



**Caribbean Utilities Company, Ltd.
President & CEO's Report to Shareholders
Annual General & Special Meeting
Friday, August 25, 2006 – 12:00 pm
Marriott Grand Cayman Beach Resort**

Good Afternoon Shareholders.

2006 was indeed a challenging recovery year, for CUC and its customers. I am pleased to report, however, that the reconstruction and replacement of CUC's damaged generation facilities has been completed and the total number of active customers has fully recovered to a fiscal year-end level of 21,115 compared to 21,127 at fiscal year-end 2004. Monthly energy sales are now exceeding those of the same period prior to Hurricane Ivan as the economy has staged a full recovery.

CUC was honoured in January 2006 by the Edison Electric Institute of the United States with the Emergency Recovery Award in recognition of the Company's achievements during its post-hurricane restoration. EEI, an association of shareholder-owned electric utilities, presents annual awards to member companies in recognition of outstanding efforts in restoring electricity service following severe weather conditions or other natural events.

I was delighted to accept this award on behalf of the CUC Team and our overseas partners, in particular Fortis Inc., who worked tirelessly following the storm.

CUC achieved record earnings in 2006 of \$22.9 million, or 87 cents per Class A Ordinary Share, compared to \$4.2 million, or 13 cents per share, in 2005. These earnings were supported by the strong sales recovery and the business interruption insurance proceeds. We successfully settled our insurance claim for a net amount of \$31.1 million with \$14.8 million of this amount for Business Interruption losses.

Fuel costs dominated our expenses for the year with an increase from \$45.0 million in 2005 to \$72.8 million in 2006, which now represents approximately 65 percent of CUC's total expenses. Average fuel price paid by CUC for the year was \$2.82 per imperial gallon compared to an average of \$2.19 in the previous year. This significant increase in fuel costs flowed through to consumers in the fuel factor surcharge causing significant impact to customer bills in the latter half of the year.

CUC submitted to the Cayman Islands Government on July 31st, 2006 its final audited results, which confirmed that the Company, under its current Licence, was entitled to a 2.0% rate increase effective August 1st, 2006. This shortfall on Return on Capital Employed is primarily a result of increased operating expenses and investment in fixed assets.

CUC did not seek to implement this rate increase as we had an agreement with Government in August 2005 to freeze basic rates during the recovery of \$13.4 million of hurricane-related expenses through a Cost Recovery Surcharge expected to remain in place for approximately three years. We re-commenced Licence renewal negotiations with Government in November 2005. Discussions are still ongoing, and the Company looks forward to a successful conclusion that will be of long-term benefit to all stakeholders. Our current Licence remains in full force and effect until January 2011 or until replaced by a new Licence by mutual agreement.

The peak load for fiscal year 2006 was 79.04 MW as achieved on September 13th, 2005, or approximately 93% of the pre-Ivan peak of 85.03 MW. A new post-Ivan peak of 83.9 MW was achieved on July 25th, 2006 and we expect to exceed our record peak load of 85 MW this summer as demand continues to grow.

The newly installed 8.4 MW gas turbine is currently running through its final acceptance tests, and the repaired 16.8 MW of Caterpillar units became available for use in late June. As a result of these additions, the 11.4 MW of temporary leased generation has been de-commissioned, leaving us with 120 MW of owned capacity installed.

Government's economic growth forecast for the year ending June 2007 is 3.6%. The construction industry continues to show a strong post-hurricane revival as evidenced by new projects underway. For example, the 300-acre Camana Bay project is continuing with parts of the first phase expected to open in late 2006. Other major commercial developments under construction include the 37-unit Caribbean Club, the 36-unit Water's Edge and the 36-unit Beachcomber, all high-end condominium projects.

To meet demand for 2007 and beyond, CUC has entered into a project agreement with its generation strategic alliance partner, MAN B&W Diesel of Germany, for the purchase and turnkey installation of one 16 MW medium-speed diesel generating unit and auxiliary equipment. The contract value with MAN B&W is \$18.4 million and the total project cost is estimated at \$22.2 million. The generating unit will be housed at the Company's North Sound Plant location and will be commissioned in summer 2007.

Capital expenditures for 2006 were \$33.9 million, including \$9.7 million for the reconstruction of the insured assets damaged by the hurricane and \$7.1 million for the new gas turbine. Other major capital projects include the bulk fuel oil containment extension and various transmission and distribution projects.

CUC closed in December 2005 on a \$30 million private debt placement of 5.96% Senior Unsecured Notes due December 15th, 2020. The closing consisted of a single \$30 million tranche. The debt offering was privately placed with three institutional investors in the United States. Proceeds were used to repay short-term indebtedness and finance ongoing additions to our generation capacity and T&D system.

