	4.6
Generation	1.9	7.8	4.1	14.3
Other	0.2	0.2	0.4	0.5
<b>Total</b>	<b>4.9</b>	<b>12.5</b>	<b>11.2</b>	<b>21.7</b>

#### 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, 2010.

#### 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.

In 2004, CUC was initially registered to the ISO 14001 which is the international standard for Environmental Management System ("EMS"). The Company continuously adheres with the standard and the renewal of the registration occurred in May 2010. In March 2007 the Kyoto Protocol was signed by the Cayman Islands; this framework aims to reduce Greenhouse Gas ("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, 2010 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 plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each "loss occurrence" is subject to a deductible of \$0.5 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1 million and maximum deductible of \$4 million for all interests combined.

In addition to this coverage, the Company has also purchased an excess layer of an additional \$100.0 million limit on property and 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 for two former senior officers. 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 2010, is 5%. This compares to assumed long-term rates of return of 3% used during 2009. The loss on pension plan assets during 2009 was (5%).

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 2010 is 6% compared to the discount rate assumed during 2009 which was 6.5%.

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.

### **Future Accounting Pronouncements**

#### *International Financial Reporting Standards*

A detailed discussion of the Company's transition to International Financial Reporting Standards ("IFRS") is provided in the MD&A for the year ended December 31, 2009. The Company is still unable to fully determine the impact on its future financial position and results of operations of the transition to IFRS, particularly as it relates to the accounting for rate-regulated activities. Completion of the Rate-Regulated Activities project by the International Accounting Standard Board ("IASB") has been delayed based on comments received in response to the IASB's July 2009 Exposure Draft on Rate-Regulated Activities and a decision by the IASB to conduct further research.

The IASB met in July 2010 at which time they discussed the key issue of whether regulatory assets and liabilities can be recognized based on the current IFRS *Framework for the Preparation and Presentation of Financial Statements*. As a result of those meetings, the IASB decided to continue with the project; however, no decision was made as to whether regulatory assets and liabilities can be recognized under IFRS. A final standard, if any, is still not anticipated before the latter half of 2011.

On July 23, 2010, the Canadian Accounting Standards Board ("AcSB") met to discuss the IASB's latest decisions with respect to the Rate-Regulated Activities project. On July 28, 2010, the AcSB issued an Exposure Draft proposing that qualifying entities with rate-regulated activities be permitted, but not required, to continue applying the accounting standards in Part V of the CICA Handbook for an additional two years. A qualifying entity would be an entity that: (i) has activities subject to rate regulation meeting the definition of that term in *Generally Accepted Accounting Principles*, paragraph 1100.32B, in Part V of the Handbook; and (ii) in accordance with Accounting Guideline AcG-19, *Disclosures by Entities Subject to Rate Regulation*, discloses that it has accounted for a transaction or event differently than it would have in the absence of rate regulation (i.e., that it has recognized regulatory assets and liabilities). The Exposure Draft also proposes that an entity choosing to defer its IFRS changeover date disclose that fact, and when it will first present financial statements in accordance with IFRS.

The Exposure Draft provides a two-year deferral of the adoption of IFRS for qualifying entities, based on the expectation that the IASB will complete its project on Rate-Regulated Activities in 2011 or 2012, and gives qualifying entities sufficient time to meet the requirements of a new IFRS on rate-regulated activities in the event one is issued late in, or shortly following, what would otherwise be their year of IFRS adoption.

CUC and Fortis Inc are reviewing the AcSB's Exposure Draft and will provide comments, as requested, by August 31, 2010. The AcSB has indicated their intention to re-deliberate the

proposal based on comments received and expects to issue the proposed amendment by no later than December 2010.

While the Company's conversion project has proceeded as planned in preparation for the adoption of IFRS on January 1, 2011, CUC does qualify for the proposed deferral option. If the Exposure Draft is approved, the Company will elect to defer the adoption of IFRS until 2013 and will, therefore, continue to prepare its financial statements in accordance with Part V of the CICA Handbook for all interim and annual periods ending on or before December 31, 2012.

### **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, 2010, the amount of unbilled revenue recorded in Electricity Sales was \$5.9 million (June 30, 2009: \$5.0 million).

#### *kWh Sales*

kWh 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, 2010, the amount of estimated kWh sales was 44.9 million kWh's (June 30, 2009: 38.4 million kWh's).

#### *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, 2010, the Company had an accrued benefit liability of \$0 (December 31, 2009: \$0.1 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, 2010, the net book value of the Company's PP&E was \$354.3 million compared to \$353.4 million as at December 31, 2009, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the six months ended June 30, 2010 was \$10.1 million and \$9.6 million for the six months ended June 30, 2009. 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

This table summarises unaudited quarterly information for each of the eight quarters ended October 31, 2008 through June 30, 2010. 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, 2010	43,182	6,188	6,075	0.21	0.21
March 31, 2010	40,377	2,456	2,346	0.08	0.08
December 31, 2009	43,851	6,005	5,638	0.20	0.20
September 30, 2009	44,166	6,644	6,051	0.21	0.21
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

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

#### June 2010/June 2009

Net earnings for the three months ended June 30, 2010 were \$6.2 million, representing an increase of 24% or \$1.2 million compared to net earnings of \$5.0 million for the three months ended June 30, 2009. Contributing to this increase is positive sales growth for the period, which was driven by higher than average temperatures, and lower sales maintenance, G&A and T&D expenses. These factors were partially offset by higher depreciation and financing costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2010 were \$6.1 million, or \$0.21 per Class A Ordinary Share, as compared to \$4.9 million or \$0.18 per Class A Ordinary Share for the Second Quarter 2009.

#### March 2010/March 2009

Net earnings for the First Quarter 2010 of \$2.46 million were comparable to net earnings of \$2.44 million for the First Quarter 2009 due to 3% kWh sales growth for the period and lower general and administration expenses, which were partially offset by higher maintenance, depreciation and financing costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2010 were \$2.3 million, or \$0.08 per Class A Ordinary Share, which were comparable to earnings on Class A Ordinary Shares for the First Quarter 2009.

*December 2009/December 2008*

Net earnings for the quarter ended December 31, 2009 were \$6.0 million, representing an increase of 216% or \$4.1 million from net earnings of \$1.9 million for the two months ended December 31, 2008. This increase is due to differing lengths of reporting periods and kWh sales growth for the period as compared to the two months ended December 31, 2008. November and December 2009 were both warmer than average. Also contributing to the increase in earnings is the 2.4% base rate increase in June 2009.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the quarter ended December 31, 2009 were \$5.6 million, or \$0.20 per Class A Ordinary Share, as compared to \$1.9 million, or \$0.08 per Class A Ordinary Share for the two months ended December 31, 2008. Additional payment was made to preference share holders in 2009 of \$0.3 million in order to align dividend payments with the calendar year end, this additional payment affected the earnings on class A ordinary shares.

*September 2009/October 2008*

Net earnings for the quarter ended September 30, 2009 were \$6.6 million, representing an increase of 22% or \$1.2 million from net earnings of \$5.4 million for the quarter ended October 31, 2008. Contributing to this increase is positive sales growth for the period as compared to the quarter ended October 31, 2008. The average temperatures for the period August through October are historically lower than those for July through September. As such a portion of the difference is attributable to seasonality. Also contributing to the increase in earnings is the 2.4% base rate increase in June 2009 as well as reductions in consumer service & promotion, T&D and depreciation expenses. These factors were partially offset by the increase in maintenance expense.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the quarter ended September 30, 2009 were \$6.1 million, or \$0.21 per Class A Ordinary Share, as compared to \$5.3 million, or \$0.18 per Class A Ordinary Share for the quarter ended October 31, 2008.

**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 quarter ending June 30, 2010 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, 2010.

## Caribbean Utilities Company, Ltd.

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There has been no change in the Company's ICFR that occurred during the period beginning on April 1, 2010 and ended on June 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### Outlook

The Company has an approved CIP for the 2010-2014 period totalling \$98 million. The plan has taken into consideration anticipated reductions in growth in the upcoming periods due to the impact of the weakened global economy on the tourism, financial and construction sectors of the Cayman Islands. The Company will continue to monitor sustained growth indicators for future generation needs. The Company has shifted focus from responding to growth to controlling cost in light of the economic situation.

### Outstanding Share Data

At August 2, 2010, the Company had issued and outstanding 28,381,560 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](http://www.sedar.com) and on the Company's website at [www.cuc-cayman.com](http://www.cuc-cayman.com).



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

August 2, 2010

Caribbean Utilities Company, Ltd.