In July 2005 the Company received ISO 14001:2004 certification of our electric power generation and other activities, products and services at the North Sound Road site. This environmental standard is more stringent than the ISO 14001:1996 certification achieved in May 2004. The Company's ISO certification initiative was undertaken in 2002 as part of our commitment to environmental responsibility and community leadership. CUC is the only organisation in the Cayman Islands with ISO 14001 certification.

Our environmental management system is still going strong, as we shipped over 100,000 pounds of scrap aluminium conductor and 350 hurricane-damaged transformers to Florida for recycling, generating approximately \$200,000 in revenue in fiscal year 2006. Other environmental initiatives include our ongoing emergency preparedness planning, continuous employee education programmes and stringent environmental and structural design standards.

We are continuing our Energy Smart programme to promote and increase energy conservation and environmental awareness among our customers. With fuel prices reaching record highs and directly impacting the fuel factor, we must assist customers to become more cognizant of their ability to lower electricity bills through responsible energy usage. Our Customer Service Department offers a number of services, including free residential energy audits, to assist customers in this regard.

CUC continues to monitor the possibility of alternative energy sources for Grand Cayman and is encouraged by the development of ocean thermal energy conversion (OTEC), by Sea Solar Power International. In 2004 we signed a memorandum of understanding with Sea Solar to purchase power from a 10 MW prototype plant to be developed and installed by that Company.

CUC also continues to share its wind energy data collected in 2003 with potential developers who are exploring the feasibility of installing wind turbines in Grand Cayman. We are hopeful that this technology will advance to the point that it becomes feasible in the near future.

Best practices in corporate governance remain a priority at CUC, as we implemented several initiatives during the year to comply with Toronto Stock Exchange and Canadian Securities Administrators' regulations and to meet or exceed best practices among North American public companies. These include:

- The filing of bare Chief Executive Officer and Chief Financial Officer certifications of our year-end audited financial statements beginning in fiscal 2004, with the view of filing full certification by the end of fiscal 2007;
- Hiring an Internal Auditor to lead the risk management function established in 2004;
- The establishment of a Disclosure Committee, to assist the Chief Executive Officer and Chief Financial Officer in implementing, monitoring and evaluating CUC's disclosure controls and procedures in compliance with the Canadian Securities Administrators' regulations; and;
- Further expanding the Information Circular and Annual Information Form, both of which can be downloaded, along with our Annual Report, from our website.

Our Board of Directors is comprised of a majority of outside and unrelated directors, and the Audit Committee and Nominating and Corporate Governance Committee are entirely comprised of outside and unrelated directors. Both committee mandates are posted to the Company website.

CUC is pleased to have achieved the Investors In People certification in January 2006, as this international standard recognises that our human resource strategies, in particular employee development, is aligned with our business objectives.

In this vein, we are proud to announce the appointment of Andrew Small to Vice-President of Production, effective August 1st, 2006. He succeeds Mr. Robert Smith who retired on the same date.

Andrew joined CUC on a Company scholarship in 1993 and has served in a number of management positions throughout his tenure, most recently as Manager Line Department since July 2004. We congratulate Andrew on his promotion and thank Robert for his contribution to CUC's success during 13 years of service. **I ask them to both to stand to be recognized.**

We also congratulate Robert Whorms, John Thompson and Gary Whittaker, who were promoted to Managers of their respective departments: System Operations, Information Technology and Line Operations, respectively, in May.

We congratulate our 23 long-serving employees and one director who collectively completed 400 years of service to the Company.

Excellent corporate citizenship is a responsibility CUC takes very seriously. The Company has taken the lead in community involvement by providing volunteerism and financial support to many worthy projects on Grand Cayman with a particular emphasis on youth-related activities. We exceeded our target of 1,600 employee volunteer hours in fiscal 2006, and we have increased our target for 2007.

I would like to take this opportunity to recognise and congratulate our 2006 Volunteers of the Year, Dave Thompson and Kenneth Bell, for their service to our community.

The passing of Shane Williams, Manager System Operations, in November 2005, saddened the CUC family. Shane spent 14 years with the Company and was part of a talented core of young managers who have risen through the ranks at CUC. We extend our deepest sympathies to his family and friends. He will be greatly missed.

Although 2006 was a challenging year, we made many milestone accomplishments. Thanks to the dedication and commitment of our employees, we achieved a successful year capped by a customer satisfaction rating of 87% achieved in May 2006.

On May 10th we marked our 40th year of service to Grand Cayman, and during the coming year, we will recognise and reflect on our accomplishments in powering the success of Grand Cayman over the years.

Our challenges will not diminish in the future as we strive to deliver strong earnings to you our shareholders while providing least-cost, world-class service to our customers, in an environment in which utility costs are rising significantly.

We are entirely confident that with the continued support and dedication of our employees and management team, as well as the expert oversight provided by our Board of Directors, we will continue to be successful for many years to come.

Thank you.