**Balance Sheets**

(expressed in thousands of United States Dollars)

Unaudited	Note	As At June 30, 2010	As At December 31, 2009
<b>Assets</b>			
<i>Current Assets</i>			
Cash and cash equivalents		1,960	4,927
Accounts Receivable	5	12,111	11,571
Regulatory Assets	6	22,950	21,996
Inventories	7	2,597	2,702
Prepayments		<u>434</u>	<u>2,112</u>
		40,052	43,308
Property, Plant and Equipment	8	354,256	353,359
Other Assets		33	36
Intangible Assets	9	2,893	2,843
<b>Total Assets</b>		<u>397,234</u>	<u>399,546</u>
<b>Liabilities and Shareholders' Equity</b>			
<i>Current Liabilities</i>			
Bank Overdraft		657	-
Accounts Payable and Accrued Expenses		24,350	22,510
Regulatory Liabilities	6	947	972
Short-Term Debt	10	17,000	8,000
Current Portion of Long-Term Debt		12,500	14,000
Consumer's Deposits and Advances for Construction		<u>4,085</u>	<u>3,963</u>
		<u>59,539</u>	<u>49,445</u>
Long-Term Debt		<u>165,754</u>	<u>178,159</u>
		225,293	227,604
<b>Shareholders' Equity</b>			
Share Capital	12	1,939	1,933
Share Premium	12	74,617	73,729
Contributed Surplus	13	348	325
Retained Earnings		<u>95,037</u>	<u>95,955</u>
<b>Total Shareholders' Equity</b>		171,941	171,942
<b>Total Liabilities and Shareholders' Equity</b>		<u>397,234</u>	<u>399,546</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 Ended June 30, 2010	Three Months Ended June 30, 2009 Restated Note 3	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009 Restated Note 3
<b>Operating Revenues</b>					
Electricity Sales		18,736	17,534	34,274	32,378
Fuel Factor		<u>24,446</u>	<u>18,169</u>	<u>49,285</u>	<u>38,415</u>
<i>Total Operating Revenues</i>		<b>43,182</b>	<b>35,703</b>	<b>83,559</b>	<b>70,793</b>
<b>Operating Expenses</b>					
Power Generation		25,213	19,052	50,815	40,101
General and Administration		2,100	2,555	4,181	5,274
Consumer Service and Promotion		383	361	793	760
Transmission and Distribution		506	686	1,052	1,439
Depreciation		5,068	4,744	10,066	9,596
Maintenance		2,108	2,337	4,577	4,210
Amortization of Intangible Assets		<u>83</u>	<u>48</u>	<u>199</u>	<u>98</u>
<i>Total Operating Expenses</i>		<b>35,461</b>	<b>29,783</b>	<b>71,683</b>	<b>61,478</b>
<b>Operating Income</b>		<b>7,721</b>	<b>5,920</b>	<b>11,876</b>	<b>9,315</b>
<b>Other Income/(Expenses):</b>					
Finance Charges	17	(2,317)	(1,597)	(4,695)	(3,245)
Foreign Exchange Gain	16	446	395	833	844
Other Income		<u>338</u>	<u>324</u>	<u>630</u>	<u>563</u>
<i>Total Net Other Expenses</i>		(1,533)	(878)	(3,232)	(1,838)
<b>Earnings and Comprehensive Income for the Period</b>					
		<b>6,188</b>	<b>5,042</b>	<b>8,644</b>	<b>7,477</b>
<i>Preference Dividends Paid- Class B</i>		<u>(113)</u>	<u>(113)</u>	<u>(222)</u>	<u>(226)</u>
<i>Earnings on Class A Ordinary Shares</i>		<b>6,075</b>	<b>4,929</b>	<b>8,422</b>	<b>7,251</b>
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)	14	28,328	28,135	28,302	28,111
<i>Earnings per Class A Ordinary Share</i>	14	0.21	0.18	0.29	0.26
Diluted Earnings per Class A Ordinary Share	14	0.21	0.18	0.29	0.26
Dividends Declared per Class A Ordinary Share		0.165	0.165	0.33	0.33

See accompanying Notes to Interim Financial Statements

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

Unaudited	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
<b>Balance at beginning of period</b>	93,636	93,387	95,955	95,701
Earnings for the period	6,188	5,042	8,644	7,477
Dividends	<u>(4,787)</u>	<u>(4,755)</u>	<u>(9,562)</u>	<u>(9,504)</u>
<b>Balance at end of period</b>	95,037	93,674	95,037	93,674

*See accompanying Notes to Interim Financial Statements*

**Statements of Cash Flows**

(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
<b><i>Operating Activities</i></b>				
Earnings for the period	6,188	5,042	8,644	7,477
Items not affecting cash:				
Depreciation	5,068	4,744	10,066	9,596
Amortisation of Intangible Assets	83	48	199	98
Amortisation of deferred financing costs	48	42	96	84
Stock-based compensation	<u>12</u>	<u>12</u>	<u>24</u>	<u>22</u>
	<b>11,399</b>	<b>9,888</b>	<b>19,029</b>	<b>17,277</b>
Net change in non-cash working capital balances related to operations	(973)	1,914	3,256	6,529
Net Change in Regulatory Deferrals	<u>(2,633)</u>	<u>(3,147)</u>	<u>(980)</u>	<u>(3,282)</u>
<i>Cash flow related to operating activities</i>	<b>7,793</b>	<b>8,655</b>	<b>21,305</b>	<b>20,524</b>
<b><i>Investing Activities</i></b>				
Proceeds on sale of property, plant and equipment	10	-	10	-
Costs related to intangible assets	(91)	(60)	(250)	(114)
Purchase of property, plant and equipment	<u>(4,901)</u>	<u>(12,494)</u>	<u>(11,021)</u>	<u>(21,675)</u>
<i>Cash flow related to investing activities</i>	<b>(4,982)</b>	<b>(12,554)</b>	<b>(11,261)</b>	<b>(21,789)</b>
<b><i>Financing Activities</i></b>				
Proceeds from debt financing	9,000	31,500	9,000	31,500
Repayment of debt	(14,000)	(15,500)	(14,000)	(15,766)
Increase/(Decrease) in bank overdraft	657	(6,225)	657	(4,158)
Dividends paid	(4,787)	(4,755)	(9,562)	(9,504)
Net proceeds from share issues	<u>465</u>	<u>438</u>	<u>894</u>	<u>851</u>
<i>Cash flow related to financing activities</i>	<b>(8,665)</b>	<b>5,458</b>	<b>(13,011)</b>	<b>2,923</b>
<b>(Decrease)/Increase in net cash</b>	<b>(5,854)</b>	<b>1,559</b>	<b>(2,967)</b>	<b>1,658</b>
Cash and cash equivalent - Beginning of period	<u>7,814</u>	<u>1,530</u>	<u>4,927</u>	<u>1,431</u>
<b>Cash and cash equivalent - End of period</b>	<b>1,960</b>	<b>3,089</b>	<b>1,960</b>	<b>3,089</b>
<b>Supplemental disclosure of cash flow information:</b>				
Interest paid during the period	7,931	5,074	7,973	5,111

See accompanying Notes to Interim Financial Statements

## Notes to Interim Financial Statements

Unaudited – June 30, 2010 (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 resulting in the recognition of regulatory assets and liabilities, which Caribbean Utilities Company Ltd. (“CUC” or “the Company”) considers it is probable 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, 2009. Except as disclosed within 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 with the Cayman Islands Government (“Government”), which expire in April 2028 and September 2029 respectively.

#### *Rate Regulated Operations*

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 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 rate cap and adjustment mechanism (“RCAM”). In June 2009 the base rates were increased by 2.4%. All fuel and lubricating oil costs are passed through to customers without markup 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 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.

### 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 2010**

In accordance with the T&D Licence, effective January 1, 2010, the Company included fuel revenues derived from dusk to dawn electricity sales as fuel factor revenue. Dusk to dawn fuel factor revenues were previously recognized under Electricity Sales.

The adoption of this practice resulted in a reclassification to Fuel Factor of \$0.2 million for the three months ended June 30, 2009 and \$0.5 million for the six months ended June 30, 2009 with a corresponding reduction in Electricity Sales.

### **4. Future Accounting Changes**

In October 2009, the Canadian Accounting Standards Board ("AcSB") re-confirmed that publicly accountable enterprises in Canada will be required to apply International Financial Reporting Standards ("IFRS"), in full and without modification, beginning January 1, 2011. An IFRS transition date of January 1, 2011 would require the restatement, for comparative purposes, of amounts reported on the Company's consolidated opening IFRS balance sheet as at January 1, 2010 and amounts reported by the Company for the year ended December 31, 2010.

CUC and Fortis is continuing to assess the financial reporting impacts of adopting IFRS. In July 2009, the International Accounting Standards Board ("IASB") issued the Exposure Draft - *Rate-Regulated Activities*. Based on the Exposure Draft, regulatory assets and liabilities arising from activities subject to cost of service regulation would be recognized under IFRS when certain conditions are met. The ability to record regulatory assets and liabilities, as proposed in the Exposure Draft, should reduce the earnings' volatility that may otherwise result under IFRS in the absence of an accounting standard for rate-regulated activities, but will result in the requirement to provide enhanced balance sheet presentation and note disclosures. Completion of the IASB's project on Rate-Regulated Activities has been delayed based on comments received in response to the Exposure Draft and a decision by the IASB to conduct further research.

The IASB met in July 2010 at which time they discussed the key issue of whether regulatory assets and liabilities can be recognized based on the current IFRS *Framework for the Preparation and Presentation of Financial Statements*. As a result of those meetings, the IASB decided to continue with the project; however, no decision was made as to whether regulatory assets and liabilities can be recognized under IFRS. A final standard, if any, is still not anticipated before the latter half of 2011.

On July 23, 2010, the AcSB met to discuss the IASB's latest decisions with respect to the Rate-Regulated Activities project. On July 28, 2010, the AcSB issued an Exposure Draft proposing that qualifying entities with rate-regulated activities be permitted, but not required, to continue applying the accounting standards in Part V of the CICA Handbook for an additional two years. A qualifying entity would be an entity that: (i) has activities subject to rate regulation meeting the definition of that term in *Generally Accepted Accounting Principles*, paragraph 1100.32B, in Part V of the Handbook; and (ii) in accordance with Accounting Guideline AcG-19, *Disclosures by Entities Subject to Rate Regulation*, discloses that it has accounted for a transaction or event differently than it would have in the absence of rate regulation (i.e., that it has recognized regulatory assets and liabilities). The Exposure Draft also proposes that an entity choosing to defer its IFRS changeover date disclose that fact, and when it will first present financial statements in accordance with IFRS.

The Exposure Draft provides a two-year deferral of the adoption of IFRS for qualifying entities based on the expectation that the IASB will complete its project on rate-regulated activities in 2011 or 2012, and gives qualifying entities sufficient time to meet the requirements of a new

IFRS on rate-regulated activities in the event one is issued late in, or shortly following, what would otherwise be their year of IFRS adoption.

CUC and Fortis are reviewing the AcSB's Exposure Draft and will provide comments, as requested, by August 31, 2010. The AcSB has indicated their intention to re-deliberate the proposal based on comments received and expects to issue the proposed amendment by no later than December 2010.

While the Company's conversion project has proceeded as planned in preparation for the adoption of IFRS on January 1, 2011, CUC does qualify for the proposed deferral option. If the Exposure Draft is approved, the Company will elect to defer the adoption of IFRS until 2013 and will, therefore, continue to prepare its financial statements in accordance with Part V of the CICA Handbook for all interim and annual periods ending on or before December 31, 2012.

## **5. Accounts Receivable**

	<b>As at June 30, 2010</b>	<b>As at December 31, 2009</b>
Billings to consumers	5,313	5,650
Unbilled revenues	5,860	4,890
Other receivables	873	956
Employee Share Purchase Plan	<u>65</u>	<u>75</u>
Total Accounts Receivable	12,111	11,571

### *Unbilled Revenues*

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.

### *Other receivables*

Other receivables relate to amounts due outside of the normal course of operations. Items in other accounts receivable include sale of inventory, machine break-down costs covered by warranties and amounts due from related parties (see note 18).

### *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.

## 6. Regulatory Assets and Liabilities

Asset/Liability	Description	As at June 30, 2010	As at December 31, 2009
Regulatory Assets	Fuel Tracker Account (a)	22,950	21,996
Regulatory Liabilities	Government & Regulatory Tracker Account (b)	(947)	(972)

- a) Fuel Tracker Account – 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. 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 quarter ended June 30, 2010 would have been \$1.0 million lower.
- b) Government and Regulatory Tracker Account - 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 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.

## 7. Inventories

(\$ Thousands)	As at June 30, 2010	As at December 31, 2009
Fuel	2,203	2,356
Line spares	91	100
Other	<u>303</u>	<u>246</u>
<b>Total</b>	<b>2,597</b>	<b>2,702</b>

The inventory amounts expensed for the three months ended June 30, 2010 totalled \$29.4 million which includes \$29.1 million in fuel and lube costs, \$0.1 million in vehicle fuel and \$0.2 million in line inventory. The inventory amounts expensed for the three month period ended June 30, 2009 totalled \$22.8 million which includes \$22.7 million in fuel and lube costs and \$0.1 million in line inventory.

The inventory amounts expensed for the six months ended June 30, 2010 totalled \$52.6 million which includes \$52.2 million in fuel and lube costs, \$0.1 million in vehicle fuel and \$0.3 million in line inventory. The inventory amounts expensed for the six month period ended June 30, 2009 totalled \$40.6 million which includes \$40.5 million in fuel and lube costs and \$0.1 million in line inventory.

8. **Property, Plant and Equipment**

Property, Plant and Equipment	Cost	Accumulated Depreciation	Net Book Value June 30, 2010
Transmission & Distribution (T&D)	234,366	66,556	167,810
Generation	246,469	84,030	162,439
Other:			
Land	5,304	-	5,304
Buildings	19,908	7,815	12,093
Equipment, motor vehicles and computers	<u>18,461</u>	<u>11,851</u>	<u>6,610</u>
<i>Total Other</i>	<b>43,673</b>	<b>19,666</b>	<b>24,007</b>
<b>Property, plant and equipment</b>	<b>524,508</b>	<b>170,252</b>	<b>354,256</b>
Property, Plant and Equipment	Cost	Accumulated Depreciation	Net Book Value December 31, 2009
Transmission & Distribution (T&D)	224,800	62,498	162,302
Generation	247,196	80,146	167,050
Other:			
Land	5,304	-	5,304
Buildings	19,077	8,651	10,426
Equipment, motor vehicles and computers	<u>18,292</u>	<u>10,015</u>	<u>8,277</u>
<i>Total Other</i>	<b>42,673</b>	<b>18,666</b>	<b>24,007</b>
<b>Property, plant and equipment</b>	<b>514,669</b>	<b>161,310</b>	<b>353,359</b>

Included in PP&E are a number of capital projects in progress with a total cost to date of \$27.1 million (December 31, 2009: \$22.6 million). These projects primarily relate to various improvements to the Distribution System.

Also included in Generation and T&D is freehold land with a cost of \$4.7 million (December 31, 2009: \$4.7 million). In addition, engine spares with a net book value of \$14.9 million (December 31, 2009: \$14.0 million) are included in Generation.

The T&D Licence includes 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 2010 is 8.75% (2009: 10%) and will be adjusted annually. As a result, during the six month period ended June 30, 2010, the Company recognised \$1.5 million in AFUDC. The Company recognised an amount of \$2.3 million for the six month period ended June 30, 2009 under the provision for AFUDC.

The Company capitalised an amount of \$1.1 million for the six month period ended June 30, 2010 (June 30, 2009: \$0.4 million) under the provision for GEC (Note 1).

## 9. Intangible Assets

Intangible Assets	Cost	Accumulated Depreciation	Net Book Value June 30, 2010
Deferred licence renewal costs	1,890	202	1,688
Computer Software	4,036	3,051	985
Other Intangible Assets in progress	<u>220</u>	-	<u>220</u>
<b>Total</b>	<b>6,146</b>	<b>3,253</b>	<b>2,893</b>
Intangible Assets	Cost	Accumulated Depreciation	Net Book Value December 31, 2009
Deferred licence renewal costs	1,890	154	1,736
Computer Software	3,795	2,899	896
Other Intangible Assets in progress	<u>211</u>	-	<u>211</u>
<b>Total</b>	<b>5,896</b>	<b>3,053</b>	<b>2,843</b>

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.

## 10. Short-Term Financing

The Royal Bank of Canada ("RBC") credit facility agreement provides for \$32.9 million and the total available was \$14.3 million at June 30, 2010.

Credit Facilities	Total Credit Financing Facilities June 30, 2010	Total Utilised June 30, 2010	Total Available June 30, 2010
Corporate Credit Card Line*	300	300	-
Letters of Credit	595	595	-
Operating, Revolving Line of Credit	7,500	657	6,843
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>17,000</u>	<u>17,000</u>	-
<b>Total</b>	<b>32,895</b>	<b>18,552</b>	<b>14,343</b>

\* Included in Accounts payable and accrued expenses

## 11. 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.

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The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods. 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, 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 per cent of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at June 30, 2010, the Company was in compliance with all debt covenants.

The Company's capital structure is shown below:

Capital structure	June 30, 2010 (\$ thousands)	%	December 31, 2009 (\$ thousands)	%
Total debt	195,254	53	200,159	54
Shareholder's equity	<u>171,941</u>	<u>47</u>	<u>171,942</u>	<u>46</u>
<b>Total</b>	<b>367,195</b>	<b>100</b>	<b>372,101</b>	<b>100</b>

The Company's capital structure at June 30, 2010 is comparable to the capital structure at December 31, 2009.

## 12. Capital Stock

Authorised:

- 60,000,000 (December 31, 2009: 60,000,000) Class A Ordinary Shares of C1\$0.05 each
- 250,000 (December 31, 2009: 250,000) 9% Cumulative, Participating Class B Preference Shares of \$1.00 each (non voting)
- 1 Cumulative, Participating, Class D Preference Share of C1\$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):

	Three months ended June 30, 2010	Three months ended June 30, 2010	Six months ended June 30, 2010	Six months ended June 30, 2010	Year ended December 31, 2009	Year ended December 31, 2009
Class A Ordinary Share Issue	Number of shares	Amount (\$ Thousands)	Number of shares	Amount (\$ Thousands)	Number of shares	Amount (\$ Thousands)
Balance, beginning of period	28,327,778	1,686	28,277,139	1,683	28,087,313	1,672
Consumer Share Purchase and Dividend Reinvestment Plans	49,032	3	94,021	6	171,976	10
Employee Share Purchase, Employee Long Service Bonus Plans and Employee Stock Options	<u>4,750</u>	0	<u>10,400</u>	0	<u>17,850</u>	1
<b>Class A Ordinary Shares issued &amp; outstanding</b>	<b>28,381,560</b>	<b>1,689</b>	<b>28,381,560</b>	<b>1,689</b>	<b>28,277,139</b>	<b>1,683</b>
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>
<b>Total</b>		<b>1,939</b>		<b>1,939</b>		<b>1,933</b>

Share premium increased by \$0.9 million in the second quarter of 2010 due to common stock issuances.

### 13. 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 Jun 30, 2010 Number of options	Six months ended June 30, 2010 Weighted average exercise price per share	December 31, 2009 Number of options	December 31, 2009 Weighted average exercise price per share
Outstanding at beginning of period	904,903	11.59	770,603	12.19
Granted			161,300	8.76
Exercised				
Forfeited	<u>(22,500)</u>	<u>11.07</u>	<u>(27,000)</u>	<u>(12.34)</u>
Outstanding at end of period	882,403	11.61	904,903	11.59

The position with respect to outstanding unexercised options as at June 30, 2010 was as follows:

Share Options	Number of Class A Ordinary Shares under option	Exercise Price (\$)	Term of option
<u>Date of grant:</u>			
18-Jul-01	407,303	11.46	10 years
22-Sep-03	181,100	13.78	10 years
11-Apr-08	145,200	12.22	10 years
27-Feb-09	148,800	8.76	10 years
<b>Outstanding at end of period &amp; Weighted Avg.</b>	<b>882,403</b>	<b>11.61</b>	

The Company has a policy of recording compensation expense upon the issuance of stock options. Using the fair value method, the compensation expense is amortised over the four-year vesting period of the options. Upon exercise, the proceeds of the option are credited to capital stock at C1\$0.05 and the difference from the exercise price to share premium. Therefore an exercise of options below the current market price has a dilutive effect on capital stock and shareholders equity. Under the fair value method, the compensation expense was \$0.02 million for the quarter ended June 30, 2010 (June 30, 2009: \$0.02 million), resulting in a corresponding increase of the contributed surplus.

### 14. 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 28,327,778 and 28,135,291 for the quarters ended June 30, 2010 and June 30, 2009

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respectively. The weighted average Class A Ordinary Shares outstanding were 28,160,115 and 26,721,894 for the year ended December 31, 2009 and Transitional Period ended December 31, 2008 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at June 30, 2010 the outstanding options are not dilutive as the market price of common shares is below exercise price.

	Earnings (in thousands) June 30, 2010	Weighted average shares (in thousands) June 30, 2010	Earnings per Common Shares June 30, 2010
Net earnings applicable to common shares	6,075		
Weighted Average share outstanding		28,328	
<b>Basic Earnings Per Common Share</b>			0.21
Effect of potential dilutive securities:			
Stock Options	=	=	=
Diluted Earnings per Common Share	6,075	28,328	0.21
	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	
<b>Basic Earnings Per Common Share</b>			0.18
Effect of potential dilutive securities:			
Stock Options	=	=	=
Diluted Earnings per Common Share	4,929	28,135	0.18

## 15. 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, 2010 Carrying Value	June 30, 2010 Estimated Fair Value	December 31, 2009 Carrying Value	December 31, 2009 Estimated Fair Value
<b>Held for trading</b>				
Cash and cash equivalents	<u>1,960</u>	<u>1,960</u>	<u>4,927</u>	<u>4,927</u>
	1,960	1,960	4,927	4,927
<b>Loans and receivables</b>				
Trade and other accounts receivable	12,111	12,111	11,571	11,571
Other Assets <sup>1</sup>	<u>33</u>	<u>33</u>	<u>36</u>	<u>36</u>
	12,144	12,144	11,607	11,607
<b>Other financial liabilities</b>				
Short-term borrowings	17,000	17,000	8,000	8,000
Bank Overdraft	657	657	-	-
Trade and other accounts payable	24,350	24,350	22,510	22,510
Customer deposits	4,085	4,085	3,963	3,963
Long term debt, including current portion <sup>2</sup>	<u>178,254</u>	<u>170,141</u>	<u>192,159</u>	<u>172,856</u>
	224,346	216,233	226,632	207,329

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

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

### *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, 2010 totalled \$170.1 million, (December 31, 2009: \$172.9 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.

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Trade and other accounts receivables	June 30, 2010	December 31, 2009
Current	9,956	9,151
Past due 31-60 days	606	822
Past due 61-90 days	373	622
Past due over 90 days	<u>1,375</u>	<u>1,171</u>
<b>Total Accounts Receivables</b>	<b>12,310</b>	<b>11,766</b>
Less: allowance for doubtful accounts	(199)	(195)
Less: Consumer Deposits and Advances for Construction	<u>(4,085)</u>	<u>(3,963)</u>
<b>Net Exposure</b>	<b>8,026</b>	<b>7,608</b>

### 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.

(\$millions)	Total	2010	2011-2012	2013-2014	2015 Onward
Accounts payable and accrued expenses	24.4	24.4	-	-	-
Consumer's Deposits and Advances for Construction	4.1	4.1	-	-	-
Short term debt	17.0	17.0			
Letter of credit	0.6	0.6			
Long term debt interest	75.5	5.6	20.8	16.5	32.6
Total debt	<u>179.5</u>	<u>0.0</u>	<u>50.5</u>	<u>31.0</u>	<u>98.0</u>
Total	301.1	51.7	71.3	47.5	130.6

### 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 \$17.0 million.

## 16. Foreign Exchange

The closing rate of exchange on June 30, 2010 as reported by the Bank of Canada for the conversion of United States ("US") dollars into Canadian ("Cdn") dollars was Cdn \$1.0646 per US\$1.00. The official exchange rate for the conversion of Cayman Islands ("CI") dollars into US 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 June 30, 2010 for conversion of CI dollars into Cdn dollars was Cdn \$1.27752 per CI\$1.00.

## 17. Finance Charges

The composition of finance charges were as follows:

Finance Charges (\$ thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Interest costs - long-term debt	2,973	2,695	6,024	5,251
Other interest costs	105	135	196	244
AFUDC *	(761)	(1,233)	(1,525)	(2,250)
<b>Total</b>	<b>2,317</b>	<b>1,597</b>	<b>4,695</b>	<b>3,245</b>

\*Refer to PP&E (Note 7) with regards to AFUDC methodology

## 18. Pension Plan

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. As at June 30, 2010, the Company had an accrued benefit liability of \$0 (December 31, 2009: \$0.1 million). During the six months ended June 30, 2010, the Company recorded net compensation expense in relation to its defined benefit plan of \$0.2 million (June 30, 2009: \$0.3 million).

During the first six months of 2010, the Company recorded net compensation expense in relation to its defined contribution plan of \$0.4 million (June 30, 2009: \$0.4 million).

## 19. Transactions with Related Parties

Miscellaneous receivables from Fortis Turks & Caicos totalling \$0.16 million were outstanding at June 30, 2010 (2009: \$0.05 million).

## 20. Comparative Figures

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

## **Shareholder Information**

### **Shareholder Plans**

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

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

### **Shareholder Information**

#### Duplicate Quarterly Reports

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

Our Registrar and Transfer Agents are as follows:

#### **CIBC Mellon Trust Company**

P.O. Box 7010  
Adelaide St. Postal Station  
Toronto, Ontario M5C 2W9, Canada  
Tel: (416) 643-5500  
Fax: (416) 643-5501  
E-mail: [inquiries@cibcmellon.ca](mailto:inquiries@cibcmellon.ca)

#### **Caribbean Utilities Company, Ltd.**

Assistant to the Corporate Secretary  
P.O. Box 38  
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Website: [www.cuc-cayman.com](http://www.cuc-cayman.com)

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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